

## Annexure A

### Financial Statements



**GEORGE LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**GENERAL INFORMATION**

| <b>Mayoral committee</b> | <b>Before 10 August 2016 election</b> | <b>After 10 August 2016 election</b>   |
|--------------------------|---------------------------------------|--|
| Executive Mayor          | C Standers (resigned 26 July 2016)    | MG Naik  |
| Deputy Executive Mayor   | D Maritz                              | G Pretorius  |
| Speaker                  | M Draghoender                         | IC Kritzing  |
| <b>Councillors</b>       |                                       |  |
| <b>Ward</b>              |                                       |  |
| 1                        | MG Naik                               | J Sifers   |
| 2                        | C Neethling                           | DL Cronje  |
| 3                        | EP De Villiers                        | EP De Villiers   |
| 4                        | LD van Wyk                            | M Viljoen  |
| 5                        | LBC Esau                              | P Louw   |
| 6                        | HH Ingo                               | HH Ingo  |
| 7                        | FZ Ntozini                            | S Rooiland   |
| 8                        | C Standers (resigned 26 July 2016)    | AD Willemse  |
| 9                        | T Teyisi                              | S Diklille   |
| 10                       | MD Ghigana                            | BH Mooi  |
| 11                       | NF Kamte                              | G Xesi (deceased on 25 September 2016)<br>CI Lesele (declared elected on 2 February by IEC)  |
| 12                       | GN Sixolo                             | B Plata  |
| 13                       | B Salmani                             | L Langa  |
| 14                       | C Remas                               | E Bussack  |
| 15                       | FS Guga                               | NF Mdaka   |
| 16                       | HJ Jones (suspended 2 June 2016)      | CH Noble   |
| 17                       | D Maritz                              | V Muller   |
| 18                       | GC Niehaus                            | GC Niehaus   |
| 19                       | IC Kritzing                           | S Snyman   |
| 20                       | M Draghoender                         | M Draghoender  |
| 21                       | JS Thanda                             | NR James   |
| 22                       | PH de Swardt                          | G Pretorius  |
| 23                       | GJ Stander                            | GJ Stander   |
| 24                       | AM Wildeman                           | M Daniels  |
| 25                       | MEF Kleynhans                         | M du Preez (deceased 4 October 2016)<br>JD Esau (declared elected on 2 February 2017 by IEC) |
| 26                       |                                       | J von Brandis  |
| 27                       |                                       | BM Cornelius   |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**GENERAL INFORMATION**

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Proportionally elected  
councillors

Before 10 August 2016

C Bob  
BM Cornelius  
NNE Dlephu  
J du Toit  
V Gericke  
LS Hayward  
NV Korn  
PB Komani  
PS Leholo  
R Lombaard  
G Macclune  
VE Mashini  
ZM Moyi  
MM Nyakathi  
B Petrus  
LN Qupe  
GMY Sihoyiya  
I Stemela  
PJ van der Hoven  
AJ van Zyl  
M Viljoen  
CT Williams  
W Witbooi

After 10 August 2016

L Amies  
N Bungane  
JP Buys  
CM Clarke  
J du Toit  
RS Figland  
J Fry  
V Gericke  
WT Harris  
N Jantjes  
A Kiwit  
IC Kritzing  
H Loff  
MG Naik  
J Ncamazana  
PP Nosana  
MM Nyakathi  
B Petrus  
I Stemela  
EH Stroebe  
T Teyisi  
PJ van der Hoven  
GJ van Niekerk  
LD van Wyk  
DJ Wessels  
CT Williams

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**GENERAL INFORMATION**

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|                                      |  |
|--------------------------------------|--|
| <b>Auditor</b>                       | The Auditor General  |
| <b>Bankers</b>                       | ABSA Bank Limited  |
| <b>Registered office</b>             | Civic Centre<br>York Street 77<br>George<br>6530           |
| <b>Postal address</b>                | PO Box 19<br>George<br>6530                                |
| <b>Contact numbers</b>               | Tel: 044 801 9111<br>Fax: 044 873 3776                     |
| <b>Website</b>                       | <a href="http://www.george.org.za">www.george.org.za</a>   |
| <b>E-mail</b>                        | <a href="mailto:post@george.org.za">post@george.org.za</a> |
| <b>Accounting Officer</b>            | T Botha  |
| <b>Chief Financial Officer (CFO)</b> | K Jordaan  |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

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**Abbreviations**

|       |   |
|-------|---|
| COID  | Compensation for Occupational Injuries and Diseases |
| DBSA  | Development Bank of South Africa                    |
| GRAP  | Generally Recognised Accounting Practice            |
| HDF   | Housing Development Fund                            |
| IAS   | International Accounting Standards                  |
| IMFO  | Institute of Municipal Finance Officers             |
| IPSAS | International Public Sector Accounting Standards    |
| MEs   | Municipal Entities                                  |
| MEC   | Member of the Executive Council                     |
| MFMA  | Municipal Finance Management Act                    |
| MIG   | Municipal Infrastructure Grant (Previously CMIP)    |
| MLTF  | Municipal Land Transport Fund                       |
| IEC   | Electoral Commission of South Africa                |

## **Accounting Officer's Approval of the Financial Statements**

The municipality is responsible for the preparation and fair presentation of the annual financial statements of the municipality as at 30 June 2017, comprising of the Statement of Financial Position as at 30 June 2017, the Statement of Financial Performance as at 30 June 2017, the Statement of Changes in Net Assets and the Cash Flow Statement for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

The municipality's responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

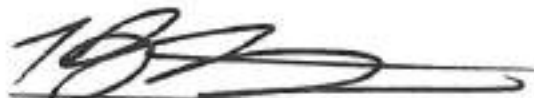
The municipality's responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as preparation of the supplementary schedules included in these financial statements.

The municipality has made an assessment of the municipality's ability to continue as a going concern and has no reason to believe that the municipality will not be a going concern in the year ahead.

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.

I am responsible for the preparation of these Financial Statements in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act. Refer to note 29 for the disclosure of Councillor remuneration.



**T BOTHA**  
**ACCOUNTING OFFICER**

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Statement of Financial Position as at 30 June 2017**

| Figures in Rand                                     | Note(s) | 2017                 | 2016<br>Restated     |
|---|---------|----------------------|----------------------|
| <b>Assets</b>                                       |         |                      |                      |
| <b>Current Assets</b>                               |         |                      |                      |
| Inventories   | 2       | 152,202,952          | 161,212,199          |
| Receivables from exchange transactions              | 3       | 88,750,817           | 103,343,949          |
| Receivables from non-exchange transactions          | 4       | 59,783,789           | 88,506,853           |
| Prepayments   | 5       | 13,667,836           | 11,820,934           |
| VAT receivable                                      | 6       | -                    | 663,683              |
| Loans and receivables                               | 7       | 170,376              | 284,066              |
| Cash and cash equivalents                           | 8       | 505,440,767          | 365,322,659          |
|   |         | <b>820,016,537</b>   | <b>731,154,343</b>   |
| <b>Non-Current Assets</b>                           |         |                      |                      |
| Property, plant and equipment                       | 9       | 2,763,898,796        | 2,708,865,889        |
| Intangible assets                                   | 10      | 1,433,212            | 1,007,717            |
| Heritage assets                                     | 11      | 4,236,000            | 4,236,000            |
| Investment property                                 | 12      | 152,088,405          | 152,249,977          |
| Loans and receivables                               | 7       | 515,302              | 847,517              |
|   |         | <b>2,922,171,715</b> | <b>2,867,207,100</b> |
| <b>Total Assets</b>                                 |         | <b>3,742,188,252</b> | <b>3,598,361,443</b> |
| <b>Current Liabilities</b>                          |         |                      |                      |
| Loans and borrowings                                | 13      | 38,885,435           | 38,513,167           |
| Finance lease obligation                            | 14      | 4,533,126            | 4,085,827            |
| Trade and other payables from exchange transactions | 15      | 196,188,410          | 162,714,805          |
| VAT payable   | 6       | 345,563              | -                    |
| Consumer deposits                                   | 16      | 22,822,167           | 19,759,545           |
| Employee benefit obligation                         | 17      | 48,829,779           | 42,832,278           |
| Provisions  | 18      | 11,083,765           | 41,105,209           |
| Unspent conditional grants and receipts             | 19      | 104,809,639          | 34,491,337           |
|   |         | <b>427,497,884</b>   | <b>343,502,168</b>   |
| <b>Non-Current Liabilities</b>                      |         |                      |                      |
| Loans and borrowings                                | 13      | 309,942,195          | 330,880,921          |
| Finance lease obligation                            | 14      | 7,070,369            | 10,876,102           |
| Employee benefit obligation                         | 17      | 139,581,720          | 142,260,723          |
| Provisions  | 18      | 75,939,972           | 49,047,183           |
| Trade and other payables from exchange transactions | 15      | 5,459,261            | 8,156,395            |
|   |         | <b>537,993,517</b>   | <b>541,221,324</b>   |
| <b>Total Liabilities</b>                            |         | <b>965,491,401</b>   | <b>884,723,492</b>   |
| <b>Net Assets</b>                                   |         | <b>2,776,696,851</b> | <b>2,713,637,951</b> |
| Net Assets  |         |                      |                      |
| Housing development fund                            | 20      | 63,214,982           | 64,940,105           |
| Accumulated surplus                                 |         | 2,713,481,869        | 2,648,697,846        |
| <b>Total Net Assets</b>                             |         | <b>2,776,696,851</b> | <b>2,713,637,951</b> |



**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Statement of Financial Performance**

| Figures in Rand                                     | Note(s) | 2017                 | 2016<br>Restated     |
|---|---------|----------------------|----------------------|
| <b>Revenue</b>                                      |         |                      |                      |
| <b>Revenue from exchange transactions</b>           |         |                      |                      |
| Service charges - Electricity                       | 21      | 565,449,873          | 534,778,495          |
| Service charges - Water                             | 21      | 121,171,738          | 110,115,289          |
| Service charges - Sewerage and sanitation charges   | 21      | 81,869,035           | 77,683,156           |
| Service charges - Refuse removal                    | 21      | 61,813,769           | 54,000,706           |
| Service charges - Other                             | 21      | 18,439               | 318,920              |
| Rental revenue                                      |         | 3,756,370            | 2,422,718            |
| Income from agency services                         |         | 9,445,287            | 8,538,652            |
| Licences and permits                                |         | 2,125,807            | 2,262,046            |
| Sale of oven  | 2       | 9,380,586            | 5,311,378            |
| GIPTN Fare Revenue                                  | 22      | 37,301,627           | 32,532,521           |
| Other income  | 23      | 25,161,970           | 36,488,746           |
| Interest received - Outstanding Debtors             | 24      | 4,156,105            | 4,709,788            |
| Interest received - External Investments            | 24      | 37,303,968           | 30,704,018           |
| <b>Total revenue from exchange transactions</b>     |         | <b>958,954,574</b>   | <b>899,866,433</b>   |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                      |
| <b>Taxation revenue</b>                             |         |                      |                      |
| Property rates                                      | 25      | 211,432,567          | 192,653,692          |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government grants & subsidies - Operating           | 26      | 310,241,313          | 297,914,689          |
| Government grants & subsidies - Capital             | 26      | 149,590,523          | 134,762,884          |
| Fines, penalties and forfeits                       | 27      | 34,299,643           | 62,627,179           |
| <b>Total revenue from non-exchange transactions</b> |         | <b>705,564,046</b>   | <b>687,958,444</b>   |
| <b>Total revenue</b>                                |         | <b>1,664,518,620</b> | <b>1,587,824,877</b> |
| <b>Expenditure</b>                                  |         |                      |                      |
| Employee related costs                              | 28      | 407,026,726          | 346,806,641          |
| Remuneration of Councillors                         | 29      | 18,800,756           | 17,466,635           |
| Depreciation and amortisation                       | 30      | 155,475,216          | 141,581,652          |
| Impairment loss                                     | 31      | 72,145,389           | 88,516,206           |
| Finance costs                                       | 32      | 44,109,261           | 48,714,952           |
| Repairs and maintenance                             | 33      | 91,716,014           | 79,602,028           |
| Bulk purchases                                      | 34      | 395,856,932          | 359,854,084          |
| Contracted services                                 | 35      | 287,682,748          | 280,518,747          |
| Transfers and Subsidies                             | 36      | 121,750              | 227,760              |
| Cost of housing sold                                | 2       | 8,496,419            | 5,028,900            |
| Loss on disposal of assets and liabilities          |         | 101,022              | 10,454,913           |
| Other materials / Inventory                         | 38      | 33,469,934           | 28,335,144           |
| General Expenses                                    | 39      | 86,457,549           | 72,168,192           |
| <b>Total expenditure</b>                            |         | <b>1,601,459,716</b> | <b>1,479,275,854</b> |
| <b>Surplus for the year</b>                         |         | <b>63,058,904</b>    | <b>108,549,023</b>   |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Statement of Changes in Net Assets**

| <b>Figures in Rand</b>                            | <b>Housing<br/>Development<br/>Fund</b> | <b>Accumulated<br/>surplus</b> | <b>Total net<br/>assets</b> |
|---|---|--------------------------------|-----------------------------|
| <b>Balance at 01 July 2015</b>                    | <b>67,508,943</b>                       | <b>2,537,612,422</b>           | <b>2,605,121,365</b>        |
| Changes in net assets:                            |   |                                |                             |
| Surplus for the year                              | -                                       | 108,549,023                    | 108,549,023                 |
| Transfer to / (from) the Housing Development Fund | (2,536,401)                             | 2,536,401                      | -                           |
| Rosedale temporary relocation area expenditure    | (32,437)                                | -                              | (32,437)                    |
| Total changes                                     | (2,568,838)                             | 111,085,424                    | 108,516,586                 |
| <b>Balance at 01 July 2016</b>                    | <b>64,940,105</b>                       | <b>2,648,697,842</b>           | <b>2,713,637,947</b>        |
| Changes in net assets:                            |   |                                |                             |
| Surplus for the year                              | -                                       | 63,058,904                     | 63,058,904                  |
| Transfer to / (from) the Housing Development Fund | (1,725,123)                             | 1,725,123                      | -                           |
| Total changes                                     | (1,725,123)                             | 64,784,027                     | 63,058,904                  |
| <b>Balance at 30 June 2017</b>                    | <b>63,214,982</b>                       | <b>2,713,481,869</b>           | <b>2,776,696,851</b>        |
| Note(s)   | 20                                      |                                |                             |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Cash Flow Statement**

| <b>Figures in Rand</b>                                      | <b>Note(s)</b> | <b>2017</b>                 | <b>2016<br/>Restated</b>    |
|---|----------------|-----------------------------|-----------------------------|
| <b>Cash flows from operating activities</b>                 |                |                             |                             |
| <b>Receipts</b>   |                |                             |                             |
| Taxation  |                | 224,789,876                 | 203,856,535                 |
| Sale of goods and services                                  |                | 847,791,653                 | 762,073,329                 |
| Grants  |                | 550,790,720                 | 443,697,329                 |
| Interest income   |                | 37,303,968                  | 30,704,018                  |
| Other receipts  |                | 39,259,771                  | 52,744,084                  |
|   |                | <u>1,699,935,988</u>        | <u>1,493,075,295</u>        |
| <b>Payments</b>   |                |                             |                             |
| Employee costs  |                | (422,508,982)               | (370,213,054)               |
| Suppliers   |                | (857,363,996)               | (798,406,147)               |
| Finance costs   |                | (42,810,558)                | (47,174,985)                |
|   |                | <u>(1,322,683,536)</u>      | <u>(1,215,794,186)</u>      |
| <b>Net cash flows from operating activities</b>             | 40             | <u><b>377,252,452</b></u>   | <u><b>277,281,109</b></u>   |
| <b>Cash flows from investing activities</b>                 |                |                             |                             |
| Purchase of property, plant and equipment                   | 9              | (211,220,724)               | (209,629,394)               |
| Proceeds on disposal of property, plant and equipment       | 9              | 513,491                     | 40,000                      |
| Purchase of intangible assets                               | 10             | (943,072)                   | (958,628)                   |
| Proceeds from loans and receivables                         |                | 579,596                     | 7,338                       |
| <b>Net cash flows from investing activities</b>             |                | <u><b>(211,070,709)</b></u> | <u><b>(210,540,684)</b></u> |
| <b>Cash flows from financing activities</b>                 |                |                             |                             |
| Repayment of loans and borrowings                           | 13             | (20,566,458)                | (41,974,679)                |
| Repayment of finance lease liabilities                      |                | (5,497,177)                 | (5,323,624)                 |
| <b>Net cash flows from financing activities</b>             |                | <u><b>(26,063,635)</b></u>  | <u><b>(47,298,303)</b></u>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |                | <b>140,118,108</b>          | <b>19,442,122</b>           |
| Cash and cash equivalents at the beginning of the year      |                | 365,322,659                 | 345,880,537                 |
| <b>Cash and cash equivalents at the end of the year</b>     | 8              | <u><b>505,440,767</b></u>   | <u><b>365,322,659</b></u>   |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**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>Financial Performance</b>   |                      |                   |                      |                                    |  |                         |
| <b>Revenue</b>   |                      |                   |                      |                                    |  |                         |
| <b>Revenue by source</b>   |                      |                   |                      |                                    |  |                         |
| Property rates   | 212,878,896          | 3,600,000         | <b>216,478,896</b>   | 216,369,240                        | <b>(109,656)</b>                           | Difference less than 1% |
| Service charges  | 809,055,095          | 32,330,967        | <b>841,386,062</b>   | 830,322,853                        | <b>(11,063,209)</b>                        | 55.1                    |
| Investment revenue   | 32,295,470           | -                 | <b>32,295,470</b>    | 37,303,968                         | <b>5,008,498</b>                           | 55.2                    |
| Transfers recognised - operational                                   | 303,915,906          | 13,467,650        | <b>317,383,556</b>   | 310,241,313                        | <b>(7,142,243)</b>                         | 55.3                    |
| Other own revenue  | 152,434,843          | (30,307,878)      | <b>122,126,965</b>   | 100,523,828                        | <b>(21,603,137)</b>                        | 55.4                    |
| <b>Total Revenue (excluding capital transfers and contributions)</b> | <b>1,510,580,210</b> | <b>19,090,739</b> | <b>1,529,670,949</b> | <b>1,494,761,202</b>               | <b>(34,909,747)</b>                        |                         |
| <b>Expenditure by type</b>   |                      |                   |                      |                                    |  |                         |
| Employee costs   | 404,632,517          | 12,079,603        | <b>416,712,120</b>   | 407,026,725                        | <b>(9,685,395)</b>                         | 55.5                    |
| Remuneration of Councillors  | 20,770,983           | (1,000)           | <b>20,769,983</b>    | 18,800,755                         | <b>(1,969,228)</b>                         | 55.6                    |
| Debt impairment  | 63,424,000           | -                 | <b>63,424,000</b>    | 72,145,389                         | <b>8,721,389</b>                           | 55.7                    |
| Depreciation and asset impairment                                    | 159,420,985          | -                 | <b>159,420,985</b>   | 155,475,216                        | <b>(3,945,769)</b>                         | 55.8                    |
| Finance charges  | 39,657,405           | (337,080)         | <b>39,320,325</b>    | 44,109,261                         | <b>4,788,936</b>                           | 55.9                    |
| Materials and bulk purchases   | 409,270,915          | 34,742,945        | <b>444,013,860</b>   | 437,823,284                        | <b>(6,190,576)</b>                         | 55.10                   |
| Transfers and grants   | -                    | 370,000           | <b>370,000</b>       | 121,750                            | <b>(248,250)</b>                           | 55.11                   |
| Other expenditure  | 528,783,175          | (31,289,999)      | <b>497,493,176</b>   | 466,554,135                        | <b>(30,939,041)</b>                        | 55.12                   |
| <b>Total expenditure</b>   | <b>1,625,959,980</b> | <b>15,564,469</b> | <b>1,641,524,449</b> | <b>1,602,056,515</b>               | <b>(39,467,934)</b>                        |                         |
| <b>Surplus / (Deficit)</b>   | <b>(115,379,770)</b> | <b>3,526,270</b>  | <b>(111,853,500)</b> | <b>(107,295,313)</b>               | <b>4,558,187</b>                           |                         |
| Transfers recognised - capital                                       | 155,782,462          | 38,270,626        | <b>194,053,088</b>   | 149,590,522                        | <b>(44,462,566)</b>                        | 55.13                   |
| Contributions recognised - capital and contributed assets            | 10,812,160           | -                 | <b>10,812,160</b>    | 20,763,695                         | <b>9,951,535</b>                           | 55.14                   |
| <b>Surplus for the year</b>  | <b>51,214,852</b>    | <b>41,796,896</b> | <b>93,011,748</b>    | <b>63,058,904</b>                  | <b>(29,952,844)</b>                        |                         |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Statement of Comparison of Budget and Actual Amounts**

Budget on Accrual Basis

|  | Approved<br>budget | Adjustments | Final Budget | Actual<br>amounts on<br>comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|--|--------------------|-------------|--------------|---|---|-----------|
|--|--------------------|-------------|--------------|---|---|-----------|

Figures in Rand

**Capital expenditure**

**Assets**

**Capital expenditure by vote**

|                               |                    |                   |                    |                    |                      |       |
|-------------------------------|--------------------|-------------------|--------------------|--------------------|----------------------|-------|
| Executive and Council         | 2,530,500          | 789,750           | <b>3,320,250</b>   | 2,469,661          | <b>(850,589)</b>     | 55.15 |
| Budget and treasury office    | 550,000            | 260,000           | <b>810,000</b>     | 661,639            | <b>(148,361)</b>     | 55.16 |
| Corporate services            | 8,187,500          | (1,165,230)       | <b>7,022,270</b>   | 3,491,529          | <b>(3,530,741)</b>   | 55.17 |
| Community and social services | 8,462,050          | (460,342)         | <b>8,001,708</b>   | 5,134,999          | <b>(2,866,709)</b>   | 55.18 |
| Sport and recreation          | 5,894,250          | 235,800           | <b>6,130,050</b>   | 3,992,291          | <b>(2,137,759)</b>   | 55.19 |
| Public safety                 | 4,420,000          | 6,020,000         | <b>10,440,000</b>  | 10,355,018         | <b>(84,982)</b>      |       |
| Housing                       | 1,672,000          | 28,931            | <b>1,700,931</b>   | 1,349,914          | <b>(351,017)</b>     | 55.20 |
| Health                        | 193,500            | (1,000)           | <b>192,500</b>     | 166,490            | <b>(26,010)</b>      | 55.21 |
| Planning and development      | 39,500             | 500               | <b>40,000</b>      | 34,955             | <b>(5,045)</b>       | 55.22 |
| Road transport                | 71,826,224         | 95,988,335        | <b>167,814,559</b> | 99,402,033         | <b>(68,412,526)</b>  | 55.23 |
| Electricity                   | 20,433,333         | (2,250,768)       | <b>18,182,565</b>  | 14,538,159         | <b>(3,644,406)</b>   | 55.24 |
| Water                         | 54,095,981         | (7,595,698)       | <b>46,500,283</b>  | 41,003,612         | <b>(5,496,671)</b>   | 55.25 |
| Waste water management        | 36,556,207         | 694,000           | <b>37,250,207</b>  | 25,511,396         | <b>(11,738,811)</b>  | 55.26 |
| Waste management              | 6,804,000          | 2,633,200         | <b>9,437,200</b>   | 5,303,822          | <b>(4,133,378)</b>   | 55.27 |
| Other                         | 130,000            | 50,000            | <b>180,000</b>     | 121,875            | <b>(58,125)</b>      |       |
|                               | <b>221,795,045</b> | <b>95,227,478</b> | <b>317,022,523</b> | <b>213,537,393</b> | <b>(103,485,130)</b> |       |

**Sources of Capital Funds**

|                                    |                    |                   |                    |                    |                      |  |
|------------------------------------|--------------------|-------------------|--------------------|--------------------|----------------------|--|
| National Government                | 83,697,901         | 32,991,299        | <b>116,689,200</b> | 69,653,407         | <b>(47,035,793)</b>  |  |
| Provincial Government              | 56,399,144         | 48,486,944        | <b>104,886,088</b> | 75,654,091         | <b>(29,231,997)</b>  |  |
| District Municipality              | 250,000            | -                 | <b>250,000</b>     | -                  | <b>(250,000)</b>     |  |
| Public contributions and donations | -                  | -                 | -                  | 504,253            | <b>504,253</b>       |  |
| Borrowings                         | 22,031,000         | (95,000)          | <b>21,936,000</b>  | 18,492,539         | <b>(3,443,461)</b>   |  |
| Internally generated funds         | 59,417,000         | 13,844,235        | <b>73,261,235</b>  | 49,233,103         | <b>(24,028,132)</b>  |  |
|                                    | <b>221,795,045</b> | <b>95,227,478</b> | <b>317,022,523</b> | <b>213,537,393</b> | <b>(103,485,130)</b> |  |

**Capitalisation consist of the following:**

|   |                    |                    |    |
|---|--------------------|--------------------|----|
| Property, plant and equipment additions | 212,594,321        | <b>212,594,321</b> | 9  |
| Intangible assets                       | 943,072            |                    | 10 |
|   | <b>213,537,393</b> |                    |    |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Appropriation Statement

Figures in Rand

|  | Original budget      | Budget adjustments (i.e. s28 and s31 of the MFMA) | Final adjustments (i.e. s31 of the MFMA) | Shifting of funds (i.e. MFMA) | Virement (i.e. council approved policy) | Final budget         | Actual outcome       | Unauthorised expenditure | Variance            | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|----------------------|---|--|-------------------------------|---|----------------------|----------------------|--------------------------|---------------------|-------------------------------------|--|
| <b>2017</b>  |                      |   |  |                               |   |                      |                      |                          |                     |                                     |  |
| <b>Financial Performance</b>   |                      |   |  |                               |   |                      |                      |                          |                     |                                     |  |
| Property rates   | 212,878,896          | 3,600,000   | 216,478,896                              | -                             | -                                       | 216,478,896          | 216,369,240          | -                        | (109,656)           | 100 %                               | 102 %                                  |
| Service charges  | 809,055,095          | 32,330,967  | 841,386,062                              | -                             | -                                       | 841,386,062          | 830,322,853          | -                        | (11,063,209)        | 99 %                                | 103 %                                  |
| Investment revenue   | 32,295,470           | -   | 32,295,470                               | -                             | -                                       | 32,295,470           | 37,303,968           | -                        | 5,008,498           | 116 %                               | 116 %                                  |
| Transfers recognised - operational                                   | 303,915,906          | 13,467,650  | 317,383,556                              | -                             | -                                       | 317,383,556          | 310,241,313          | -                        | (7,142,243)         | 98 %                                | 102 %                                  |
| Other own revenue  | 152,434,843          | (30,307,878)                                      | 122,126,965                              | -                             | -                                       | 122,126,965          | 100,523,828          | -                        | (21,603,137)        | 82 %                                | 66 %                                   |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>1,510,580,210</b> | <b>19,090,739</b>                                 | <b>1,529,670,949</b>                     | <b>-</b>                      | <b>-</b>                                | <b>1,529,670,949</b> | <b>1,494,761,202</b> | <b>-</b>                 | <b>(34,909,747)</b> | <b>98 %</b>                         | <b>99 %</b>                            |
| Employee costs   | 404,632,517          | 9,323,443   | 413,955,960                              | -                             | 2,756,160                               | 416,712,120          | 407,026,725          | -                        | (9,685,395)         | 98 %                                | 101 %                                  |
| Remuneration of councillors  | 20,770,983           | -   | 20,770,983                               | -                             | (1,000)                                 | 20,769,983           | 18,800,755           | -                        | (1,969,228)         | 91 %                                | 91 %                                   |
| Debt impairment  | 63,424,000           | -   | 63,424,000                               | -                             | -                                       | 63,424,000           | 72,145,389           | 8,721,389                | 8,721,389           | 114 %                               | 114 %                                  |
| Depreciation and asset impairment                                    | 159,420,985          | -   | 159,420,985                              | -                             | -                                       | 159,420,985          | 155,475,216          | -                        | (3,945,769)         | 98 %                                | 98 %                                   |
| Finance charges  | 39,657,405           | -   | 39,657,405                               | -                             | (337,080)                               | 39,320,325           | 44,109,261           | 4,788,936                | 4,788,936           | 112 %                               | 111 %                                  |
| Bulk purchases   | 394,991,686          | 13,027,645  | 408,019,331                              | -                             | (170,000)                               | 407,849,331          | 395,856,931          | -                        | (11,992,400)        | 97 %                                | 100 %                                  |
| Other materials  | 14,279,229           | 1,450,000   | 15,729,229                               | -                             | 20,435,300                              | 36,164,529           | 41,966,353           | 5,801,824                | 5,801,824           | 116 %                               | 294 %                                  |
| Transfers and grants   | -                    | 370,000   | 370,000                                  | -                             | -                                       | 370,000              | 121,750              | -                        | (248,250)           | 33 %                                | DNV/D                                  |
| Other expenditure  | 528,183,175          | (8,606,619)                                       | 519,576,556                              | -                             | (22,683,380)                            | 496,893,176          | 465,856,312          | -                        | (31,036,864)        | 94 %                                | 88 %                                   |
| Loss on disposal of PPE  | 600,000              | -   | 600,000                                  | -                             | -                                       | 600,000              | 697,823              | 97,823                   | 97,823              | 116 %                               | 116 %                                  |
| <b>Total expenditure</b>   | <b>1,625,959,980</b> | <b>15,564,469</b>                                 | <b>1,641,524,449</b>                     | <b>-</b>                      | <b>-</b>                                | <b>1,641,524,449</b> | <b>1,602,056,515</b> | <b>19,409,972</b>        | <b>(39,467,934)</b> | <b>98 %</b>                         | <b>99 %</b>                            |
| <b>Surplus/(Deficit)</b>   | <b>(115,379,770)</b> | <b>3,526,270</b>                                  | <b>(111,853,500)</b>                     | <b>-</b>                      | <b>-</b>                                | <b>(111,853,500)</b> | <b>(107,295,313)</b> | <b>-</b>                 | <b>4,558,187</b>    | <b>96 %</b>                         | <b>93 %</b>                            |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Appropriation Statement

Figures in Rand

|   | Original budget    | Budget adjustments (l.t.o. 28 and budget 31 of the MFMA) | Final adjustments  | Shifting of funds (l.t.o. 31 of the MFMA) | Virement (l.t.o. council approved policy) | Final budget       | Actual outcome     | Unauthorised expenditure | Variance             | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|--------------------|--|--------------------|---|---|--------------------|--------------------|--------------------------|----------------------|-------------------------------------|--|
| Transfers recognised - capital                            | 155,782,462        | 38,270,626   | 194,053,088        | -   | -   | 194,053,088        | 149,590,522        | -                        | (44,462,566)         | 77 %                                | 96 %                                   |
| Contributions recognised - capital and contributed assets | 10,812,160         | -  | 10,812,160         | -   | -   | 10,812,160         | 20,763,695         | -                        | 9,951,535            | 192 %                               | 192 %                                  |
| <b>Surplus/(Deficit) for the year</b>                     | <b>51,214,852</b>  | <b>41,796,896</b>  | <b>93,011,748</b>  | <b>-</b>                                  | <b>-</b>                                  | <b>93,011,748</b>  | <b>63,058,904</b>  | <b>-</b>                 | <b>(29,952,844)</b>  | <b>68 %</b>                         | <b>123 %</b>                           |
| <b>Capital expenditure and funds sources</b>              |                    |  |                    |   |   |                    |                    |                          |                      |                                     |  |
| Total capital expenditure                                 | 221,795,045        | 95,227,478   | 317,022,523        | -   | -   | 317,022,523        | 213,537,393        | -                        | (103,485,130)        | 67 %                                | 96 %                                   |
| <b>Sources of capital funds</b>                           |                    |  |                    |   |   |                    |                    |                          |                      |                                     |  |
| Transfers recognised - capital                            | 140,347,045        | 81,478,243   | 221,825,288        | -   | -   | 221,825,288        | 145,307,497        | -                        | (76,517,791)         | 66 %                                | 104 %                                  |
| Public contributions and donations                        | -                  | -  | -                  | -   | -   | -                  | 504,253            | -                        | 504,253              | DIV/0 %                             | DIV/0 %                                |
| Borrowing   | 22,031,000         | (95,000)   | 21,936,000         | -   | -   | 21,936,000         | 18,492,539         | -                        | (3,443,461)          | 84 %                                | 84 %                                   |
| Internally generated funds                                | 59,417,000         | 13,844,235   | 73,261,235         | -   | -   | 73,261,235         | 49,233,104         | -                        | (24,028,131)         | 67 %                                | 83 %                                   |
| <b>Total sources of capital funds</b>                     | <b>221,795,045</b> | <b>95,227,478</b>  | <b>317,022,523</b> | <b>-</b>                                  | <b>-</b>                                  | <b>317,022,523</b> | <b>213,537,393</b> | <b>-</b>                 | <b>(103,485,130)</b> | <b>67 %</b>                         | <b>96 %</b>                            |



# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Appropriation Statement

Figures in Rand

|   | Original budget    | Budget adjustments (l.t.o. s28 and budget s31 of the MFMA) | Final adjustments (l.t.o. council approved policy) | Shifting of funds (l.t.o. MFMA) | Final budget        | Actual outcome     | Unauthorised expenditure | Variance             | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|--------------------|--|--|---------------------------------|---------------------|--------------------|--------------------------|----------------------|-------------------------------------|--|
| <b>Cash flows</b>   |                    |  |  |                                 |                     |                    |                          |                      |                                     |  |
| Net cash from (used) operating                              | 267,248,000        | (5,494,588)  | 261,753,412  | -                               | 261,753,412         | 377,252,452        |                          | 115,499,040          | 144 %                               | 141 %                                  |
| Net cash from (used) investing                              | (210,691,000)      | (95,677,923)   | (306,368,923)                                      | -                               | (306,368,923)       | (211,070,709)      |                          | 95,298,214           | 69 %                                | 100 %                                  |
| Net cash from (used) financing                              | (33,344,000)       | 14,365,108   | (18,978,892)                                       | -                               | (18,978,892)        | (26,063,635)       |                          | (7,084,743)          | 137 %                               | 78 %                                   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> | <b>23,213,000</b>  | <b>(86,807,403)</b>  | <b>(63,594,403)</b>                                | <b>-</b>                        | <b>(63,594,403)</b> | <b>140,118,108</b> |                          | <b>203,712,511</b>   | <b>(220)%</b>                       | <b>604 %</b>                           |
| Cash and cash equivalents at the beginning of the year      | 365,322,659        | -  | 365,322,659  | -                               | 365,322,659         | 365,322,659        |                          | -                    | 100 %                               | 100 %                                  |
| <b>Cash and cash equivalents at year end</b>                | <b>388,535,659</b> | <b>(86,807,403)</b>  | <b>301,728,256</b>                                 | <b>-</b>                        | <b>301,728,256</b>  | <b>505,440,767</b> |                          | <b>(203,712,511)</b> | <b>168 %</b>                        | <b>130 %</b>                           |



**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

## Appropriation Statement

Figures in Rand

|  | Reported<br>unauthorised<br>expenditure | Expenditure<br>authorised in<br>terms of<br>section 32 of<br>MFMA | Balance to be<br>recovered | Restated<br>audited<br>outcome |
|--|---|---|----------------------------|--------------------------------|
| <b>2016</b>  |   |   |                            |                                |
| <b>Financial Performance</b>   |   |   |                            |                                |
| Property rates   |   |   |                            | 192,653,692                    |
| Service charges  |   |   |                            | 776,896,566                    |
| Investment revenue   |   |   |                            | 35,413,806                     |
| Transfers recognised - operational                                   |   |   |                            | 297,914,689                    |
| Other own revenue  |   |   |                            | 150,183,240                    |
| <b>Total revenue (excluding capital transfers and contributions)</b> |   |   |                            | <b>1,453,061,993</b>           |
| Employee costs   |   |   |                            |                                |
| Remuneration of councillors  |   |   |                            | (346,806,641)                  |
| Debt impairment  |   |   |                            | (17,466,635)                   |
| Depreciation and asset impairment                                    |   |   |                            | (88,516,206)                   |
| Finance charges  | (26,335,465)                            |   | (26,335,465)               | (141,581,652)                  |
| Materials and bulk purchases   | (4,610,535)                             |   | (4,610,535)                | (48,714,952)                   |
| Transfers and grants   |   |   |                            | (359,854,084)                  |
| Other expenditure  |   |   |                            | (227,760)                      |
| <b>Total expenditure</b>   | <b>(30,946,000)</b>                     | <b>-</b>  | <b>(30,946,000)</b>        | <b>1,479,275,853</b>           |
| <b>Surplus/(Deficit)</b>   |   |   |                            | <b>(26,213,860)</b>            |
| Transfers recognised - capital                                       |   |   |                            | 134,762,883                    |
| <b>Surplus (Deficit) after capital transfers and contributions</b>   |   |   |                            | <b>108,549,023</b>             |
| <b>Surplus/(Deficit) for the year</b>                                |   |   |                            | <b>108,549,023</b>             |
| <b>Capital expenditure and funds sources</b>                         |   |   |                            |                                |
| Total capital expenditure  |   |   |                            | 218,381,320                    |
| <b>Sources of capital funds</b>                                      |   |   |                            |                                |
| Transfers recognised - capital                                       |   |   |                            | 129,417,166                    |
| Borrowing  |   |   |                            | 13,820,749                     |
| Internally generated funds   |   |   |                            | 75,143,405                     |
| <b>Total sources of capital funds</b>                                |   |   |                            | <b>218,381,320</b>             |
| <b>Cash flows</b>  |   |   |                            |                                |
| Net cash from (used) operating                                       |   |   |                            | 277,281,109                    |
| Net cash from (used) investing                                       |   |   |                            | (210,540,684)                  |
| Net cash from (used) financing                                       |   |   |                            | (47,298,303)                   |
| <b>Net increase/(decrease) in cash and cash equivalents</b>          |   |   |                            | <b>19,442,122</b>              |
| Cash and cash equivalents at the beginning of the year               |   |   |                            | 345,880,536                    |
| <b>Cash and cash equivalents at year end</b>                         |   |   |                            | <b>365,322,658</b>             |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Accounting Policies**

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George Municipality is a local government institution in George, Western Cape. The addresses of its registered office and principal place of business are disclosed under General Information. Refer to page 3.

The accounting policies for the municipality are:

**1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives 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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transaction events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period unless explicitly stated otherwise. The details of changes in accounting policies are explained in the relevant notes to the financial statements.

The municipality resolved to formulate an accounting policy based on the following GRAP standards which have been issued but are not yet effective:

| <b>Standard</b> | <b>Description</b>       | <b>Effective Date</b> |
|-----------------|--------------------------|-----------------------|
| GRAP 20         | Related Party Disclosure | Unknown               |

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

| <b>Standard</b> | <b>Description</b>   | <b>Effective Date<br/>(Year starting on)</b> |
|-----------------|--|--|
| GRAP 18         | Segment Reporting<br>Presentation of the financial statements will be affected by this standard. | Unknown                                      |
| GRAP 32         | Service Concession Arrangements : Grantor<br>No significant impact is expected.                  | Unknown                                      |
| GRAP 34         | Separate Financial Statements<br>No significant impact is expected.                              | Unknown                                      |
| GRAP 35         | Consolidated Financial Statements<br>No significant impact is expected.                          | Unknown                                      |
| GRAP 36         | Investments in Associates and Joint Ventures<br>No significant impact is expected.               | Unknown                                      |
| GRAP 37         | Joint Arrangements<br>No significant impact is expected.   | Unknown                                      |

## Accounting Policies

| Standard | Description  | Effective Date<br>(Year starting on) |
|----------|--|--------------------------------------|
| GRAP 38  | Disclosure of interest in Other Entities<br>No significant impact is expected.   | Unknown                              |
| GRAP 108 | Statutory Receivables<br>Disclosure of information in the notes to the financial statements will be affected.                              | Unknown                              |
| GRAP 109 | Accounting by Principals and Agents<br>Disclosure of information in the notes to the financial statements will be affected.                | Unknown                              |
| GRAP 110 | Living and non-living resources<br>No significant impact is expected.  | Unknown                              |
| IGRAP 17 | Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset<br>No significant impact is expected. | Unknown                              |
| IGRAP 18 | Recognition and derecognition of land<br>No significant impact is expected.  | 1 April 2019                         |

### 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 on a going concern basis.

### 1.3 Materiality

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

### 1.4 Significant judgements and sources of estimation uncertainty

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

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

Significant judgements include:

## **Accounting Policies**

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### **1.4 Significant judgements and sources of estimation uncertainty (continued)**

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

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

#### **Intangible assets**

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

#### **Investment property**

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

#### **Provisions and Contingent Liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material. Additional disclosures of these estimates of provisions are included in notes 18 and 43.

#### **Post retirement medical obligations, long service awards and ex gratia gratuities**

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

#### **Impairment of receivables**

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

## **Accounting Policies**

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### **1.5 Property, plant and equipment**

#### **Recognition and measurement**

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.

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, where applicable.

Property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and other directly attributable costs incurred in the acquisition, establishment and installation of such assets so as to bring them to a working condition for their intended use.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Trade discounts and rebates are deducted in arriving at the cost.

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

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

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

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

The cost of day-to-day servicing of property, plant and equipment is recognised in surplus or deficit as incurred.

#### **Leased assets**

Leases in terms of which the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Vehicles and office equipment acquired by way of finance leases are measured upon initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Leased assets are depreciated over the lesser of the useful life or lease term.

#### **Subsequent costs**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed.

#### **Depreciation**

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful life of each item of property, plant and equipment.



## **Accounting Policies**

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

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

The depreciation rates are initially based on the following originally estimated useful lives and thereafter on the estimated remaining useful lives as at year-end. The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

| <b>Item</b>               | <b>Average useful life in years</b> |
|---------------------------|-------------------------------------|
| Infrastructure            |                                     |
| • Electricity             | 20 - 30                             |
| • Roads and paving        | 10 - 30                             |
| • Water                   | 15-20                               |
| • Gas                     | 20                                  |
| • Sewerage                | 3 - 30                              |
| • Security measures       | 3 - 15                              |
| Community                 |                                     |
| • Buildings               | 3-30                                |
| • Recreational facilities | 20                                  |
| Other                     |                                     |
| • Office equipment        | 5 - 10                              |
| • Furniture and fittings  | 7 - 10                              |
| • Bins and containers     | 5 - 10                              |
| • Emergency equipment     | 5 - 15                              |
| • Motor vehicles          | 5 - 20                              |
| • Watercraft              | 15                                  |
| • Plant and equipment     | 5 - 15                              |
| Land and buildings        |                                     |
| • Buildings               | 30                                  |
| • Land                    | Indefinite                          |

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

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

## **Accounting Policies**

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the municipality.

Property, plant and equipment are not used as security unless stated otherwise in the notes.

### **1.6 Investment property**

#### **Initial Recognition**

Investment property shall be recognised as an asset when, and only when:

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

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

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

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

Investment property is measured at cost less accumulated depreciation and accumulated impairment losses. Investment property acquired at no or nominal consideration is initially recognised at fair value and subsequently carried at the initially determined fair value less accumulated depreciation and accumulated impairment losses.

#### **Subsequent Measurement**

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

#### **Depreciation**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

| Investment Property | Years      |
|---------------------|------------|
| Buildings           | 30         |
| Land                | Indefinite |

## **Accounting Policies**

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### **1.6 Investment property (continued)**

#### **Derecognition**

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

Investment property is not used as security unless stated otherwise in the notes.

### **1.7 Heritage assets**

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Heritage assets are not used as security unless stated otherwise in the notes.

#### **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.

#### **Initial measurement**

Heritage assets are measured at cost less any accumulated impairment loss.

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

#### **Subsequent measurement**

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

#### **Impairment**

The municipality assess at each reporting date whether there is an indication that the heritage assets may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### **Transfers**

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### **Derecognition**

The municipality derecognises a heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.



## **Accounting Policies**

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### **1.8 Intangible assets**

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

An asset meets the identifiable criteria in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

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

Intangible assets are initially recognised at cost.

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

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

Intangible assets are not used as security unless stated otherwise in the notes.

#### **Subsequent measurement**

After the initial measurement of intangible assets, subsequent expenditure is only capitalised if future economic benefits or service potential over the total life of the intangible assets, in excess of the most recently assessed standard of performance of the existing intangible assets, will flow to the municipality.

Intangible assets consist of computer software and amortisation is charged on a straight-line basis over their useful lives, which is estimated to be between 5 to 10 years. (2016: 5 to 10 years). Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised. The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. The impairment loss is the difference between the carrying amount and the recoverable amount.

Amortisation methods and useful lives are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

#### **Derecognition**

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

## **Accounting Policies**

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### **1.9 Financial Instruments**

A financial instrument is any contract that gives rise to a financial asset in 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.

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, the municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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 of financial assets or financial liabilities with another entity under conditions that are potentially favourable to the municipality.

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

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

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

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

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 municipality had not acquired, issued or disposed of the financial instrument.

#### **Classification**

The municipality has the following types of financial assets as reflected on the face of the Statement Of Financial Position or in the notes thereto:

| <b>Class</b>   | <b>Category</b>                            |
|--|--|
| Trade receivables from exchange transactions               | Financial asset measured at amortised cost |
| Trade and other receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Loans and receivables                                      | Financial asset measured at amortised cost |
| Cash and cash equivalents                                  | Financial asset measured at amortised cost |

## Accounting Policies

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### 1.9 Financial Instruments (continued)

The municipality has the following types of financial liabilities as reflected on the face of the Statement Of Financial Position or in the notes thereto:

| <b>Class</b>  | <b>Category</b>                                |
|---|--|
| Loans and borrowings                                | Financial liability measured at amortised cost |
| Trade and other payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits                                   | Financial liability measured at amortised cost |

#### **Initial recognition**

The municipality recognises a financial asset or a financial liability in its Statement Of Financial Position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

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

The municipality 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 in the case of a financial asset or financial liability not subsequently measured at fair value.

#### **Subsequent measurement of financial assets and financial liabilities**

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost are subject to an impairment review.

#### **Gains and losses**

For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectibility of financial assets**

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

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

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

## **Accounting Policies**

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### **1.9 Financial instruments (continued)**

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

#### **Derecognition**

##### **Financial assets**

The municipality derecognises a financial asset only when:

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

##### **Financial liabilities**

The municipality removes a financial liability (or a part of a financial liability) from its Statement Of Financial Position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability are recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the Statement Of Financial Position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

Financial instruments are not used as security unless stated otherwise in the notes.



## **Accounting Policies**

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### **1.10 Cash and cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

### **1.11 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 land and buildings elements, the municipality assesses the classification of each element separately.

#### **The Municipality as Lessor**

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

Payments received under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease.

#### **The Municipality as Lessee**

Under a finance lease, property, plant and equipment or intangible assets, except intangible assets such as licensing agreements, subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

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

Payments made under operating leases are recognised in surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

## **Accounting Policies**

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### **1.12 Inventories**

Inventories, consisting of consumable stores, raw materials and properties held for sale are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Water inventory is being measured by multiplying the cost per kilo-litre of purified water by the amount of water in storage.

Unsold properties held for sale are valued at the lower of cost and net realisable value. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs. The net realisable for this class of inventory is assessed each year by comparing the current book value to recent sales of properties in each area.

Cost of inventory comprises all costs of purchase, cost of conversion and other cost incurred in bringing the inventory to its present location and condition.

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

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction and 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.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

Even used for housing developments are properties that were part of the commonage when the municipality was established and the municipality received these properties at no or nominal consideration. The value of these properties is deemed to be equal to their fair value on the date of acquisition.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Inventory is not used as security unless stated otherwise in the notes.

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

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

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

## **Accounting Policies**

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

Carrying amount is the amount at which an asset is recognised in the Statement Of Financial Position after deducting any accumulated depreciation and accumulated impairment losses thereon.

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

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.

#### **Identification**

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 tests a cash-generating asset with an indefinite useful life or a cash-generating asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed annually. If an asset was initially recognised during the current reporting period, that 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.

#### **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 the Statement of Financial Performance.

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 required 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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### **1.13 Impairment of cash-generating assets (continued)**

#### **Reversal of impairment loss**

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

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in the Statement of Financial Performance.

After a reversal of an impairment loss is recognised, 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.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

### **1.14 Impairment of non-cash-generating assets**

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

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

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

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.



## **Accounting Policies**

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### **1.14 Impairment of non-cash-generating assets (continued)**

#### **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.

#### **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:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **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 the Statement of Financial Performance.

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.

## **Accounting Policies**

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### **1.14 Impairment of non-cash-generating assets (continued)**

#### **Reversal of an impairment loss**

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

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, 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.

#### **Redesignation**

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### **1.15 Employee benefits**

Employee benefits are all forms of consideration given by a municipality in exchange for services rendered by employees.

#### **Short-term employee benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay and bonuses, are recognised during the period in which the employee renders the related service. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### **Long-service award**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The municipality's obligation is valued by independent qualified actuaries at year-end and the corresponding liability is raised. Payments set-off against the liability, including notional interest, resulting from the valuation by the actuaries, are charged against the Statement of Financial Performance.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are charged or credited to the Statement of Financial Performance in the period that it occurs.

#### **Accrued leave pay**

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

## **Accounting Policies**

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### **1.15 Employee benefits (continued)**

#### **Staff Bonuses**

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

#### **Post-employment benefits**

Post-employment benefits are benefits paid for current employees to provide for their retirement.

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

The Municipality provides post retirement benefits for its employees. Council pays 70% as contributions and the remaining 30% are paid by the members.

These obligations are valued periodically by independent qualified actuaries.

#### **Multi-employer Defined Benefit and Defined Contribution Plans**

The municipality classifies a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for it in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality accounts for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

The municipality contributes to various National- and Provincial-administered plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 17 of the Financial Statements for details)

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

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

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

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

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

## **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. It defines an amount of benefit that an employee will receive on retirement. The municipality's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value. Any unrecognised past service cost and the fair value of any plan assets are deducted.

Actuarial gains and losses comprise of 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 municipality recognises 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 municipality) that are held by an entity (a fund) that is legally separate from the reporting municipality 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 municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality 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 municipality recognises 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 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 municipality accounts 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 municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality'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;

## **Accounting Policies**

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### **1.15 Employee benefits (continued)**

- 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 municipality measures 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 are recognised in surplus or deficit.

The municipality determines 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 municipality 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 municipality 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, a municipality 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, a municipality 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 municipality 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 municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).



## **Accounting Policies**

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### **1.15 Employee benefits (continued)**

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 presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality 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.

#### **Other post retirement obligations**

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

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

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, are charged or credited to the Statement of Financial Performance in the period that they occur. These obligations are valued periodically by independent qualified actuaries.

### **1.16 Provisions, contingent liabilities and contingent assets**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of the expenditure required to settle the present obligation. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability [for example in the case of obligations for the rehabilitation of land].

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

Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate.

## **Accounting Policies**

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### **1.16 Provisions, contingent liabilities and contingent assets (continued)**

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

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

Management judgement is required when recognising and measuring contingent liabilities.

### **1.17 Unspent conditional government grants and receipts**

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

A liability for unspent conditional grants is recognised only to the extent that the conditions attached to the grant have not been satisfied and are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

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

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

### **1.18 Conditional government grants and subsidies receivables**

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

The following provision is set for the creation and utilisation of the grants as receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

### **1.19 Grant-in-aid**

The municipality transfers money to individuals, organisations and other sectors of government from time to time in accordance with Section 67 of the MFMA. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

## **Accounting Policies**

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### **1.20 Revenue**

Revenue includes rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be reliably measured, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value-added tax, estimated returns, rebates and discounts. Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Revenue from Exchange Transactions

#### **Service Charges**

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

#### **Pre-paid electricity**

Revenue from the sale of electricity prepaid units is recognised when the risks and rewards of ownership has passed to the buyer. At year-end the recognition is based on an estimate of the prepaid electricity consumed as at the reporting date. The consumption of pre-paid electricity is measured by using a trend analysis and other historical data about electricity usage.

#### **Interest earned and rentals received**

Interest income is recognised in the Statement of Financial Performance as it accrues, using the effective interest rate method. Rental income is recognised on a straight-line basis over the lease term. Interest may be transferred from the Accumulated Surplus to the Housing Development Fund.

#### **Tariff Charges**

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



## **Accounting Policies**

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### **1.20 Revenue (continued)**

#### **Agency commission**

Commission for agency services is recognised on a monthly basis once the income collected on behalf of the principles has been quantified. The income recognised is in terms of the agency agreement.

#### **Housing rental and instalments**

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

#### **Sale of goods**

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably, there is no continuing managerial involvement with the goods, and the amount of revenue can be measured reliably.

#### **GIPTN Fare Revenue**

Bus tickets are sold as single journey tickets or multi journey tickets. Single journey tickets buy the ticket holder a one hour passage on any of the buses from the time the ticket is cancelled by the bus driver. A multi journey ticket is a ticket with ten hourly passages. Tickets are recognised as fare revenue when sold.

Revenue from non-exchange transactions

#### **Rates and taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised using the effective interest method. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### **Fines**

Fine revenue constitutes both spot fines and summonses. Fine revenue is recognised on the date which the offense occurred. In cases where fines and summonses are issued by another government institution, revenue will only be recognised when monies are received, as the municipality does not have any control over fines issued by other government institution/departments.

#### **Donations and Contributions**

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, at the fair value of the property, plant and equipment received or receivable. Contributed property, plant and equipment are recognised when the risks and rewards of ownership have transferred to the municipality.

#### **Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure**

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

#### **Unconditional grant**

An unconditional grant is recognised in the Statement of Financial Performance when the grant is receivable.

## **Accounting Policies**

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### **1.20 Revenue (continued)**

#### **Conditional grants and receipts**

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the grantor it is recorded as part of the liability and if not it is recognised as interest earned in the Statement of Financial Performance.

Grants that compensate the municipality for expenses incurred are recognised in the Statement of Financial Performance on a systematic basis in the same periods in which the expenses are recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

### **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.

### **1.22 Value Added Tax**

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

The municipality accounts for Value Added Tax on the payment basis. The municipality is liable to account for Value Added Tax at the standard rate (14%) in terms of section 7(1) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 or are out of scope for VAT purposes. The timing of payments to or from the South African Revenue Service is the last day of each of the twelve months of the financial year.

### **1.23 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.

## **Accounting Policies**

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### **1.24 Municipal Land Transport Fund**

The municipality, jointly with the Provincial Government of the Western Cape via its Department of Transport and Public Works, has implemented the George Integrated Public Transport Network for the delivery of public transport services in the George municipal area.

The National Land Transport Act, (Act No. 5 of 2009) requires that a municipality establishing an integrated public transport network must establish a Municipal Land Transport Fund in terms of Section 27 of the Act. Money appropriated by the Minister and / or MEC for the Fund, user charges collected and interest on invested cash balances belonging to the Fund, should be paid into the fund. The fund is utilised to defray the costs of the functions in terms of its integrated transport plan.

The Municipal Land Transport Fund was established on 8 December 2014, which is the date the transport service commenced.

The Municipal Land Transport Fund is treated as a ring fenced cost centre within the municipality. Refer to note 54 for more detail.

### **1.25 Capital commitments**

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

### **1.26 Events after reporting date**

Events after the reporting date that are classified as adjusting events are accounted for in the financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date are disclosed in the notes to the financial statements.

### **1.27 Related parties**

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

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:

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

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 members of management in their dealings with the municipality.

All transactions with related parties are disclosed.

## **Accounting Policies**

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### **1.28 Budget information**

The Municipality is subject to budgetary limits in the form of a Council approved budget, which is given effect through authorising legislation.

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

The approved budget is prepared on an accrual basis. The approved budget covers the fiscal period from 01/07/2016 to 30/06/2017.

The annual financial statements and the budget are on the same basis of accounting except for certain accounting entries (e.g. movement in legal provisions) therefore a reconciliation between the Statement of Financial Performance and the budget has been included in the annual financial statements. Refer to the Statement of Comparison of Budget and Actual Amounts.

Explanations for differences between the approved and final budget are included in the Notes to the Financial Statements. Material differences are being defined by Management as 10% of a specific line-item or amounts greater than R250,000. Explanations for material differences between the final budget amounts and actual amounts are included in the Notes to the Financial Statements - Refer to note 55.

### **1.29 Unauthorised expenditure**

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

### **1.30 Fruitless and wasteful expenditure**

Fruitless and wasteful 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.

### **1.31 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by Council it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.32 Comparative information**

#### **Prior year comparatives**

When the presentation or classification of items in the financial statements is amended, comparative amounts are restated or reclassified except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the amendment. The nature and reason for the restatement or reclassification is disclosed in note 45.

## **Accounting Policies**

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### **1.33 Change in accounting policies, estimates and errors**

Changes in accounting policies that are effected by management are applied retrospectively except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively. Details of changes in estimates are disclosed in the notes to the financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 45 of the financial statements for details of corrections of errors recorded during the period under review.

### **1.34 Amended disclosure policy**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand  | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>2. Inventories</b>  |                    |                    |
| Consumable stores - at cost                                  | 8,269,275          | 7,095,528          |
| Maintenance materials, chemicals and water reserve - at cost | 9,168,494          | 10,870,059         |
| Purified water   | 367,569            | 323,169            |
| Property Developments - at cost                              | 141,633            | 171,042            |
| Unsold Properties Held for Resale - at net realisable value  | 134,255,981        | 142,752,400        |
|  | <b>152,202,952</b> | <b>161,212,199</b> |

The cost of inventories recognised as an expense in the Statement of Financial Performance for stock issues were R18,604,357 (2016: R15,442,521) and RNil (2016: R1,159,200) in respect of inventory written down to net realisable value.

Even used for housing developments are measured as per accounting policy 1.12.

**Sale of properties held as part of inventory:**

|               |                |                |
|---------------|----------------|----------------|
| Sales         | 9,380,586      | 5,311,378      |
| Cost of sales | (8,496,419)    | (5,028,900)    |
|               | <b>884,167</b> | <b>282,478</b> |

26 properties was sold during the year.

**3. Trade receivables from exchange transactions**

|                            |                   |                    |
|----------------------------|-------------------|--------------------|
| Service debtors            | 83,958,994        | 94,404,205         |
| Other exchange receivables | 4,791,823         | 8,939,744          |
| Prepaid electricity        | 4,352,449         | 8,229,165          |
| Rental debtors             | 232,994           | 473,095            |
| GIPTN Fare Revenue         | 206,380           | 237,484            |
|                            | <b>88,750,817</b> | <b>103,343,949</b> |

**Disclosures relating to service debtors consist of the following:**

**Gross balances**

|                          |                    |                    |
|--------------------------|--------------------|--------------------|
| Electricity              | 51,968,855         | 49,850,932         |
| Water                    | 86,577,980         | 73,545,590         |
| Sewerage                 | 29,549,207         | 27,817,297         |
| Refuse                   | 23,362,920         | 20,704,615         |
| Housing loan instalments | 534,980            | 522,262            |
| Housing rental           | 413,278            | 419,487            |
| Other consumer debtors   | 8,378,378          | 9,447,823          |
|                          | <b>200,785,598</b> | <b>182,308,006</b> |

**Less: Allowance for impairment**

|                          |                    |                   |
|--------------------------|--------------------|-------------------|
| Electricity              | 4,898,562          | 5,876,019         |
| Water                    | 72,276,943         | 50,772,525        |
| Sewerage                 | 21,057,171         | 16,768,705        |
| Refuse                   | 16,659,163         | 12,636,117        |
| Housing loan instalments | 492,393            | 378,709           |
| Housing rental           | 356,895            | 383,666           |
| Other consumer debtors   | 1,085,477          | 1,088,060         |
|                          | <b>116,826,604</b> | <b>87,903,801</b> |



**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand  | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>3. Trade receivables from exchange transactions (continued)</b> |                   |                   |
| <b>National and provincial government</b>                          |                   |                   |
| Current (0 -30 days)   | 3,284,239         | 3,901,935         |
| 31 - 60 days   | 1,150,659         | 1,257,684         |
| 61 - 90 days   | 503,913           | 197,156           |
| 91 - 120 days  | 339,914           | 158,620           |
| 121 - 365 days   | 223,738           | 1,407,662         |
|  | <b>5,502,463</b>  | <b>6,923,057</b>  |
| <b>Total</b>   |                   |                   |
| Current (0 -30 days)   | 68,897,969        | 72,236,748        |
| 31 - 60 days   | 9,438,825         | 10,858,511        |
| 61 - 90 days   | 6,659,841         | 5,901,441         |
| 91 - 120 days  | 5,189,105         | 5,662,914         |
| 121 - 365 days   | 110,599,858       | 87,648,392        |
|  | 200,785,598       | 182,308,006       |
| Less: Allowance for impairment                                     | (116,826,604)     | (87,903,801)      |
|  | <b>83,958,994</b> | <b>94,404,205</b> |

**Reconciliation of allowance for impairment for receivables from exchange transactions**

| 2017                     | Balance at the beginning of the year        | Impairment losses recognised        | Amounts written off as uncollectible        | Balance at the end of the year        |
|--------------------------|---|-------------------------------------|---|---------------------------------------|
| Electricity              | 5,876,019                                   | (939,070)                           | (38,387)                                    | 4,898,562                             |
| Water                    | 50,772,525                                  | 30,188,274                          | (8,683,856)                                 | 72,276,943                            |
| Sewerage                 | 16,768,705                                  | 9,309,065                           | (5,020,599)                                 | 21,057,171                            |
| Refuse                   | 12,636,117                                  | 8,046,261                           | (4,023,215)                                 | 16,659,163                            |
| Housing loan instalments | 378,709                                     | 113,685                             | -   | 492,394                               |
| Housing rentals          | 383,666                                     | (26,771)                            | -   | 356,895                               |
| Other consumer debtors   | 1,088,060                                   | 24,119                              | (26,701)                                    | 1,085,478                             |
|                          | <b>87,903,801</b>                           | <b>46,715,563</b>                   | <b>(17,792,758)</b>                         | <b>116,826,606</b>                    |
| <b>2016</b>              | <b>Balance at the beginning of the year</b> | <b>Impairment losses recognised</b> | <b>Amounts written off as uncollectible</b> | <b>Balance at the end of the year</b> |
| Electricity              | 6,791,597                                   | 186,936                             | (1,102,514)                                 | 5,876,019                             |
| Water                    | 46,410,578                                  | 21,096,127                          | (16,734,180)                                | 50,772,525                            |
| Sewerage                 | 13,194,283                                  | 9,581,197                           | (6,006,775)                                 | 16,768,705                            |
| Refuse                   | 9,469,903                                   | 7,958,457                           | (4,792,243)                                 | 12,636,117                            |
| Housing loan instalments | 433,268                                     | (54,559)                            | -   | 378,709                               |
| Housing rentals          | 382,601                                     | 1,065                               | -   | 383,666                               |
| Other consumer debtors   | 1,015,933                                   | 463,556                             | (391,429)                                   | 1,088,060                             |
|                          | <b>77,498,163</b>                           | <b>39,232,779</b>                   | <b>(29,027,141)</b>                         | <b>87,903,801</b>                     |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand   | 2017              | 2016              |
|---|-------------------|-------------------|
| <b>3. Trade receivables from exchange transactions (continued)</b>  |                   |                   |
| <b>Total debtors past due but not impaired</b>  | <b>2017</b>       | <b>2016</b>       |
| 31 - 60 days  | 2,221,213         | 5,312,324         |
| 61 - 90 days  | 2,068,231         | 1,700,196         |
| 91 - 120 days   | 1,182,224         | 1,687,378         |
| 121 - 365 days  | 12,808,900        | 16,912,687        |
|   | <b>18,280,568</b> | <b>25,612,585</b> |
| <b>Credit quality of consumer debtors</b>   |                   |                   |
| Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.  |                   |                   |
| Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables. |                   |                   |
| <b>4. Receivables from non-exchange transactions</b>  |                   |                   |
| <b>Taxation receivables</b>   |                   |                   |
| Net Rates   | 20,586,069        | 25,881,107        |
| Gross rates   | 32,154,333        | 34,676,151        |
| Allowance for impairment on rates   | (11,568,264)      | (8,795,044)       |
| <b>Transfer receivables</b>   |                   |                   |
| Net Fines   | 6,148,863         | 9,661,716         |
| Fines   | 46,299,050        | 63,715,650        |
| Allowance for impairment on fines   | (40,150,187)      | (54,053,934)      |
| Conditional government grants and subsidies receivable (Refer note 19)  | 29,224,324        | 49,864,908        |
| <b>Other receivables</b>  | <b>3,824,533</b>  | <b>3,099,122</b>  |
| Sundry receivables  | 3,488,846         | 2,817,619         |
| Allowance for impairment on sundry receivables  | (802,713)         | (802,713)         |
| Non-cash portion of Housing Development Fund  | 1,012,475         | 990,092           |
| Operating lease receivables   | 125,925           | 94,124            |
|   | <b>59,783,789</b> | <b>88,506,853</b> |
| <b>The ageing of trade receivables from non-exchange transactions</b>   |                   |                   |
| <b>Rates</b>  |                   |                   |
| Current (0 - 30 days)   | 13,582,238        | 15,593,270        |
| 31 - 60 days  | 2,295,219         | 2,484,399         |
| 61 - 90 days  | 1,248,023         | 1,335,767         |
| 91 - 120 days   | 805,210           | 706,294           |
| 121 - 365 days  | 14,223,643        | 14,556,421        |
|   | 32,154,333        | 34,676,151        |
| Less: Allowance for impairment  | (11,568,264)      | (8,795,044)       |
|   | <b>20,586,069</b> | <b>25,881,107</b> |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

Figures in Rand

|  | 2017                     | 2016                     |
|--|--------------------------|--------------------------|
| <b>4. Receivables from non-exchange transactions (continued)</b> |                          |                          |
| <b>Summary of Rates by customer classification</b>               |                          |                          |
| <b>Residential consumers</b>                                     |                          |                          |
| Current (0 - 30 days)  | 11,432,975               | 12,056,519               |
| 31 - 60 days   | 2,078,253                | 1,983,730                |
| 61 - 90 days   | 1,140,370                | 1,182,422                |
| 91 - 120 days  | 756,911                  | 614,337                  |
| 121 - 365 days   | 12,532,453               | 11,859,242               |
|  | <u>27,940,962</u>        | <u>27,696,250</u>        |
| Less: Allowance for impairment                                   | (10,556,254)             | (7,984,702)              |
|  | <b><u>17,384,708</u></b> | <b><u>19,711,548</u></b> |
| <b>Industrial / commercial</b>                                   |                          |                          |
| Current (0 - 30 days)  | 1,961,880                | 3,265,958                |
| 31 - 60 days   | 216,263                  | 367,074                  |
| 61 - 90 days   | 107,638                  | 123,368                  |
| 91 - 120 days  | 48,300                   | 62,749                   |
| 121 - 365 days   | 1,524,557                | 1,688,528                |
|  | <u>3,858,638</u>         | <u>5,507,677</u>         |
| Less: Allowance for impairment                                   | (1,012,010)              | (810,342)                |
|  | <b><u>2,846,628</u></b>  | <b><u>4,697,335</u></b>  |
| <b>National and provincial government and other</b>              |                          |                          |
| Current (0 - 30 days)  | 187,384                  | 270,794                  |
| 31 - 60 days   | 703                      | 133,594                  |
| 61 - 90 days   | 20                       | 29,977                   |
| 91 - 120 days  | -                        | 29,208                   |
| 121 - 365 days   | 166,626                  | 1,008,651                |
|  | <u>354,733</u>           | <u>1,472,224</u>         |
| Less: Allowance for impairment                                   | -                        | -                        |
|  | <b><u>354,733</u></b>    | <b><u>1,472,224</u></b>  |
| <b>Total of rates by customer classification</b>                 | <b><u>20,586,069</u></b> | <b><u>25,881,107</u></b> |
| <b>Fines</b>   |                          |                          |
| The ageing of fines are as follows:                              |                          |                          |
| Current (0 - 30 days)  | 2,685,950                | 3,087,100                |
| 31 - 60 days   | 1,933,050                | 3,507,500                |
| 61 - 90 days   | 259,700                  | 4,258,300                |
| 91 - 120 days  | 192,100                  | 4,597,050                |
| 121 - 365 days   | 41,228,250               | 48,265,500               |
|  | <u>46,299,050</u>        | <u>63,715,450</u>        |
| Less: Allowance for impairment                                   | (40,150,187)             | (54,053,934)             |
|  | <b><u>6,148,863</u></b>  | <b><u>9,661,516</u></b>  |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017                                 | 2016                                      |                                      |                                |
|--|--------------------------------------|---|--------------------------------------|--------------------------------|
| 4. Receivables from non-exchange transactions (continued)                                |                                      |   |                                      |                                |
| Reconciliation of provision for impairment of receivables from non-exchange transactions |                                      |   |                                      |                                |
| 2017   | Balance at the beginning of the year | Impairment losses recognised / (reversed) | Amounts written off as uncollectible | Balance at the end of the year |
| Taxation receivables (Gross Rates)   | 8,795,044                            | 3,958,222                                 | (1,185,002)                          | 11,568,264                     |
| Transfer receivables (Fines)   | 54,053,934                           | 25,792,003                                | (39,695,750)                         | 40,150,187                     |
| Other receivable   | 802,713                              | -   | -                                    | 802,713                        |
|  | <b>63,651,691</b>                    | <b>29,750,225</b>                         | <b>(40,880,752)</b>                  | <b>52,521,164</b>              |
| 2016   | Balance at the beginning of the year | Impairment losses recognised / (reversed) | Amounts written off as uncollectible | Balance at the end of the year |
| Taxation receivables (Gross Rates)   | 10,088,313                           | 664,494                                   | (1,957,763)                          | 8,795,044                      |
| Transfer receivables (Fines)   | 48,244,666                           | 52,451,588                                | (46,642,320)                         | 54,053,934                     |
| Other receivables  | 41,860                               | 766,657                                   | (5,804)                              | 802,713                        |
|  | <b>58,374,839</b>                    | <b>53,882,739</b>                         | <b>(48,605,887)</b>                  | <b>63,651,691</b>              |

The impairment allowance was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios. The impairment allowance on Taxation Receivables and Other Receivables exists predominantly due to the possibility that these debts will not be recovered. Taxation Receivables and Other Receivables were assessed individually and grouped together as financial assets with similar credit risk characteristics and collectively assessed for impairment. Accordingly, management believes no further credit provisions are required in excess of the present allowance for doubtful debts.

### Credit quality of trade receivables from non-exchange transactions

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

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

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand  | 2017             | 2016             |
|--|------------------|------------------|
| <b>4. Receivables from non-exchange transactions (continued)</b>     |                  |                  |
| <b>Operating lease asset</b>   |                  |                  |
| Opening balance  | 94,124           | 233,659          |
| Straight lining adjustment in the Statement of Financial Performance | 31,801           | (139,535)        |
|  | <u>125,925</u>   | <u>94,124</u>    |
| <b>Operating leases - as lessor (income)</b>                         |                  |                  |
| <b>Minimum lease payments due</b>                                    |                  |                  |
| - within one year  | 524,200          | 605,949          |
| - in second to fifth year inclusive                                  | 1,489,674        | 1,831,558        |
| - later than five years  | 55,768           | 83,145           |
|  | <u>2,069,642</u> | <u>2,520,652</u> |

Operating leases relate to property owned by the municipality with lease terms of between 5 and 20 years, with an option to extend for a further 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:

- Municipal buildings
- Vacant land

No restrictions have been imposed on the municipality in terms of the operating lease agreements.

**5. Prepayments**

Prepayments consist of the following:

|   |                   |                   |
|---|-------------------|-------------------|
| SALGA   | 3,923,844         | 3,245,749         |
| Stadler & Swart Attorneys                               | 1,700,000         | 1,700,000         |
| Mercedes-Benz South Africa Ltd for maintenance of buses | 8,043,992         | 6,875,185         |
|   | <u>13,667,836</u> | <u>11,820,934</u> |

**SALGA**

SALGA membership fees for the 2017/2018 financial year were paid in May 2017 and the municipality received a 5% discount for early settlement.

**Stadler & Swart Attorneys**

The municipality is in the process of procuring Portion 4 of the Farm 197, Thembaletu which will be used for low income housing. The purchase price was paid into the transferring attorney's trust account but the transfer of the property was not completed by year end.

**Mercedes-Benz South Africa Ltd**

The municipality entered into a five year maintenance plan for the GIPTN buses which is paid in annual instalments. A portion of the maintenance payment falls within the 2017/2018 year and this portion is treated as a prepayment.

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand                      | 2017             | 2016           |
|--------------------------------------|------------------|----------------|
| <b>6. VAT receivable / (payable)</b> |                  |                |
| VAT receivable from SARS             | 2,126,641        | 2,625,509      |
| VAT input provision                  | 7,882,325        | 7,698,154      |
| VAT output provision                 | (10,354,529)     | (9,659,980)    |
|                                      | <b>(345,563)</b> | <b>663,683</b> |

VAT is payable to SARS on the payment basis. Only once payment is received from customers, VAT is paid over to SARS. No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

### 7. Loans and receivables

| As at 30 June 2017           | Gross balance    | Impairment allowance | Net balance    | Transferred to current assets | Non-current    |
|------------------------------|------------------|----------------------|----------------|-------------------------------|----------------|
| Housing scheme loans         | 692,781          | (334,687)            | 358,094        | (82,285)                      | 275,809        |
| Sale of erven loans          | 95,334           | -                    | 95,334         | (7,557)                       | 87,777         |
| Loans to other organisations | 12,888           | -                    | 12,888         | (6,191)                       | 6,697          |
| Actaris meter debt           | 219,362          | -                    | 219,362        | (74,343)                      | 145,019        |
|                              | <b>1,020,365</b> | <b>(334,687)</b>     | <b>685,678</b> | <b>(170,376)</b>              | <b>515,302</b> |

| As at 30 June 2016           | Gross balance    | Impairment allowance | Net balance      | Transferred to current assets | Non-current    |
|------------------------------|------------------|----------------------|------------------|-------------------------------|----------------|
| Housing scheme loans         | 889,949          | (468,377)            | 421,572          | (90,915)                      | 330,657        |
| Sale of erven loans          | 93,407           | -                    | 93,407           | (8,030)                       | 85,377         |
| Loans to other organisations | 18,612           | -                    | 18,612           | (5,724)                       | 12,888         |
| Actaris meter debt           | 597,992          | -                    | 597,992          | (179,397)                     | 418,595        |
|                              | <b>1,599,960</b> | <b>(468,377)</b>     | <b>1,131,583</b> | <b>(284,066)</b>              | <b>847,517</b> |

Loans and receivables are not secured.

#### Housing scheme loans

No housing loans may be granted to officials and the public. The outstanding amount is in respect of loans granted before 1 July 2005 and will be recovered over the remaining period of the loan agreements. The interest rate applicable to the loans is 13.5%.

#### Sale of erven loans

As from 1 July 2006 no loan agreements are entered into for the sale of erven. The outstanding loans will be recovered over the remaining period of the individual loan agreements entered into. The interest rates applicable to the loans varies between 11.0% and 14.5%.

#### Loans to other organisations

The outstanding amount is in respect of loans granted to sports organisations (Section 185 (a) Ord.20 of 1974) before 1 July 2005 and will be recovered over the remaining period of the loan agreements. The loan consist of a loan to Outeniqua Bowling Club at 8.0%.



**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

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**7. Loans and receivables (continued)**

**Actaris meter costs**

Arrear amounts on services are capitalised on completion of a formal agreement. These arrear amounts are then paid to the municipality in monthly instalments over a period not exceeding 60 months. No interest is charged on these amounts where the stipulations of the agreement are adhered to.

The management of the municipality is of the opinion that the carrying value of loans and receivables recorded at amortised cost in the Financial Statements approximate their fair values.

The fair value of loans and receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's loans and receivables.

The provision for doubtful debts on loans and receivables exists due to the possibility that not all these debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

**Reconciliation of Impairment allowance**

| 2017                 | Balance at<br>beginning of<br>year     | Impairment<br>losses<br>reversed | Amounts<br>written off as<br>uncollectible | Balance at<br>end of the<br>year |
|----------------------|--|----------------------------------|--|----------------------------------|
| Housing scheme loans | 468,377                                | (133,690)                        | -  | 334,687                          |
| 2016                 | Balance at<br>beginning of<br>the year | Impairment<br>losses<br>reversed | Amounts<br>written off as<br>uncollectible | Balance at<br>end of the<br>year |
| Housing scheme loans | 577,048                                | (97,422)                         | (11,249)                                   | 468,377                          |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Cash on hand        | 23,050             | 23,050             |
| Bank balances       | 405,417,717        | 165,299,609        |
| Short-term deposits | 100,000,000        | 200,000,000        |
|                     | <b>505,440,767</b> | <b>365,322,659</b> |

#### Cash and cash equivalents pledged as collateral

No cash and cash equivalents were pledged as security for financial liabilities.

The balance of unspent conditional grants as per note 19 can only be used for the purpose as set out in the different grant conditions and is not available to the municipality to use in its normal business operations. The same applies to the cash portion of the Housing Development Fund as per note 20. This balance can only be used for the purpose of the Housing Development Fund.

The municipality had the following bank accounts:

|   | Cash book balances |                    |
|---|--------------------|--------------------|
|   | 30 June 2017       | 30 June 2016       |
| ABSA BANK - Cheque Account - 102 222 0981 | 405,417,717        | 165,299,609        |
| Nedbank Fixed Deposit                     | 100,000,000        | 100,000,000        |
| Standard Bank 32 Day Notice Deposit       | -                  | 100,000,000        |
| Cash on hand                              | 23,050             | 23,050             |
| <b>Total</b>                              | <b>505,440,767</b> | <b>365,322,659</b> |

The bank balances at year end were:

|  | Bank balances      |                    |
|--|--------------------|--------------------|
|  | 30 June 2017       | 30 June 2016       |
| ABSA BANK - Cheque Account - 102 222 0981          | 403,166,928        | 164,046,052        |
| ABSA - George Charitable Relief Fund -914 955 4208 | 1,000              | 1,000              |
| Nedbank Fixed Deposit                              | 100,000,000        | 100,000,000        |
| Standard Bank 32 Day Notice Deposit                | -                  | 100,000,000        |
|  | <b>503,167,928</b> | <b>364,047,052</b> |

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings.

The credit rating was obtained from Moody's Investor Services Inc. Moody's rating methodology has been revised, and the bank financial strength ratings have been withdrawn. This has been replaced with the Baseline Credit Assessment.

#### Credit rating of financial institutions

|      |                    |                    |
|------|--------------------|--------------------|
| Baa3 | 503,167,928        | -                  |
| Baa2 | -                  | 364,047,052        |
|      | <b>503,167,928</b> | <b>364,047,052</b> |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

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**3. Trade receivables from exchange transactions (continued)**

**Net balance**

|                          | 2017              | 2016              |
|--------------------------|-------------------|-------------------|
| Electricity              | 47,070,293        | 43,974,913        |
| Water                    | 14,301,037        | 22,773,065        |
| Sewerage                 | 8,492,036         | 11,048,592        |
| Refuse                   | 6,703,757         | 8,068,498         |
| Housing loan instalments | 42,587            | 143,553           |
| Housing rental           | 56,383            | 35,821            |
| Other consumer debtors   | 7,292,901         | 8,359,763         |
|                          | <b>83,958,994</b> | <b>94,404,205</b> |

**The ageing of trade receivables from exchange transactions**

**Electricity**

|                                |                   |                   |
|--------------------------------|-------------------|-------------------|
| Current (0 -30 days)           | 36,653,761        | 37,641,261        |
| 31 - 60 days                   | 3,049,875         | 3,107,380         |
| 61 - 90 days                   | 1,743,191         | 816,434           |
| 91 - 120 days                  | 936,098           | 270,048           |
| 121 - 365 days                 | 9,585,930         | 8,015,809         |
| Less: Allowance for impairment | (4,898,562)       | (5,876,019)       |
|                                | <b>47,070,293</b> | <b>43,974,913</b> |

**Water**

|                                |                   |                   |
|--------------------------------|-------------------|-------------------|
| Current (0 -30 days)           | 17,486,566        | 19,766,028        |
| 31 - 60 days                   | 3,345,392         | 4,030,842         |
| 61 - 90 days                   | 2,623,319         | 2,842,471         |
| 91 - 120 days                  | 2,464,855         | 2,753,066         |
| 121 - 365 days                 | 60,657,848        | 44,153,184        |
| Less: Allowance for impairment | (72,276,943)      | (50,772,526)      |
|                                | <b>14,301,037</b> | <b>22,773,065</b> |

**Sewerage**

|                                |                  |                   |
|--------------------------------|------------------|-------------------|
| Current (0 -30 days)           | 7,509,485        | 7,534,770         |
| 31 - 60 days                   | 1,632,869        | 1,762,807         |
| 61 - 90 days                   | 1,053,862        | 1,068,140         |
| 91 - 120 days                  | 838,242          | 956,281           |
| 121 - 365 days                 | 18,514,749       | 16,495,298        |
| Less: Allowance for impairment | (21,057,171)     | (16,768,704)      |
|                                | <b>8,492,036</b> | <b>11,048,592</b> |

**Refuse**

|                                |                  |                  |
|--------------------------------|------------------|------------------|
| Current (0 -30 days)           | 6,371,917        | 5,949,144        |
| 31 - 60 days                   | 1,360,631        | 1,310,758        |
| 61 - 90 days                   | 926,986          | 833,092          |
| 91 - 120 days                  | 706,026          | 738,313          |
| 121 - 365 days                 | 13,997,360       | 11,873,307       |
| Less: Allowance for impairment | (16,659,163)     | (12,636,116)     |
|                                | <b>6,703,757</b> | <b>8,068,498</b> |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>3. Trade receivables from exchange transactions (continued)</b> |                   |                   |
| <b>Housing loans instalments</b>                                   |                   |                   |
| Current (0 -30 days)   | 49,111            | 60,420            |
| 31 - 60 days   | 10,921            | 12,811            |
| 61 - 90 days   | 8,983             | 11,421            |
| 91 - 120 days  | 9,219             | 10,565            |
| 121 - 365 days   | 456,746           | 427,045           |
| Less: Allowance for impairment                                     | (492,393)         | (378,709)         |
|  | <b>42,587</b>     | <b>143,553</b>    |
| <b>Housing rental</b>  |                   |                   |
| Current (0 -30 days)   | 44,659            | 48,586            |
| 31 - 60 days   | 13,309            | 12,666            |
| 61 - 90 days   | 9,710             | 7,808             |
| 91 - 120 days  | 7,132             | 6,938             |
| 121 - 365 days   | 338,468           | 343,486           |
| Less: Allowance for impairment                                     | (356,895)         | (383,665)         |
|  | <b>56,383</b>     | <b>35,821</b>     |
| <b>Other</b>   |                   |                   |
| Current (0 -30 days)   | 782,473           | 1,234,537         |
| 31 - 60 days   | 25,827            | 621,246           |
| 61 - 90 days   | 293,790           | 322,075           |
| 91 - 120 days  | 227,534           | 927,703           |
| 121 - 365 days   | 7,048,754         | 6,340,262         |
| Less: Allowance for impairment                                     | (1,085,477)       | (1,088,060)       |
|  | <b>7,292,901</b>  | <b>8,359,763</b>  |
| <b>Summary of debtors by customer classification</b>               |                   |                   |
| <b>Consumers</b>   |                   |                   |
| Current (0 -30 days)   | 34,288,247        | 35,139,678        |
| 31 - 60 days   | 7,101,622         | 8,191,055         |
| 61 - 90 days   | 5,683,630         | 5,196,255         |
| 91 - 120 days  | 4,230,014         | 4,892,692         |
| 121 - 365 days   | 101,877,003       | 78,378,383        |
|  | 153,180,516       | 131,798,063       |
| Less: Allowance for impairment                                     | (110,945,740)     | (82,872,677)      |
|  | <b>42,234,776</b> | <b>48,925,386</b> |
| <b>Industrial/ commercial</b>                                      |                   |                   |
| Current (0 -30 days)   | 31,325,483        | 33,195,135        |
| 31 - 60 days   | 1,186,544         | 1,409,772         |
| 61 - 90 days   | 472,298           | 508,030           |
| 91 - 120 days  | 619,177           | 611,602           |
| 121 - 365 days   | 8,499,118         | 7,862,347         |
|  | 42,102,620        | 43,586,886        |
| Less: Allowance for impairment                                     | (5,880,865)       | (5,031,060)       |
|  | <b>36,221,755</b> | <b>38,555,826</b> |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment

|                     | 2017                 |   |                      | 2016                 |   |                      |
|---------------------|----------------------|---|----------------------|----------------------|---|----------------------|
|                     | Cost                 | Accumulated depreciation and impairment | Carrying value       | Cost                 | Accumulated depreciation and impairment | Carrying value       |
| Land                | 923,505,583          | -                                       | 923,505,583          | 923,728,683          | -                                       | 923,728,683          |
| Infrastructure      | 2,142,882,696        | (922,170,912)                           | 1,220,711,784        | 1,998,119,071        | (802,211,960)                           | 1,195,907,111        |
| Community           | 271,453,532          | (109,515,793)                           | 161,937,739          | 263,054,800          | (98,246,317)                            | 164,808,483          |
| Other               | 172,449,504          | (87,147,917)                            | 85,301,587           | 147,273,174          | (78,864,981)                            | 68,408,193           |
| Other - GIPTN Buses | 206,260,523          | (31,510,208)                            | 174,750,315          | 206,260,523          | (16,936,472)                            | 189,324,051          |
| Work in progress    | 197,691,788          | -                                       | 197,691,788          | 166,689,368          | -                                       | 166,689,368          |
| <b>Total</b>        | <b>3,914,243,626</b> | <b>(1,150,344,830)</b>                  | <b>2,763,898,796</b> | <b>3,705,125,619</b> | <b>(996,259,730)</b>                    | <b>2,708,865,889</b> |

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

|                     | Opening balance      | Additions          | Disposals        | WIP transfers - completed projects | Depreciation         | Impairment loss    | Total                |
|---------------------|----------------------|--------------------|------------------|------------------------------------|----------------------|--------------------|----------------------|
| Land                | 923,728,683          | -                  | (223,100)        | -                                  | -                    | -                  | 923,505,583          |
| Infrastructure      | 1,195,907,111        | 101,263,148        | (12,142)         | 43,631,619                         | (117,956,424)        | (2,121,528)        | 1,220,711,784        |
| Community           | 164,808,483          | 3,561,422          | -                | 4,837,309                          | (11,269,475)         | -                  | 161,937,739          |
| Other               | 68,408,193           | 25,004,500         | (379,271)        | 3,293,903                          | (11,025,738)         | -                  | 85,301,587           |
| Other - GIPTN Buses | 189,324,051          | -                  | -                | -                                  | (14,573,736)         | -                  | 174,750,315          |
| Work in progress    | 166,689,368          | 82,765,251         | -                | (51,762,831)                       | -                    | -                  | 197,691,788          |
| <b>Total</b>        | <b>2,708,865,889</b> | <b>212,594,321</b> | <b>(614,513)</b> | <b>-</b>                           | <b>(154,825,373)</b> | <b>(2,121,528)</b> | <b>2,763,898,796</b> |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

### Figures in Rand

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

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

|                    | Opening<br>balance   | Additions          | Disposals           | WIP transfers -<br>completed<br>projects | Transfers   | Depreciation         | Total                |
|--------------------|----------------------|--------------------|---------------------|--|-------------|----------------------|----------------------|
| Land               | 923,729,683          | -                  | (1,000)             | -  | -           | -                    | 923,728,683          |
| Infrastructure     | 1,184,027,502        | 92,903,892         | (143,086)           | 20,046,419                               | 8,803,230   | (109,730,846)        | 1,195,907,111        |
| Community          | 175,367,932          | 6,457,860          | (102)               | 2,863,114                                | (8,792,689) | (11,087,632)         | 164,808,483          |
| Other              | 61,817,186           | 15,655,537         | (483,024)           | 250,000                                  | (10,541)    | (8,820,965)          | 68,408,193           |
| Other - GPTN Buses | 166,349,649          | 44,208,260         | (9,867,700)         | -  | -           | (11,366,158)         | 189,324,051          |
| Work in progress   | 133,351,757          | 56,497,144         | -                   | (23,159,533)                             | -           | -                    | 166,689,368          |
|                    | <b>2,644,643,709</b> | <b>215,722,693</b> | <b>(10,494,912)</b> | <b>-</b>                                 | <b>-</b>    | <b>(141,005,601)</b> | <b>2,708,865,889</b> |

A detailed breakdown of property, plant and equipment by asset class can be found in note 56.

The municipality received public donated assets of R504,253 (2016: RNil) which forms part of the asset additions for the year. Refer to note 51.

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to meet the category classification of mSCOA. Refer to note 45.2 for more detail on mSCOA.

##### Assets subject to finance lease (Net carrying amount)

|          | 2017       | 2016       |
|----------|------------|------------|
| Vehicles | 17,078,705 | 17,748,935 |

Refer to note 14 for details of finance leases.



**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

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

**Property, plant and equipment in the process of being constructed or developed**

Details of work in progress per asset class can be found in note 56.

The carrying value of work in progress which is taking longer than expected to complete or have been delayed can be classified as follows:

**Reason for delay**

|                        |                   |
|------------------------|-------------------|
| Funding related delays | 3,548,389         |
| Tender related delays  | 6,430,875         |
| Other                  | 1,103,705         |
|                        | <b>11,082,969</b> |

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

Repairs and maintenance expenditure for the year was R91,566,512. Refer to note 33 for detail.

**10. Intangible assets**

|                   | 2017      |   |                | 2016      |   |                |
|-------------------|-----------|---|----------------|-----------|---|----------------|
|                   | Cost      | Accumulated amortisation and accumulated impairment | Carrying value | Cost      | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 2,004,147 | (570,935)   | 1,433,212      | 4,625,874 | (3,618,157)   | 1,007,717      |

**Reconciliation of intangible assets - 2017**

|                   | Opening balance | Additions | Amortisation | Total     |
|-------------------|-----------------|-----------|--------------|-----------|
| Computer software | 1,007,717       | 943,072   | (517,577)    | 1,433,212 |

**Reconciliation of intangible assets - 2016**

|                   | Opening balance | Additions | Disposals | Amortisation | Total     |
|-------------------|-----------------|-----------|-----------|--------------|-----------|
| Computer software | 463,125         | 958,628   | -         | (414,036)    | 1,007,717 |

**George Local Municipality**  
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**Notes to the Annual Financial Statements**

**11. Heritage assets**

|                                     | 2017      |                               |                | 2016      |                               |                |
|-------------------------------------|-----------|-------------------------------|----------------|-----------|-------------------------------|----------------|
|                                     | Cost      | Accumulated impairment losses | Carrying value | Cost      | Accumulated impairment losses | Carrying value |
| Historical monuments and open areas | 4,236,000 | -                             | 4,236,000      | 4,236,000 | -                             | 4,236,000      |

**Reconciliation of heritage assets 2017**

|                                     | Opening balance | Additions | Impairment losses recognised | Total     |
|-------------------------------------|-----------------|-----------|------------------------------|-----------|
| Historical monuments and open areas | 4,236,000       | -         | -                            | 4,236,000 |

**Reconciliation of heritage assets 2016**

|                                     | Opening balance | Additions | Impairment losses recognised | Total     |
|-------------------------------------|-----------------|-----------|------------------------------|-----------|
| Historical monuments and open areas | 4,236,000       | -         | -                            | 4,236,000 |

**Details of heritage assets**

|                      |                  |                  |
|----------------------|------------------|------------------|
| Wilderness Commonage | 4,050,000        | 4,050,000        |
| Old Uniondale Fort   | 186,000          | 186,000          |
|                      | <b>4,236,000</b> | <b>4,236,000</b> |

Wilderness Commonage: This piece of land has a cultural and historical value due to being a stopover or resting place for ox-wagons travelling to Cape Town.

Old Uniondale Fort: During the Anglo Boer War, Uniondale was protected by six British forts of which one has been restored to its original state.

**Expenditure incurred to repair and maintain heritage assets**

No costs were incurred to repair and maintain heritage assets during the year.

**George Local Municipality**  
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**12. Investment property**

|              | 2017               |   |                    | 2016               |   |                    |
|--------------|--------------------|---|--------------------|--------------------|---|--------------------|
|              | Cost               | Accumulated depreciation and accumulated impairment | Carrying value     | Cost               | Accumulated depreciation and accumulated impairment | Carrying value     |
| Land         | 149,777,700        | -   | 149,777,700        | 149,777,700        | -   | 149,777,700        |
| Buildings    | 4,981,973          | (2,671,268)   | 2,310,705          | 4,981,973          | (2,509,696)   | 2,472,277          |
| <b>Total</b> | <b>154,759,673</b> | <b>(2,671,268)</b>                                  | <b>152,088,405</b> | <b>154,759,673</b> | <b>(2,509,696)</b>                                  | <b>152,249,977</b> |

**Reconciliation of investment property - 2017**

|           | Opening balance    | Depreciation     | Total              |
|-----------|--------------------|------------------|--------------------|
| Land      | 149,777,700        | -                | 149,777,700        |
| Buildings | 2,472,277          | (161,572)        | 2,310,705          |
|           | <b>152,249,977</b> | <b>(161,572)</b> | <b>152,088,405</b> |

**Reconciliation of investment property - 2016**

|           | Opening balance    | Depreciation     | Total              |
|-----------|--------------------|------------------|--------------------|
| Land      | 149,777,700        | -                | 149,777,700        |
| Buildings | 2,634,292          | (162,015)        | 2,472,277          |
|           | <b>152,411,992</b> | <b>(162,015)</b> | <b>152,249,977</b> |

**Other disclosure**

Included in the surplus for the year are the following:

|  |           |         |
|--|-----------|---------|
| Total rental income from investment property   | 1,533,642 | 803,885 |
| Repairs and maintenance of investment property | 119,502   | -       |

Repairs and maintenance incurred during the year was for the Thusong Centre.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand                 | 2017               | 2016               |
|---------------------------------|--------------------|--------------------|
| <b>13. Loans and borrowings</b> |                    |                    |
| <b>At amortised cost</b>        |                    |                    |
| Annuity loans                   | 348,285,098        | 368,670,712        |
| Other loans                     | 542,532            | 723,376            |
|                                 | <b>348,827,630</b> | <b>369,394,088</b> |
| <b>Non-current liabilities</b>  |                    |                    |
| Annuity loans                   | 309,580,507        | 330,338,389        |
| Other loans                     | 361,688            | 542,532            |
|                                 | <b>309,942,195</b> | <b>330,880,921</b> |
| <b>Current liabilities</b>      |                    |                    |
| Annuity loans                   | 38,704,591         | 38,332,323         |
| Other loans                     | 180,844            | 180,844            |
|                                 | <b>38,885,435</b>  | <b>38,513,167</b>  |

**Annuity loans**

Annuity loans are repaid over periods varying from 1 years to 12 years (2016: 2 years to 13 years) and at interest rates varying from 6.75% to 12.665% (2016: 6.75% to 12.665%) per annum. Annuity loans are not secured.

**Other loans**

Other loans were used for the phased electrification of dwellings in the greater George area not yet electrified. Other loans are repaid over periods varying from 1 year to 3 years (2016: 1 year to 4 years) and at interest rates varying from 7.835% to 12% (2016: 7.835% and 12%) per annum. Other loans are not secured.

**14. Finance lease obligation**

|  |                   |                   |
|--|-------------------|-------------------|
| <b>Minimum lease payments due</b>                  |                   |                   |
| - within one year                                  | 5,476,552         | 5,323,625         |
| - in second to fifth year inclusive                | 7,812,565         | 12,332,405        |
|  | 13,289,117        | 17,656,030        |
| less: future finance charges                       | (1,685,622)       | (2,694,101)       |
| <b>Present value of minimum lease payments</b>     | <b>11,603,495</b> | <b>14,961,929</b> |
| <b>Present value of minimum lease payments due</b> |                   |                   |
| - within one year                                  | 4,533,126         | 4,085,827         |
| - in second to fifth year inclusive                | 7,070,369         | 10,876,102        |
|  | <b>11,603,495</b> | <b>14,961,929</b> |
| Non-current liabilities                            | 7,070,369         | 10,876,102        |
| Current liabilities                                | 4,533,126         | 4,085,827         |
|  | <b>11,603,495</b> | <b>14,961,929</b> |

The municipality entered into hire purchase agreements for vehicle acquisitions. The average lease term is 5 years and the average effective borrowing rate is 8.84% (2016: 8.79%). Interest rates are fixed at the contract date and all leases have fixed repayments terms.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 9 for more detail.

**George Local Municipality**  
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**Notes to the Annual Financial Statements**

| Figures in Rand  | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>15. Trade and other payables from exchange transactions</b> |                    |                    |
| <b>Current liabilities</b>                                     |                    |                    |
| Trade payables   | 118,510,304        | 105,429,644        |
| Payments received in advance                                   | 18,674,074         | 17,046,041         |
| Retentions   | 19,013,090         | 14,528,335         |
| GIPTN compensation liability                                   | 3,434,542          | 3,202,066          |
| Other payables   | 22,147,545         | 10,844,735         |
| Sundry Deposits  | 8,397,317          | 8,321,588          |
| Unidentified deposits  | 6,011,538          | 3,342,396          |
|  | <b>196,188,410</b> | <b>162,714,805</b> |
| <b>Non-current liabilities</b>                                 |                    |                    |
| GIPTN compensation liability                                   | 5,459,261          | 8,156,395          |
| <b>Total</b>   | <b>201,647,671</b> | <b>170,871,200</b> |

The average credit period on purchases is 30 days from the receipt of the statement, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the statement. 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 credit timeframe.

The management of the municipality is of the opinion that the carrying value of trade and other payables approximate their fair values. The fair value of trade and other payables was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

**George Integrated Public Transport Network (GIPTN) compensation liability**

The public transport bus services commenced during the 2015 financial year. Taxi operators who signed buy-in agreements started receiving their monthly buy-in payments with the relinquishment of the taxi operator licences. The accrual was transferred from Provisions and is split between current and non-current based on the expected payments to be made as determined in the signed contracts. Refer to note 18 for more detail.

|                                  |                  |                   |
|----------------------------------|------------------|-------------------|
| Balance at beginning of the year | 11,358,461       | 12,159,905        |
| Transferred from Provisions      | 249,411          | 1,092,023         |
| Increase in liability            | 665,589          | 1,321,550         |
| Paid during the year             | (3,379,658)      | (3,215,017)       |
|                                  | <b>8,893,803</b> | <b>11,358,461</b> |
| <b>Non-current liabilities</b>   | 5,459,261        | 8,156,395         |
| <b>Current liabilities</b>       | 3,434,542        | 3,202,066         |
|                                  | <b>8,893,803</b> | <b>11,358,461</b> |

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**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>   | <b>2017</b>        | <b>2016</b>        |
|--|--------------------|--------------------|
| <b>16. Consumer deposits</b>   |                    |                    |
| Electricity and water  | 22,822,167         | 19,759,545         |
| Guarantees held in lieu of electricity and water deposits  | 17,264,484         | 17,277,141         |
| <p>Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding accounts.</p> <p>Guarantees are given by business consumers on application for new water and electricity connections instead of deposits. In cases where consumers default on their accounts, the municipality can request the guarantee amounts from the consumers' bank as payment for the outstanding accounts.</p> |                    |                    |
| <b>17. Employee benefit obligations</b>  |                    |                    |
| <b>The amounts recognised in the statement of financial position are as follows:</b>   |                    |                    |
| <b>Non-current liabilities</b>   |                    |                    |
| Post-Retirement Medical Aid benefits liability   | 118,609,320        | 121,709,007        |
| Ex-gratia pension benefits liability   | 2,018,897          | 2,051,600          |
| Long service awards  | 18,953,503         | 18,500,116         |
|  | <b>139,581,720</b> | <b>142,260,723</b> |
| <b>Current liabilities</b>   |                    |                    |
| Post-Retirement Medical Aid benefits liability   | 4,977,326          | 4,546,836          |
| Ex-gratia pension benefits liability   | 276,714            | 627,572            |
| Long service awards  | 2,381,136          | 2,300,712          |
| Staff leave  | 30,914,992         | 25,754,564         |
| Staff annual bonus   | 10,279,611         | 9,602,594          |
|  | <b>48,829,779</b>  | <b>42,832,278</b>  |
| <b>Total liabilities</b>   |                    |                    |
| Post-Retirement Medical Aid benefits liability   | 123,586,646        | 126,255,843        |
| Ex-gratia pension benefits liability   | 2,295,611          | 2,679,172          |
| Long service awards  | 21,334,639         | 20,800,828         |
| Staff leave  | 30,914,992         | 25,754,564         |
| Staff annual bonus   | 10,279,611         | 9,602,594          |
|  | <b>188,411,499</b> | <b>185,093,001</b> |

**Post-retirement medical aid benefit liability**

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continuation member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2017. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.



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**Notes to the Annual Financial Statements**

| Figures in Rand                                       | 2017               | 2016               |
|---|--------------------|--------------------|
| <b>17. Employee benefit obligations (continued)</b>   |                    |                    |
| In-service (Employees) members                        | 501                | 499                |
| In-service (Employees) non-members                    | 487                | 483                |
| Continuation members (Retirees, widowers and orphans) | 126                | 127                |
|   | <b>1,114</b>       | <b>1,109</b>       |
| <br>In-service members                                | <br>61,892,614     | <br>65,673,284     |
| Continuation members                                  | 61,694,032         | 60,582,559         |
|   | <b>123,586,646</b> | <b>126,255,843</b> |

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

- Bonitas
- LA Health
- Hosmed
- Key Health
- Samwumed

The Current-service cost for the year ending 30 June 2018 is estimated to be R4,541,531 (2017: R4,624,356) whereas the interest cost for the same year is estimated to be R11,625,744 (2017: R11,590,218).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

|                                       |        |        |
|---------------------------------------|--------|--------|
| i) Rate of interest                   |        |        |
| Discount rate                         | 9.60 % | 9.34 % |
| Health care cost inflation rate       | 7.89 % | 8.41 % |
| Net effective discount rate           | 1.58 % | 0.86 % |
| <br>Expected retirement age - females | <br>62 | <br>62 |
| Expected retirement age - males       | 62     | 62     |

Discount rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 9.6% per annum has been used. The corresponding index-linked yield at this term is 2.54%. These rates were deduced from the yield curve obtained from the Stock Exchange of South Africa after the market close on 30 June 2017.

ii) Mortality rates

|                 |                                      |
|-----------------|--------------------------------------|
| Pre-retirement  | SA 85 - 90 mortality table           |
| Post-retirement | PA (90 - 1) ultimate mortality table |

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 62 years where data was unavailable.

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Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand   | 2017               | 2016               |
|---|--------------------|--------------------|
| <b>17. Employee benefit obligations (continued)</b>                           |                    |                    |
| The amounts recognised in the Statement of Financial Position are as follows: |                    |                    |
| Present value of fund obligations   | 123,586,646        | 126,255,843        |
| Fair value plan assets  | -                  | -                  |
|   | <b>123,586,646</b> | <b>126,255,843</b> |
| Unrecognised past-service cost  | -                  | -                  |
| Unrecognised actuarial losses / (gains)                                       | -                  | -                  |
| Present value of unfunded obligations   | 123,586,646        | 126,255,843        |
|   | <b>123,586,646</b> | <b>126,255,843</b> |
| Amounts recognised in the Statement of Financial Performance are as follows:  |                    |                    |
| Current service cost  | 4,624,356          | 5,359,426          |
| Interest cost   | 11,590,218         | 11,744,680         |
| Recognised actuarial losses / (gains)   | (14,336,935)       | (20,468,411)       |
| <b>Total included in employee related cost (refer to note 27)</b>             | <b>1,877,639</b>   | <b>(3,364,305)</b> |
| The movement in the defined benefit obligation over the year is as follows:   |                    |                    |
| Balance at the beginning of the year  | 126,255,843        | 134,044,416        |
| - Current service cost  | 4,624,356          | 5,359,426          |
| - Interest cost   | 11,590,218         | 11,744,680         |
| - Actuarial losses (gains)  | (14,336,935)       | (20,468,411)       |
| - Benefits paid   | (4,546,836)        | (4,424,268)        |
| <b>Balance at the end of the year</b>   | <b>123,586,646</b> | <b>126,255,843</b> |

The table below summarises the accrued liabilities and the plan assets for the current period and the previous four periods (R millions).

| Liability History          | 30 June 2013     | 30 June 2014     | 30 June 2015     | 30 June 2016     | 30 June 2017     |
|----------------------------|------------------|------------------|------------------|------------------|------------------|
| Accrued liability          | 105.422          | 117.768          | 134.044          | 126.256          | 123.587          |
| Fair value of plan asset   | -                | -                | -                | -                | -                |
| <b>Surplus / (Deficit)</b> | <b>(105.422)</b> | <b>(117.768)</b> | <b>(134.044)</b> | <b>(126.256)</b> | <b>(123.587)</b> |

The table below summarises the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred (R millions).

| Experience adjustments     | 30 June 2013 | 30 June 2014 | 30 June 2015 | 30 June 2016   | 30 June 2017   |
|----------------------------|--------------|--------------|--------------|----------------|----------------|
| Liabilities: (Gain) / Loss | 4.342        | 1.743        | 5.507        | (4.381)        | (1.791)        |
| Assets: Gain / (Loss)      | -            | -            | -            | -              | -              |
|                            | <b>4.342</b> | <b>1.743</b> | <b>5.507</b> | <b>(4.381)</b> | <b>(1.791)</b> |

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Figures in Rand

2017

2016

**17. Employee benefit obligations (continued)**

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

**Increase**

Effect on the current service cost and interest cost  
Effect on the defined benefit obligation

|           |           |
|-----------|-----------|
| 890,600   | 3,042,300 |
| 5,073,000 | 6,192,000 |

**Decrease**

Effect on the current service cost and interest cost  
Effect on the defined benefit obligation

|             |             |
|-------------|-------------|
| (1,315,600) | (2,557,300) |
| (7,478,000) | (8,925,000) |

**Ex-gratia pension liability**

The Ex-gratia pension benefit plan is a defined benefit plan. As at 30 June 2017 2 employees and 15 pensioners were eligible for payments in terms of this plan.

The Municipality provides pension benefits to all employees that are not members of the Pension or Provident Funds who have completed at least 10 years of service at the Council and have reached the age of 60. The benefit is calculated according to the average annual salary earned during the last year of service multiplied by number of years of service, divided by 60.

The Current-service cost for the year ending 30 June 2018 is estimated to be Rnil (2017: Rnil) whereas the interest cost for the same year is estimated to be R176,034 (2017: R198,816).

Pensioners  
Eligible employees

|           |           |
|-----------|-----------|
| 15        | 15        |
| 2         | 3         |
| <b>17</b> | <b>18</b> |

The principal assumptions used for the purposes of the actuarial valuations were as follows:

i) Rate of interest

Discount rate

|        |        |
|--------|--------|
| 8.15 % | 8.38 % |
|--------|--------|

Pension increase rate

|        |        |
|--------|--------|
| 2.48 % | 3.03 % |
|--------|--------|

Net effective discount rate

|        |        |
|--------|--------|
| 5.53 % | 5.19 % |
|--------|--------|

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 8.15% per annum has been used. The corresponding index-linked yield at this term is 2.57%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Stock Exchange of South Africa after the market close on 30 June 2017.

Expected retirement age

|    |    |
|----|----|
| 62 | 62 |
|----|----|

ii) Mortality rates

Pre-retirement

SA 85 - 90 mortality table

Post-retirement

PA (90 - 1) ultimate mortality table

iii) Normal retirement age

The normal retirement age for employees of the municipality was assumed to be 62 years where data was unavailable.

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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|-----------------|------|------|
|-----------------|------|------|

### 17. Employee benefit obligations (continued)

The amounts recognised in the Statement of Financial Position are as follows:

|   |                  |                  |
|---|------------------|------------------|
| Present value of fund obligations       | 2,295,611        | 2,679,172        |
| Fair value of plan assets               | -                | -                |
|   | <b>2,295,611</b> | <b>2,679,172</b> |
| Unrecognised past-service cost          | -                | -                |
| Unrecognised actuarial gains / (losses) | -                | -                |
| Present value of unfunded obligations   | 2,295,611        | 2,679,172        |
| <b>Net Liability</b>                    | <b>2,295,611</b> | <b>2,679,172</b> |

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

|   |                |                |
|---|----------------|----------------|
| Interest cost   | 198,816        | 193,046        |
| Recognised actuarial losses / (gains)                             | 45,195         | 365,248        |
| <b>Total included in employee related cost (refer to note 28)</b> | <b>244,011</b> | <b>558,294</b> |

The movement in the defined benefit obligation over the year is as follows:

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 2,679,172        | 2,681,928        |
| - Interest cost                      | 198,816          | 193,046          |
| - Actuarial losses / (gains)         | 45,195           | 365,248          |
| - Benefits paid                      | (627,572)        | (561,050)        |
|                                      | <b>2,295,611</b> | <b>2,679,172</b> |

The table below summarises the accrued liabilities and the plan assets for the current period and the previous four periods:

| Liability History          | 30 June 2013       | 30 June 2014       | 30 June 2015       | 30 June 2016       | 30 June 2017       |
|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Accrued liability          | 3,187,340          | 3,057,369          | 2,681,928          | 2,679,172          | 2,295,611          |
| Fair value of plan assets  | -                  | -                  | -                  | -                  | -                  |
| <b>Surplus / (Deficit)</b> | <b>(3,187,340)</b> | <b>(3,057,369)</b> | <b>(2,681,928)</b> | <b>(2,679,172)</b> | <b>(2,295,611)</b> |

The table below summarises the experience adjustments for the current period and the previous periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

| Experience adjustment      | 30 June 2013   | 30 June 2014  | 30 June 2015  | 30 June 2016   | 30 June 2017  |
|----------------------------|----------------|---------------|---------------|----------------|---------------|
| Liabilities: (Gain) / Loss | (2,548)        | 31,653        | 85,984        | 416,614        | 95,982        |
| Assets: Gain / (Loss)      | -              | -             | -             | -              | -             |
|                            | <b>(2,548)</b> | <b>31,653</b> | <b>85,984</b> | <b>416,614</b> | <b>95,982</b> |

The effect of a 1% movement in the assumed pension increase rate is as follows:

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| Figures in Rand                                     | 2017      | 2016      |
|---|-----------|-----------|
| <b>17. Employee benefit obligations (continued)</b> |           |           |
| <b>Increase</b>                                     |           |           |
| Effect on the interest cost                         | 14,318    | 14,318    |
| Effect on the defined benefit obligation            | 164,680   | 170,799   |
| <b>Decrease</b>                                     |           |           |
| Effect on interest cost                             | (12,871)  | (12,980)  |
| Effect on the defined benefit obligation            | (148,271) | (153,548) |

**Long service awards**

The municipality's obligation for Long Service Awards is a defined benefit plan. This plan is wholly unfunded as no contributions are made by the municipality into funds that are legally separate from the municipality and from which the employee benefits are paid (each subsequent financial year's expected payments of long service bonuses are budgeted for).

The municipality, in substance, underwrites the actuarial and investment risks associated with the plan. Consequently, the expense recognised for the defined benefit plan is the full additional liability accrued due to additional benefit entitlement. The municipality's net obligation in respect of the defined benefit long service allowances is the present value of the defined benefit obligation less the fair value of any plan assets, together with adjustments for unrecognised actuarial gains or losses and past service cost. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows of the benefits that will be paid to employees and using suitable interest rates.

The calculation is performed by registered actuaries using the projected unit credit method. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2017.

At year end, 988 (2016: 982) employees were eligible for Long-services Awards. The future service cost for the ensuing year is estimated to be R1,536,659 (2017: R1,555,049), whereas the interest cost for the ensuing year is estimated to be R1,701,781 (2017: R1,680,413).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

|                                |        |        |
|--------------------------------|--------|--------|
| <b>i) Rate of interest</b>     |        |        |
| Discount rate                  | 8.44 % | 8.54 % |
| Benefit inflation rate         | 6.26 % | 7.20 % |
| Net effective discount rate    | 2.05 % | 1.25 % |
| <b>Expected retirement age</b> | 62     | 62     |

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the liabilities should be used. Consequently, a discount rate of 8.44% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 2.55%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Stock Exchange of South Africa after the market close on 30 June 2017.

**ii) Mortality rates**

|                 |                                      |
|-----------------|--------------------------------------|
| Pre-retirement  | SA 85 - 90 mortality table           |
| Post-retirement | PA (90 - 1) ultimate mortality table |

**iii) Normal retirement age**

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|-----------------|------|------|
|-----------------|------|------|

### 17. Employee benefit obligations (continued)

The normal retirement age for employees of the municipality was assumed to be 62 years where data was unavailable.

The amounts recognised in the Statement of Financial Position are as follows:

|   |                   |                   |
|---|-------------------|-------------------|
| Present value of projected fund obligations | 21,334,639        | 20,800,828        |
| Plan assets                                 | -                 | -                 |
|   | <b>21,334,639</b> | <b>20,800,828</b> |
| Unrecognised past-service cost              | -                 | -                 |
| Unrecognised actuarial gains / (losses)     | -                 | -                 |
| Present value of unfunded obligation        | 21,334,639        | 20,800,828        |
|   | <b>21,334,639</b> | <b>20,800,828</b> |

Amounts recognised in the Statement of Financial Performance are as follows:

|   |           |           |
|---|-----------|-----------|
| Net current service cost, interest cost and actuarial losses (gains) included in the long service awards expense (refer to note 28) | 2,834,523 | 3,257,654 |
|---|-----------|-----------|

The movement in the defined benefit obligation over the year is as follows:

|  |                   |                   |
|--|-------------------|-------------------|
| Balance at the beginning of the year   | 20,800,828        | 19,674,941        |
| - Net current service cost, interest cost and actuarial losses (gains) included in the long service awards expense | 2,834,523         | 3,257,654         |
| - Benefits paid  | (2,300,712)       | (2,131,767)       |
|  | <b>21,334,639</b> | <b>20,800,828</b> |

The table below summarises the accrued liabilities and the plan assets for the current period and the previous four periods:

| Liability History          | 30 June 2013        | 30 June 2014        | 30 June 2015        | 30 June 2016        | 30 June 2017        |
|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Accrued Liability          | 16,636,020          | 17,981,565          | 19,674,941          | 20,800,828          | 21,334,639          |
| Fair value of plan assets  | -                   | -                   | -                   | -                   | -                   |
| <b>Surplus / (Deficit)</b> | <b>(16,636,020)</b> | <b>(17,981,565)</b> | <b>(19,674,941)</b> | <b>(20,800,828)</b> | <b>(21,334,639)</b> |

The table below summarises the experience adjustments for the current and previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred:

| Experience adjustment      | 30 June 2013   | 30 June 2014     | 30 June 2015   | 30 June 2016   | 30 June 2017   |
|----------------------------|----------------|------------------|----------------|----------------|----------------|
| Liabilities: (Gain) / Loss | 751,311        | 1,276,184        | 908,105        | 852,348        | 729,329        |
| Assets: Gain / (Loss)      | -              | -                | -              | -              | -              |
|                            | <b>751,311</b> | <b>1,276,184</b> | <b>908,105</b> | <b>852,348</b> | <b>729,329</b> |

The effect of a 1% movement in the assumed salary inflation rate is as follows:



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|  | 2017        | 2016        |
|--|-------------|-------------|
| <b>17. Employee benefit obligations (continued)</b>  |             |             |
| <b>Increase</b>                                      |             |             |
| Effect on the current service cost and interest cost | 254,700     | 240,200     |
| Effect on the defined benefit obligation             | 1,377,000   | 1,410,000   |
| <b>Decrease</b>                                      |             |             |
| Effect on the current service cost and interest cost | (227,300)   | (214,000)   |
| Effect on the defined benefit obligation             | (1,245,000) | (1,270,000) |

**Multi-employer retirement benefit information**

Employees belong to a variety of approved Pension and Provident Funds as described below. These schemes are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

SALA Pension Fund and the South African Municipal Workers Union Pension Fund are defined benefit plans, whereas the Cape Joint Defined Contribution Fund, Cape Retirement Fund for Local Government and the Municipal Councillors Pension Fund are defined contribution plans. All of these afore-mentioned funds are multi-employer plans. Sufficient information is not available to use defined benefit accounting for the pension and retirement funds due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers
- One set of financial statements is compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where Councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R34,203,356 for employees and R401,510 for Councillors represents contributions payable to these plans by the municipality at rates specified in the rules of the plans.

**LA Retirement Fund (previously Cape Joint Defined Contribution Fund)**

The LA Retirement Fund's contribution rate payable is 9% by the members and 18% by Council. The valuation of 30 June 2016 showed that the funding level is 100%.

**SALA Pension Fund**

The contribution rate paid by the members 8.60% and Council 19.18% is sufficient to fund the benefits accruing from the fund in the future.

At the valuation date of 1 July 2015 the SALA Pension Fund was 100% funded and revealed that the fund was certified to be in a sound financial position.

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|-----------------|------|------|

### 17. Employee benefit obligations (continued)

#### Municipal Councillors Pension Fund

The actuarial valuator of the Pension Fund for Councillors on 30 June 2015 stated that it was 101% funded and is in a sound financial position.

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (13,75%) and Council (15%) is sufficient to fund the benefits accruing from the fund in the future.

#### South African Municipal Workers Union Pension Fund

The actuarial valuator of the Pension Fund for members on 30 June 2011 and stated that it was 111% funded and is in a sound financial position.

The contribution rate paid by the members of 9% and Council of 18% is sufficient to fund the benefits accruing from the fund in the future.

#### Staff leave

The movement on the leave accrual consist of the following:

|                      |                   |                   |
|----------------------|-------------------|-------------------|
| Opening balance      | 25,754,564        | 26,035,348        |
| Payments             | (2,176,411)       | (1,470,762)       |
| Additional provision | 7,336,839         | 1,189,998         |
|                      | <b>30,914,992</b> | <b>25,754,564</b> |

#### Staff annual bonus

The movement on the annual bonus accrual consist of the following:

|   |                   |                  |
|---|-------------------|------------------|
| Balance at the beginning of the year                | 9,602,594         | 8,596,146        |
| Payments  | (9,602,594)       | (8,596,146)      |
| Additional bonus accrual recognised during the year | 10,279,611        | 9,602,594        |
|   | <b>10,279,611</b> | <b>9,602,594</b> |

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|-----------------|------|------|
|-----------------|------|------|

**18. Provisions**

**Reconciliation of provisions - 2017**

|                                 | Opening<br>Balance | Additions /<br>Reversed | Utilised during<br>the year | Discounting<br>changes | Transferred to<br>Trade and<br>other<br>payables | Total             |
|---------------------------------|--------------------|-------------------------|-----------------------------|------------------------|--|-------------------|
| Rehabilitation of landfill site | 23,201,876         | (2,236,261)             | (1,098,673)                 | 1,786,153              | -  | 21,653,095        |
| Clearing of alien vegetation    | 2,075,680          | 128,060                 | -                           | -                      | -  | 2,203,740         |
| Compensation Liability GIPTN    | 64,874,836         | 828,078                 | -                           | (2,286,600)            | (249,412)  | 63,166,902        |
|                                 | <b>90,152,392</b>  | <b>(1,280,123)</b>      | <b>(1,098,673)</b>          | <b>(500,447)</b>       | <b>(249,412)</b>                                 | <b>87,023,737</b> |

**Reconciliation of provisions - 2016**

|                                    | Opening<br>Balance | Additions        | Utilised during<br>the year | Discounting<br>changes | Transferred to<br>Trade and<br>other<br>payables | Total             |
|------------------------------------|--------------------|------------------|-----------------------------|------------------------|--|-------------------|
| Rehabilitation of landfill site    | 17,861,518         | 3,945,374        | -                           | 1,394,984              | -  | 23,201,876        |
| Provision relating to legal claims | 1,964,000          | (1,964,000)      | -                           | -                      | -  | -                 |
| Clearing of alien vegetation       | 1,341,120          | 734,560          | -                           | -                      | -  | 2,075,680         |
| Compensation Liability GIPTN       | 60,663,176         | 5,756,068        | (452,385)                   | -                      | (1,092,023)                                      | 64,874,836        |
|                                    | <b>81,829,814</b>  | <b>8,472,002</b> | <b>(452,385)</b>            | <b>1,394,984</b>       | <b>(1,092,023)</b>                               | <b>90,152,392</b> |

**Current liabilities consist of**  
Rehabilitation of landfill site  
Clearing of alien vegetation  
Compensation Liability GIPTN

| 2017              | 2016              |
|-------------------|-------------------|
| 2,115,896         | 3,473,301         |
| 2,203,740         | 2,075,680         |
| 6,764,129         | 35,556,228        |
| <b>11,083,765</b> | <b>41,105,209</b> |

Non-current liabilities  
Current liabilities

|                   |                   |
|-------------------|-------------------|
| 75,939,972        | 49,047,183        |
| 11,083,765        | 41,105,209        |
| <b>87,023,737</b> | <b>90,152,392</b> |

**Rehabilitation of landfill site**

The consulting engineers, Aurecon South Africa (Pty) Ltd, used a predominantly desktop-based methodology adopted in estimating the airspace consumed in the 2016/2017 financial year as a percentage of the total airspace, was based on assumption on waste generation, waste disposal site size and final design height (at closure).

Rehabilitation cost was estimated using criteria for closure detailed in the Minimum Requirement for Waste Disposal by Landfill, together with a visual inspection of the site during 2012. The rate of escalation was based on the Contract Price Adjustments rate for Civil Works. The 2016 cost was increased by 5.4770% to determine the rehabilitation cost as at 30 June 2017.

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**18. Provisions (continued)**

Provision is made in terms of the municipality's licensing stipulations on the landfill waste sites and a mediation agreement between the Department of Environmental Affairs and Development Planning, for the estimated cost of rehabilitating the waste sites. The provision has been determined on the basis of a recent independent study. The cost factors derived from the study by Aurecon South Africa (Pty) Ltd have been applied. The landfill sites have reached full capacity and the municipality obtained closure licences during the 2015 financial year for both the George and Uniondale landfill sites. The closure licences and the mediation agreement requires that the rehabilitation of both landfill sites should be completed by 2019. The municipality have started with the rehabilitation process during the 2017 financial year.

The cost as at 30 June 2017 has been escalated annually with the Contract Price Adjustments rate for Civil Works until the estimated time of closure and discounted to present value using the three year South African Government Bond rate (7.670%).

The movement on each of the landfill site's provisions is:

|           | Opening<br>balance | Additions /<br>Reversal | Utilised during<br>the year | Unwinding of<br>discount | Total             |
|-----------|--------------------|-------------------------|-----------------------------|--------------------------|-------------------|
| George    | 20,371,990         | (1,954,552)             | (1,098,673)                 | 1,563,016                | 18,881,781        |
| Uniondale | 2,829,886          | (281,709)               | -                           | 223,137                  | 2,771,314         |
|           | <b>23,201,876</b>  | <b>(2,236,261)</b>      | <b>(1,098,673)</b>          | <b>1,786,153</b>         | <b>21,653,095</b> |

**Clearing of alien vegetation**

The municipality has an obligation to clear alien vegetation. The provision represents the present cost to clear the alien vegetation on vacant land owned by the municipality. This is an ongoing process. The provision was based on the current clearing cost of between R3,956.70 and R19,182.90 per hectare (2016: R3,727 and R18,063 per hectare) depending on the location and the total size of land of 240 hectares (2016: 240 hectares) have to be cleared.

**Compensation Liability: George Integrated Public Transport Network**

The George Integrated Public Transport Network (GIPTN) has been developed by the municipality and the Provincial Government of the Western Cape to transform the road-based public transport sector through the establishment of a high quality, flexible and integrated public transport network.

An operating company was established and the current taxi owners form part of the operating company and operate the buses in the network. According to the signed operator's agreement, the taxi owners have to relinquish their existing taxi operators' licences to receive the compensation.

The bus services started operating during December 2014 and are rolled out in phases.

The provision for the compensation is based on the signed agreements with each of the taxi operators. Based on these agreements, 229 (2016: 229) licences were subject to the buy-in option, while 278 (2016: 278) licences were subject to the election of the buy-out option. The buy-in provision for operators who started receiving their monthly buy-in amounts was transferred to Trade and other payables. Refer to note 15.

The undiscounted provision for compensation before any payouts over the five years covered by the compensation agreement is R75,392,814 (2016: R73,340,583). A discount rate of 7.670% (2016: 7.885%) (3 year Government Bond rate) was used to discount the provision.

The municipality expects to pay the buy-out options between October 2017 and January 2019 as the next phases are rolled out and the buy-in options within 5 years from the roll out dates.

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| <b>19. Conditional government grants and subsidies</b>                       |                     |                     |
| <b>Unspent conditional government grants and subsidies</b>                   | <b>104,809,639</b>  | <b>34,491,337</b>   |
| National Government Grants   | 57,923,505          | 11,304,317          |
| Provincial Government Grants   | 39,182,107          | 15,482,994          |
| Other  | 7,704,027           | 7,704,026           |
| <b>Less: Conditional government grants and subsidies receivable - Note 4</b> | <b>(29,224,324)</b> | <b>(49,864,909)</b> |
| National Government Grants   | (25,290,106)        | (34,790,106)        |
| Provincial Government Grants   | -                   | (12,501,405)        |
| Other  | (3,934,218)         | (2,573,398)         |
|  | <b>75,585,315</b>   | <b>(15,373,572)</b> |

The amount of unspent conditional grants and receipts is held in the operating bank account of the municipality until utilised.

The total grants recognised in the Statement of Financial Performance are (Refer to note 26):

|  |                    |                    |
|--|--------------------|--------------------|
| <b>Unconditional Grants</b>                  |                    |                    |
| Grants                                       | 105,336,000        | 100,069,300        |
| <b>Conditional Grants</b>                    |                    |                    |
| Grants and Donations                         | 352,769,527        | 332,086,030        |
| Subsidies                                    | 1,726,309          | 522,243            |
| <b>Total Government Grants and Subsidies</b> | <b>459,831,836</b> | <b>432,677,573</b> |
| Government Grants and Subsidies - Capital    | 149,590,523        | 134,762,884        |
| Government Grants and Subsidies - Operating  | 310,241,313        | 297,914,689        |
|  | <b>459,831,836</b> | <b>432,677,573</b> |

Details of the different grants are set out below.

**Unconditional Grants**

**19.1 Equitable share**

|   |               |               |
|---|---------------|---------------|
| Opening balance   | -             | -             |
| Grants received   | 105,336,000   | 100,693,000   |
| Conditions met - Operating  | (105,336,000) | (100,693,000) |
| Conditions met - Capital  | -             | -             |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>      | <b>-</b>      |

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

**Conditional Grants**

**19.2 National Finance Management Grant (FMG)**

|   |             |             |
|---|-------------|-------------|
| Opening balance   | -           | -           |
| Grants received   | 1,475,000   | 1,450,000   |
| Conditions met - Operating  | (1,475,000) | (1,450,000) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>    | <b>-</b>    |

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Program (e.g. salary costs of the Financial Management Interns).

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### 19. Conditional government grants and subsidies (continued)

#### 19.3 National: Municipal Systems Improvement Grant (MSIG)

|   |          |           |
|---|----------|-----------|
| Opening balance   | -        | -         |
| Grants received   | -        | 930,000   |
| Conditions met - Operating  | -        | (930,000) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b> | <b>-</b>  |

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

#### 19.4 National: Infrastructure Skills Development

|   |             |             |
|---|-------------|-------------|
| Opening balance   | -           | -           |
| Grants received   | 3,700,000   | 3,000,000   |
| Conditions met - Operating  | (2,959,231) | (2,677,826) |
| Conditions met - Capital  | (740,769)   | (322,174)   |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>    | <b>-</b>    |

The Infrastructure Skills Development Grant is given to strengthen the capacity of local government to effectively and efficiently deliver quality infrastructure, by increasing the pool of skills available and to facilitate lifelong learning and the transfer of knowledge to municipalities.

#### 19.5 National: Municipal Infrastructure Grant (MIG)

|   |              |              |
|---|--------------|--------------|
| Opening balance   | -            | (4,535,809)  |
| Grants received   | 38,283,000   | 38,832,000   |
| Conditions met - Operating  | (1,914,150)  | (1,939,686)  |
| Conditions met - Capital  | (36,368,850) | (32,356,505) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>     | <b>-</b>     |

The grant was utilised to construct water and sewerage infrastructure and also to upgrade sport facilities, with the main focus on the historically disadvantaged areas.

#### 19.6 National: Regional Bulk Infrastructure Grant (RBIG)

|   |                   |                   |
|---|-------------------|-------------------|
| Opening balance   | 11,304,318        | 11,304,318        |
| Grants received   | -                 | -                 |
| Conditions met - Capital  | (644,987)         | -                 |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>10,659,331</b> | <b>11,304,318</b> |

The grant was allocated to the municipality to construct bulk infrastructure for water and waste water. The remainder of this grant is specifically for raising the dam wall of the Garden Route dam. The licence was issued by the Department of Water Affairs.

#### 19.7 National: Integrated National Electrification Grant

|   |                    |                     |
|---|--------------------|---------------------|
| Opening balance   | (12,517,189)       | (7,972,437)         |
| Grants received   | 9,500,000          | 7,000,000           |
| Conditions met - Capital  | -                  | (11,544,752)        |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>(3,017,189)</b> | <b>(12,517,189)</b> |

The National Electrification Grant was used to upgrade the sub-station and electrification network.



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### 19. Conditional government grants and subsidies (continued)

#### 19.8 National: Expanded Public Works Program Grant (EPWP)

|   |             |             |
|---|-------------|-------------|
| Opening balance   | -           | -           |
| Grants received   | 4,014,000   | 1,864,000   |
| Conditions met - Operating  | (4,014,000) | (1,864,000) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>    | <b>-</b>    |

The Expanded Public Works Program Grant was used to increase labour employment through infrastructure programs that increase jobcreation and skills development.

#### 19.9 National: Lawaakamp Sports Grounds (Lotto)

|   |                  |                  |
|---|------------------|------------------|
| Opening balance   | (262,147)        | (262,147)        |
| Grants received   | -                | -                |
| Conditions met - Capital  | -                | -                |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>(262,147)</b> | <b>(262,147)</b> |

The National Lottery has given this grant to the municipality specifically for the upgrading of the Lawaakamp Sports Grounds.

#### 19.10 National: Public Transport Network Operations Grant (PTNOG)

|   |                     |                     |
|---|---------------------|---------------------|
| Opening balance   | (22,010,770)        | (22,010,770)        |
| Grants received   | 72,998,000          | 73,676,799          |
| Conditions met - Operating  | (72,998,000)        | (73,676,799)        |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>(22,010,770)</b> | <b>(22,010,770)</b> |

This grant's purpose is to provide supplementary operational funding to municipalities operating approved Integrated Public Transport Network services and to provide improved public transport network services that are formal, scheduled and well managed.

#### 19.11 National: Public Transport Infrastructure Grant (PTIG)

|   |                   |              |
|---|-------------------|--------------|
| Opening balance   | -                 | -            |
| Grants received   | 83,446,000        | 42,648,201   |
| Conditions met - Capital  | (36,181,826)      | (42,648,201) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>47,264,174</b> | <b>-</b>     |

This grant's purpose is to provide funding for accelerated planning, construction and improvement of public and non-motorised transport infrastructure.

#### 19.12 Provincial: Western Cape Financial Management Support Grant

|   |           |          |
|---|-----------|----------|
| Opening balance   | -         | -        |
| Grants received   | 220,000   | 50,000   |
| Conditions met - Operating  | (220,000) | (50,000) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>  | <b>-</b> |

The Financial Management Support Grant is given by the Western Cape Provincial Treasury to provide financial assistance to municipalities to improve overall financial governance within municipalities inclusive of optimising and administration of revenue, improving credibility and responsiveness of municipal budgets, improving of municipal audit outcomes and addressing institutional challenges.

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### 19. Conditional government grants and subsidies (continued)

#### 19.13 Provincial: Western Cape Financial Management Capacity

##### Building Grant

|   |           |          |
|---|-----------|----------|
| Opening balance   | -         | -        |
| Grants received   | 120,000   | -        |
| Conditions met - Operating  | (120,000) | -        |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>  | <b>-</b> |

This grant is given to develop financial human capacity within municipal areas to enable a sustainable local financial skills pipeline that is responsive to municipalities' requirements to enable sound and sustainable financial management and good financial governance.

#### 19.14 Provincial: Integrated Public Transport Network Operations

|   |              |                     |
|---|--------------|---------------------|
| Opening balance   | (10,391,933) | (6,396,586)         |
| Grants received   | 101,526,709  | 89,231,159          |
| Conditions met - Operating  | (91,134,776) | (93,226,507)        |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>     | <b>(10,391,934)</b> |

The Integrated Public Transport Network Operations grant is given to the municipality to implement a public transport service as contemplated in the George Integrated Public Transport Network (GIPTN). This grant will fund the shortfall in operational cost and provide for the additional operational support to underwrite the consequences of significantly impaired operating conditions and magnified transformation obligations.

#### 19.15 Provincial: Integrated Public Transport Network Infrastructure

|   |              |              |
|---|--------------|--------------|
| Opening balance   | -            | 69,189       |
| Grants received   | 49,017,291   | 39,998,841   |
| Conditions met - Capital  | (49,017,291) | (40,068,030) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>     | <b>-</b>     |

The Integrated Public Transport Network Infrastructure grant is given to the municipality to implement a public transport service as contemplated in the George Integrated Public Transport Network (GIPTN). This grant will enhance infrastructure for public transport services provided by the municipality.

#### 19.16 Provincial: Integrated Transport Planning Grant

|   |          |           |
|---|----------|-----------|
| Opening balance   | -        | -         |
| Grants received   | -        | 600,000   |
| Conditions met - Operating  | -        | (600,000) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b> | <b>-</b>  |

This grant is given for the review and update municipal Integrated Transport Plans in terms of the National Land Transport Act, 2009 [Act No. 5 of 2009].

#### 19.17 Provincial: Human Settlements Operating Grants

|   |                   |                  |
|---|-------------------|------------------|
| Opening balance   | (748,652)         | (6,486,558)      |
| Grants received   | 44,415,933        | 15,568,448       |
| Conditions met - Operating  | (14,073,150)      | (9,830,542)      |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>29,594,131</b> | <b>(748,652)</b> |

This grant is given to provide funding for the creation of sustainable human settlements. The outcome of this grant is to provide top structures and basic social and economic amenities that contributes to the establishment of sustainable human settlements.

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**19. Conditional government grants and subsidies (continued)**

**19.18 Provincial: Human Settlements Capital Grant**

|   |                  |                   |
|---|------------------|-------------------|
| Opening balance   | 10,000,000       | -                 |
| Grants received   | 20,863,478       | 14,032,840        |
| Conditions met - Capital  | (22,395,228)     | (4,032,840)       |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>8,468,250</b> | <b>10,000,000</b> |

This grant is given to provide funding for the creation of sustainable human settlements. The outcome of this grant is to provide basic infrastructure that contribute to the establishment of sustainable human settlements.

**19.19 Provincial: Sport / Recreational Facilities**

|   |               |          |
|---|---------------|----------|
| Opening balance   | -             | -        |
| Grants received   | 54,000        | -        |
| Conditions met - Operating  | -             | -        |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>54,000</b> | <b>-</b> |

This grant is given by Provincial Treasury to initiate and support socially cohesive sport and recreation structures and/or activities.

**19.20 Provincial: Proclaimed Roads**

|   |             |           |
|---|-------------|-----------|
| Opening balance   | -           | -         |
| Grants received   | 5,734,000   | 354,724   |
| Conditions met - Operating  | (5,734,000) | (354,724) |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>-</b>    | <b>-</b>  |

This grant is given by Provincial Treasury to financially assist municipalities with the maintenance/construction of proclaimed municipal main roads, where the municipality is the Road Authority (Section 50 of Ordinance 19 of 1976).

**19.21 Provincial: Thembaletu & Pacaltsdorp sport fields (YDVS)**

|   |                    |                    |
|---|--------------------|--------------------|
| Opening balance   | (1,360,820)        | (1,542,643)        |
| Grants received   | -                  | -                  |
| Transfer  | -                  | 181,823            |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>(1,360,820)</b> | <b>(1,360,820)</b> |

This grant was utilised to upgrade the Thembaletu and Pacaltsdorp sport fields.

**19.22 Provincial: Electricity Master Plan Operations**

|   |                |                |
|---|----------------|----------------|
| Opening balance   | 500,000        | -              |
| Grants received   | 230,000        | 500,000        |
| Conditions met - Operating  | (500,000)      | -              |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b> | <b>230,000</b> | <b>500,000</b> |

This grant was given by Provincial Treasury to the municipality to provide financial assistance to ensure effective functioning of municipal electrical infrastructure and to maximise the provision of basic electricity to citizens.

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| <b>19. Conditional government grants and subsidies (continued)</b>   |                |                  |
| <b>19.23 Provincial: Library Services</b>  |                |                  |
| Opening balance  | 4,982,994      | 2,993,059        |
| Grants received  | 7,996,000      | 9,535,991        |
| Conditions met - Operating   | (7,996,000)    | (7,473,000)      |
| Conditions met - Capital   | (4,241,572)    | (73,056)         |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>  | <b>741,422</b> | <b>4,982,994</b> |
| This grant is to be used for the transformation of urban and rural community library infrastructure, facilities and services (primarily targeting previously disadvantaged communities) through a recapitalised program at provincial level in support of local government and national initiatives. |                |                  |
| <b>19.24 Provincial: Community Development Workers' Operational Grant</b>  |                |                  |
| Opening balance  | -              | 44,141           |
| Grants received  | 75,000         | 90,000           |
| Conditions met - Operating   | (40,697)       | (134,141)        |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>  | <b>34,303</b>  | <b>-</b>         |
| This grant is for financial assistance to Municipalities to cover the operational expenses i.e. the functions of the community development workers including the supervisors and regional organisers.  |                |                  |
| <b>19.25 Provincial: Thembaletshu Thusong Service Centre</b>   |                |                  |
| Opening balance  | -              | -                |
| Grants received  | -              | 100,000          |
| Conditions met - Operating   | -              | (100,000)        |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>  | <b>-</b>       | <b>-</b>         |
| This grant is given to provide financial assistance to Municipalities, ensuring the financial sustainability of the Thusong Service Centres.   |                |                  |
| <b>19.26 Provincial: Local Government Graduate Internship Grant</b>  |                |                  |
| Opening balance  | -              | -                |
| Grants received  | 60,000         | -                |
| Conditions met - Operating   | -              | -                |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>  | <b>60,000</b>  | <b>-</b>         |
| The Local Government Graduate Internship Grant is given to the municipality to provide financial assistance to the municipality in support of capacity building for the future by means of a graduate internship programme.  |                |                  |
| <b>19.26 Other: Eden District Municipality Electrification Grant</b>   |                |                  |
| Opening balance  | 200,000        | 200,000          |
| Grants received  | -              | -                |
| Conditions met - Operating   | -              | -                |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>  | <b>200,000</b> | <b>200,000</b>   |
| The Eden District Municipality grant was given for electrification of certain areas.   |                |                  |

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| <b>19. Conditional government grants and subsidies (continued)</b>   |                    |                     |
| <b>19.27 Other: Eden District Municipality Emergency Relief Funds</b>                                      |                    |                     |
| Opening balance  | (2,573,398)        | 1,143,927           |
| Grants received  | -                  | -                   |
| Conditions met - Capital   | -                  | (3,717,326)         |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>                                      | <b>(2,573,398)</b> | <b>(2,573,399)</b>  |
| This grant was given to reimburse municipalities for flood damage incurred by the municipality.            |                    |                     |
| <b>19.28 Other: SANRAL N2 /York Bridge</b>   |                    |                     |
| Opening balance  | 7,504,027          | 6,877,165           |
| Grants received  | -                  | 3,019,084           |
| Conditions met - Operating   | -                  | (2,392,222)         |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>                                      | <b>7,504,027</b>   | <b>7,504,027</b>    |
| This grant was utilised to widen the N2/York Street bridge and to add a pedestrian crossing to the bridge. |                    |                     |
| <b>19.29 Other: LG Seta</b>  |                    |                     |
| Opening balance  | -                  | -                   |
| Grants received  | 1,726,309          | 522,243             |
| Conditions met - Operating   | (1,726,309)        | (522,243)           |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>                                      | <b>-</b>           | <b>-</b>            |
| These amounts were received from LG Seta based on the municipality's workplace skills plan.                |                    |                     |
| <b>Total Grants</b>  |                    |                     |
| Opening balance  | (15,373,570)       | (26,575,151)        |
| Grants received  | 550,790,721        | 443,697,330         |
| Transfer   | -                  | 181,822             |
| Conditions met - Operating   | (310,241,313)      | (297,914,689)       |
| Conditions met - Capital   | (149,590,523)      | (134,762,884)       |
| <b>Conditions still to be met/(Grant expenditure to be recovered)</b>                                      | <b>75,585,315</b>  | <b>(15,373,572)</b> |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017               | 2016               |
|--|--------------------|--------------------|
| <b>20. Housing development fund</b>  |                    |                    |
| Unappropriate surplus  | 9,831,739          | 11,556,862         |
| Loans extinguished by Government on 1 April 1998   | 53,383,243         | 53,383,243         |
|  | <b>63,214,982</b>  | <b>64,940,105</b>  |
| The housing development fund is represented by the following assets and liabilities  |                    |                    |
| Housing selling scheme loans   | 692,782            | 889,950            |
| Inventory  | 141,633            | 171,042            |
| Trade and other receivables from exchange transactions   | 948,259            | 941,748            |
| Trade and other receivables from non-exchange transactions   | 1,012,475          | 1,291,165          |
| Government grants in debit   | 3,017,189          | 4,544,752          |
| Bank and cash  | 58,415,119         | 58,091,541         |
| Trade and other payables from exchange transactions  | (1,012,475)        | (990,093)          |
| <b>Total Housing Development Fund Assets and Liabilities</b>   | <b>63,214,982</b>  | <b>64,940,105</b>  |
| <b>21. Service charges</b>   |                    |                    |
| Electricity  | 565,449,873        | 534,778,495        |
| Water  | 121,171,738        | 110,115,289        |
| Sewerage and sanitation charges  | 81,869,035         | 77,683,156         |
| Refuse removal   | 61,813,769         | 54,000,706         |
| Other  | 18,439             | 318,920            |
|  | <b>830,322,854</b> | <b>776,896,566</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 the approved tariffs. |                    |                    |
| The other service charges decreased during the year since the municipality is not charging for fire services any more.   |                    |                    |
| The prior period balances were reclassified. Refer to note 45.1 for more detail.   |                    |                    |
| <b>22. GIPTN Fare Revenue</b>  |                    |                    |
| GIPTN Fare Revenue   | 37,301,627         | 32,532,521         |
| Fare revenue is recognised in accordance with accounting policy 1.20.  |                    |                    |



**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand                                     | 2017              | 2016              |
|---|-------------------|-------------------|
| <b>23. Other income</b>                             |                   |                   |
| Application fees for second dwelling                | -                 | 151,425           |
| Building plan fees and related income               | 6,167,805         | 5,169,184         |
| Camping fees  | 744,162           | 418,984           |
| Cemetery fees                                       | 1,166,597         | 1,168,157         |
| Contributions received for capital projects         | 11,382,719        | 11,882,541        |
| Insurance claims received                           | 1,134,257         | 12,172,864        |
| Public contributions for donated asset additions    | 504,253           | -                 |
| Public donations received                           | 862,902           | 722,572           |
| Rates clearance certificates for property transfers | 743,684           | 563,326           |
| Sundry income                                       | 2,455,591         | 4,239,693         |
|   | <b>25,161,970</b> | <b>36,488,746</b> |

The amounts disclosed above for Other Income are in respect of services rendered, other than described in notes 21, 25 and 27 which are billed to or paid for by the users of the services is required according to approved tariffs.

Insurance Claims received in the prior year consisted mainly out of the claim received during the previous financial year for the four GIPTN buses which were burnt in August 2015.

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail.

**24. Interest received**

**Outstanding Debtors**

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Trade receivables        | 4,066,867        | 4,592,169        |
| Art. 185(a) arrangements | 1,515            | 8,959            |
| Land sales               | 2,926            | 3,149            |
| Selling schemes          | 84,533           | 104,821          |
| Victoria Bay loans       | 264              | 690              |
|                          | <b>4,156,105</b> | <b>4,709,788</b> |

**External Investments**

|                        |                   |                   |
|------------------------|-------------------|-------------------|
| Bank accounts          | 19,851,843        | 15,187,914        |
| Short term investments | 17,452,125        | 15,516,104        |
|                        | <b>37,303,968</b> | <b>30,704,018</b> |
|                        | <b>41,460,073</b> | <b>35,413,806</b> |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>             | <b>2017</b>           | <b>2016</b>           |
|------------------------------------|-----------------------|-----------------------|
| <b>25. Property rates</b>          |                       |                       |
| <b>Rates received</b>              |                       |                       |
| Agriculture                        | 3,171,669             | 2,901,950             |
| Commercial                         | 50,220,919            | 46,155,892            |
| Industrial                         | 12,613,814            | 11,686,988            |
| Other                              | 59,308                | 102,206               |
| Public benefit organisations       | 1,260,035             | 1,171,455             |
| Residential                        | 152,632,523           | 136,933,120           |
| State-owned                        | 9,218,153             | 7,725,434             |
| Vacant land                        | 18,785,289            | 14,471,071            |
| Less: Income forgone               | (29,830,737)          | (22,358,118)          |
| Less: Impermissible rates          | (6,698,406)           | (6,136,306)           |
|                                    | <b>211,432,567</b>    | <b>192,653,692</b>    |
| <b>Valuations</b>                  |                       |                       |
| Agriculture                        | 1,910,333,400         | 1,863,808,500         |
| Churches & parks                   | 361,040,700           | 363,514,900           |
| Commercial                         | 5,674,555,290         | 5,706,352,190         |
| Industrial                         | 1,513,915,200         | 1,486,326,800         |
| Municipal (non-taxable valuations) | 1,085,749,650         | 1,096,074,150         |
| Other                              | 27,024,200            | 24,768,400            |
| Public benefit organisations       | 150,069,500           | 148,983,200           |
| Residential                        | 23,012,463,800        | 22,631,423,450        |
| State-owned                        | 1,322,437,800         | 1,208,324,800         |
| Vacant land                        | 2,167,122,459         | 2,323,550,300         |
|                                    | <b>37,224,711,999</b> | <b>36,853,126,690</b> |

Assessment rates are levied on the total value of property of which the valuation must be performed every four years in terms of the Municipal Property Rates Act. Interim valuations are processed on an annual basis to take into account changes in individual property value due to alterations, consolidations and subdivisions.

Uniform rates of 0,6664 (2016: 0,6228) cents in the Rand on total valuations were applied to determine assessment rates. Business tariffs are levied at 0,8413 (2016: 0,7863) for Commercial, Industrial and Business erven, and this were applicable for all Areas.

A rebate of 15% (2016: 17%) was allowed on residential properties, whilst rebates of 10% - 20% (2016: 10% - 20%) were applied to pensioners, based on the annual income of the ratepayer. A rebate of 40% (2016: 75%) was allowed on residential properties for rural areas. A discount of 20% was granted to the State.

Rates are levied monthly on property owners and are payable by the 15th of each month. Owners are allowed to pay the 12 monthly instalments annually by 30 September each year. Interest is levied at the prime rate plus 1% on outstanding rates amounts.

The current General Valuation came into effect on 1 July 2012. The municipality was granted an extension of one year by the Minister of Local Government, Environmental Affairs and Development Planning and the current General Valuation will remain in effect up to 30 June 2017.

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to meet the category classification of mSCOA.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>   | <b>2017</b>        | <b>2016</b>        |
|--|--------------------|--------------------|
| <b>26. Government grants and subsidies</b>                                     |                    |                    |
| <b>Operating grants</b>  |                    |                    |
| Equitable share  | 105,336,000        | 100,693,000        |
| National: Finance Management Grant (FMG)                                       | 1,475,000          | 1,450,000          |
| National: Municipal Systems Improvements Grant (MSIG)                          | -                  | 930,000            |
| National: Infrastructure Skills Development                                    | 2,959,231          | 2,677,826          |
| National: Municipal Infrastructure Grant (MIG)                                 | 1,914,150          | 1,939,686          |
| National: Expanded Public Works Program Grant (EPWP)                           | 4,014,000          | 1,864,000          |
| National: Public Transport Operations Grant                                    | 72,998,000         | 73,676,799         |
| Provincial: Western Cape Financial Management Support Grant                    | 220,000            | 50,000             |
| Provincial: Western Cape Financial Management Capacity Building Grant          | 120,000            | -                  |
| Provincial: Integrated Public Transport Network                                | 91,134,776         | 93,226,507         |
| Provincial: Integrated Transport Planning Grant                                | -                  | 600,000            |
| Provincial: Human Settlements Operating Grant                                  | 14,073,150         | 9,830,541          |
| Provincial: Proclaimed Roads   | 5,734,000          | 354,724            |
| Provincial: Electrical Master Plan Operations                                  | 500,000            | -                  |
| Provincial: Library Grant  | 7,996,000          | 7,473,000          |
| Provincial: Community Development Workers Operational Grant                    | 40,697             | 134,141            |
| Provincial: Thembaletu Thusong Service Centre                                  | -                  | 100,000            |
| Other: Sanral N2/York Street Bridge  | -                  | 2,392,222          |
| Other: LG Seta   | 1,726,309          | 522,243            |
|  | <b>310,241,313</b> | <b>297,914,689</b> |
| <b>Capital grants</b>  |                    |                    |
| National: Infrastructure Skills Development                                    | 740,769            | 322,174            |
| National: Municipal Infrastructure Grant (MIG)                                 | 36,368,850         | 32,356,505         |
| National: Regional Bulk Infrastructure Grant                                   | 644,987            | -                  |
| National: Integrated National Electrification Grant                            | -                  | 11,544,752         |
| National: Public Transport Infrastructure Grant                                | 36,181,826         | 42,648,201         |
| Provincial: Integrated Public Transport Network Infrastructure                 | 49,017,291         | 40,068,030         |
| Provincial: Human Settlements Capital Grant                                    | 22,395,228         | 4,032,840          |
| Provincial: Library Grant  | 4,241,572          | 73,056             |
| Other: Eden District Municipality Emergency Relief Funds                       | -                  | 3,717,326          |
|  | <b>149,590,523</b> | <b>134,762,884</b> |
|  | <b>459,831,836</b> | <b>432,677,573</b> |
| <b>Revenue recognised per vote as required by Section 123 (c) of the MFMA:</b> |                    |                    |
| Office of the Municipal Manager  | 1,516,549          | 857,627            |
| Corporate Services   | 4,403,175          | 2,660,334          |
| Community Services   | 52,641,092         | 44,347,404         |
| Human Settlements, Land Affairs & Planning                                     | 14,642,999         | 11,877,031         |
| Civil Engineering Services   | 365,861,589        | 341,869,950        |
| Electrotechnical Services  | 17,683,462         | 27,225,816         |
| Financial Services   | 3,082,970          | 3,839,411          |
|  | <b>459,831,836</b> | <b>432,677,573</b> |

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand                          | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>27. Fines, penalties and forfeits</b> |                   |                   |
| Collection charges                       | 4,951,158         | 6,574,459         |
| GIPIN Bus operator penalties             | 397,265           | -                 |
| Other fines                              | 243,550           | 414,890           |
| Traffic fines                            | 28,707,670        | 55,637,830        |
|  | <b>34,299,643</b> | <b>62,627,179</b> |

The decrease in traffic fines is due to the contract for the traffic fine cameras which lapsed in November 2016 and was only renewed in May 2017. During this time no camera fines were issued.

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail.

**28. Employee related costs**

|  |                    |                    |
|--|--------------------|--------------------|
| Basic  | 275,319,169        | 241,576,624        |
| Housing benefits and allowances                                    | 1,704,242          | 1,653,667          |
| Long-service awards  | 2,591,078          | 5,271,175          |
| Medical aid - company contributions                                | 16,536,963         | 14,553,153         |
| Other payroll levies   | 3,419,586          | 3,183,078          |
| Overtime payments  | 34,562,150         | 22,488,225         |
| Employee benefit obligations                                       | 2,099,747          | (2,806,011)        |
| - Current service cost   | 4,602,453          | 5,359,426          |
| - Interest cost  | 11,789,034         | 11,937,726         |
| - Actuarial (gains) / losses recognised                            | (14,291,740)       | (20,103,163)       |
| Travel, motor car, accommodation, subsistence and other allowances | 32,802,489         | 27,300,772         |
| UIF  | 2,568,519          | 1,697,310          |
| Pension  | 34,203,356         | 30,861,713         |
| Subsistence and Travelling Allowance                               | 1,219,427          | 1,026,935          |
|  | <b>407,026,726</b> | <b>346,806,641</b> |

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail.

**Remuneration of Municipal Manager**

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 1,729,149        | 1,854,608        |
| Contributions to UIF, Medical and Pension Funds | 20,452           | 20,105           |
|   | <b>1,749,601</b> | <b>1,874,713</b> |

**Remuneration of Director Financial Services**

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                             | 1,395,234        | 1,301,749        |
| Car Allowance                                   | 60,000           | 60,000           |
| Contributions to UIF, Medical and Pension Funds | 303,036          | 275,935          |
| Acting expenses                                 | 47,118           | 28,063           |
|   | <b>1,805,388</b> | <b>1,665,747</b> |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>  | <b>2017</b>      | <b>2016</b>      |
|---|------------------|------------------|
| <b>28. Employee related cost (continued)</b>                                  |                  |                  |
| <b>Remuneration of Director Corporate Services</b>                            |                  |                  |
| Annual Remuneration   | 1,285,715        | 1,256,950        |
| Car Allowance   | 135,795          | 148,140          |
| Severance package   | 361,482          | -                |
| Contributions to UIF, Medical and Pension Funds                               | 291,656          | 226,265          |
| Acting expense  | -                | 16,669           |
|   | <b>2,074,648</b> | <b>1,648,024</b> |
| <b>Remuneration of Director Human Settlement, Land Affairs &amp; Planning</b> |                  |                  |
| Annual Remuneration   | 1,258,421        | 1,182,146        |
| Car Allowance   | 96,000           | 96,000           |
| Contributions to UIF, Medical and Pension Funds                               | 288,272          | 277,743          |
| Acting expenses   | 51,074           | 24,162           |
|   | <b>1,693,767</b> | <b>1,580,051</b> |
| <b>Remuneration of Director Community Services</b>                            |                  |                  |
| Annual Remuneration   | 990,828          | 1,031,458        |
| Car Allowance   | 60,000           | 144,662          |
| Bonus   | -                | 62,292           |
| Contributions to UIF, Medical and Pension Funds                               | 195,081          | 173,117          |
| Acting expenses   | -                | 6,595            |
|   | <b>1,245,909</b> | <b>1,418,124</b> |
| <b>Remuneration of Director Civil Engineering Services</b>                    |                  |                  |
| Annual Remuneration   | 1,360,816        | 1,399,600        |
| Car Allowance   | 121,000          | 132,000          |
| Severance package   | 410,206          | -                |
| Contributions to UIF, Medical and Pension Funds                               | 23,964           | 24,288           |
| Acting expenses   | 14,700           | 36,718           |
|   | <b>1,930,686</b> | <b>1,592,606</b> |
| <b>Remuneration of Director Electro- Technical Services</b>                   |                  |                  |
| Annual Remuneration   | 1,337,279        | 1,375,936        |
| Car Allowance   | 132,000          | 144,000          |
| Severance package   | 400,129          | -                |
| Contributions to UIF, Medical and Pension Funds                               | 46,578           | 35,952           |
| Acting expenses   | 8,621            | 13,569           |
|   | <b>1,924,607</b> | <b>1,569,457</b> |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand                          | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>29. Remuneration of Councillors</b>   |                   |                   |
| Executive Mayor - basic salary           | 506,527           | 477,555           |
| Deputy Executive Mayor - basic salary    | 498,626           | 383,626           |
| Speaker - basic salary                   | 504,149           | 451,879           |
| Chief Whip - basic salary                | 418,044           | 384,976           |
| Mayoral Committee Members                | 4,114,474         | 3,827,501         |
| Councillors                              | 6,927,585         | 5,856,318         |
| Car allowance                            | 4,090,346         | 3,960,697         |
| Cellphone allowance                      | 1,194,395         | 1,016,490         |
| Councillors' contribution to medical aid | 145,100           | 313,212           |
| Pension contribution                     | 401,510           | 794,381           |
|  | <b>18,800,756</b> | <b>17,466,635</b> |
| <b>Remuneration per councillor:</b>      |                   |                   |
| L Arries                                 | 352,721           | -                 |
| C Bob                                    | 30,519            | 258,104           |
| N Bungane                                | 241,019           | -                 |
| E Bussack                                | 527,328           | -                 |
| JP Buys                                  | 241,019           | -                 |
| CM Clarke                                | 241,019           | -                 |
| BM Cornelius                             | 555,834           | 258,104           |
| DL Cronje                                | 527,328           | -                 |
| M Daniels                                | 241,019           | -                 |
| PH de Swart                              | 59,150            | 611,164           |
| EP De Villiers                           | 584,465           | 611,164           |
| NNE Dlephu                               | 30,519            | 258,104           |
| S Dikille                                | 241,019           | -                 |
| M Draghaender                            | 586,506           | 650,515           |
| M Du Preez                               | 39,521            | -                 |
| J Du Toit                                | 274,336           | 325,323           |
| JD Esau                                  | 112,302           | -                 |
| LBC Esau                                 | 30,519            | 258,104           |
| RS Figland                               | 241,019           | -                 |
| T Fortuin                                | -                 | 215,087           |
| J Fry                                    | 241,019           | -                 |
| V Gericke                                | 294,237           | 258,104           |
| MD Gingcana                              | 30,519            | 258,104           |
| FS Guga                                  | 30,519            | 258,104           |
| WT Hamis                                 | 235,817           | 509,303           |
| LS Hayward                               | 30,519            | 258,104           |
| HH Ingo                                  | 269,525           | 258,104           |
| NR James                                 | 241,019           | -                 |
| N Jantjies                               | 269,525           | 258,104           |
| HJ Jones                                 | (17,765)          | 593,279           |
| NF Kamte                                 | 30,322            | 258,104           |
| A Kiwit                                  | 241,019           | -                 |
| MEF Kleynhans                            | 59,150            | 611,164           |
| NV Kom                                   | 30,519            | 258,104           |
| PB Komani                                | 30,519            | 258,104           |
| IC Kritzing                              | 629,900           | 611,164           |
| L Langa                                  | 241,019           | -                 |
| PS Leholo                                | 30,519            | 258,104           |
| CI Lesele                                | 112,302           | -                 |
| H Loff                                   | 241,019           | -                 |
| R Lombaard                               | 30,519            | 258,104           |



**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand                                    | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>29. Remuneration of Councillors (continued)</b> |                   |                   |
| Remuneration per councillor (continued):           |                   |                   |
| P Louw   | 241,019           | -                 |
| G Macclune   | 50,289            | 258,104           |
| D Maritz   | 62,430            | 650,515           |
| VE Mashini   | 29,229            | 35,521            |
| NF Mdaka   | 241,345           | -                 |
| SM Mekana  | -                 | 205,224           |
| BH Mooi  | 241,020           | -                 |
| ZM Moyi  | 58,651            | 55,392            |
| V Muller   | 241,019           | -                 |
| MG Naik  | 775,078           | 611,164           |
| J Ncamazana  | 241,019           | -                 |
| C Neefling   | 30,519            | 258,104           |
| GC Niehaus   | 555,834           | 258,104           |
| CH Noble   | 527,328           | -                 |
| PP Nosana  | 241,019           | -                 |
| FZ Ntuzini   | 30,519            | 258,104           |
| MM Nyakathi  | 570,026           | 258,104           |
| B Petrus   | 241,019           | 236,595           |
| B Plata  | 266,103           | -                 |
| G Pretorius  | 584,631           | 33,312            |
| LN Quepe   | 30,519            | 258,104           |
| C Remas  | 30,519            | 258,104           |
| S Roodland   | 241,019           | -                 |
| J Safers   | 241,019           | -                 |
| B Salmani  | 30,519            | 258,104           |
| GM Sihoyiya  | 30,519            | 258,104           |
| S Snyman   | 241,019           | -                 |
| GJ Stander   | 584,465           | 682,797           |
| C Standers   | 67,327            | 736,296           |
| I Stemela  | 298,156           | 611,164           |
| EH Stroebel  | 241,217           | -                 |
| T Teyisi   | 269,525           | 258,104           |
| JS Thanda  | 30,519            | 258,104           |
| PJ Van der /hoven                                  | 269,525           | 258,104           |
| GJ Van Niekerk                                     | 241,019           | -                 |
| LD Van Wyk   | 283,329           | 611,164           |
| AJ Van Zyl   | 30,519            | 258,104           |
| M Viljoen  | 555,834           | 258,104           |
| J Von Brandis                                      | 241,019           | -                 |
| DJ Wessels   | 241,019           | -                 |
| AM Wildeman  | 30,519            | 258,104           |
| AD Willemse  | 542,156           | -                 |
| CT Williams  | 269,524           | 258,104           |
| W Wiltbooi   | 30,519            | 258,104           |
| G Xesi   | 42,432            | -                 |
|  | <b>18,800,756</b> | <b>17,466,635</b> |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>  | <b>2017</b>    | <b>2016</b>    |
|---|----------------|----------------|
| <b>29. Remuneration of Councillors (continued)</b>  |                |                |
| Remuneration for the Executive Mayor, Deputy Executive Mayor, Speaker and Chief Whip are: |                |                |
| <b>Executive Mayor</b>  |                |                |
| Basic salary  | 506,527        | 477,555        |
| Car allowance   | 187,773        | 196,765        |
| Cellphone allowance   | 26,823         | 20,868         |
| Contributions to medical aid and pension fund   | 59,640         | 112,741        |
|   | <b>780,763</b> | <b>807,929</b> |
| <b>Deputy Executive Mayor</b>   |                |                |
| Basic salary  | 498,626        | 383,621        |
| Car allowance   | 95,378         | 157,412        |
| Cellphone allowance   | 26,823         | 20,868         |
| Contributions to medical aid and pension fund   | 7,311          | 88,609         |
|   | <b>628,138</b> | <b>650,510</b> |
| <b>Speaker</b>  |                |                |
| Basic salary  | 504,149        | 451,879        |
| Car allowance   | 95,378         | 157,412        |
| Cellphone allowance   | 26,823         | 20,868         |
| Contributions to medical aid and pension fund   | 1,789          | 20,356         |
|   | <b>628,139</b> | <b>650,515</b> |
| <b>Chief Whip</b>   |                |                |
| Basic salary  | 418,044        | 384,976        |
| Car allowance   | 140,830        | 147,574        |
| Cellphone allowance   | 21,597         | 20,868         |
| Contributions to medical aid and pension funds  | 4,812          | 57,746         |
|   | <b>585,283</b> | <b>611,164</b> |

**In-kind benefits**

The Councillors occupying the positions of Executive Mayor, Deputy Executive Mayor, Speaker, Chief Whip and Executive Mayoral Committee Members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

The Executive Mayor and Deputy Executive Mayor have use of a Council owned vehicle for official duties.

**George Local Municipality**  
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**Notes to the Annual Financial Statements**

| Figures in Rand   | 2017               | 2016               |
|---|--------------------|--------------------|
| <b>30. Depreciation and amortisation</b>  |                    |                    |
| Property, plant and equipment   | 154,796,242        | 141,005,601        |
| Intangible assets   | 517,402            | 414,036            |
| Investment property   | 161,572            | 162,015            |
|   | <b>155,475,216</b> | <b>141,581,652</b> |
| <b>31. Impairment of assets</b>   |                    |                    |
| <b>Impairments</b>  |                    |                    |
| Trade receivables from exchange transactions  | 42,528,854         | 34,762,999         |
| Trade and other receivables from non-exchange transactions  | 29,750,225         | 53,850,629         |
| Loans and receivables   | (133,690)          | (97,422)           |
|   | <b>72,145,389</b>  | <b>88,516,206</b>  |
| <b>32. Finance costs</b>  |                    |                    |
| Loans and borrowings  | 39,801,491         | 42,451,911         |
| Finance leases  | 1,298,703          | 1,539,967          |
| Provision for rehabilitation of landfill site   | 1,786,153          | 1,394,985          |
| Provision for Compensation Liability GIPTN  | 1,222,914          | 3,328,089          |
|   | <b>44,109,261</b>  | <b>48,714,952</b>  |
| Refer to note 18 for detail on the discounting of the provisions for the rehabilitation of the landfill site and the GIPTN Compensation Liability.  |                    |                    |
| <b>33. Repairs and maintenance</b>  |                    |                    |
| Streets and Stormwater Network  | 20,401,291         | 15,889,772         |
| Sewerage Network  | 5,798,891          | 19,132,921         |
| Water Network   | 7,618,218          | 6,816,343          |
| Integrated transport service  | 17,760,586         | 14,974,042         |
| Electricity Network   | 1,651,770          | 5,493,518          |
| Machinery   | 9,573,278          | 5,211,169          |
| Buildings & properties  | 20,874,317         | 4,259,241          |
| Other   | 8,037,663          | 7,825,022          |
|   | <b>91,716,014</b>  | <b>79,602,028</b>  |
| The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail. |                    |                    |
| <b>34. Bulk purchases</b>   |                    |                    |
| Electricity   | 395,745,838        | 359,854,084        |
| Water   | 111,094            | -                  |
|   | <b>395,856,932</b> | <b>359,854,084</b> |

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom. Water was purchased from Haarlem Irrigation Board during the year.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand                 | 2017               | 2016               |
|---------------------------------|--------------------|--------------------|
| <b>35. Contracted services</b>  |                    |                    |
| Credit Control                  | 4,509,774          | 4,758,417          |
| Dumping Site Contractors        | 5,192,807          | 4,774,893          |
| Electricity Distribution        | 23,644,867         | 18,784,210         |
| Financial Services              | 1,974,668          | 1,946,991          |
| Fire Services                   | 246,621            | 118,601            |
| General & additional valuations | 761,644            | 505,180            |
| Housing projects                | 21,578,166         | 15,723,002         |
| Human Resources Contractors     | 2,191,155          | 398,424            |
| IT Services Mainframe           | 8,382              | 420,339            |
| Integrated Transport Services   | 160,175,799        | 172,525,990        |
| Internal Auditors               | 3,281,353          | 2,966,150          |
| Legal fees                      | 3,738,655          | 3,428,534          |
| Other Contractors               | 18,785,182         | 19,836,154         |
| Parks and Gardens Contractors   | 2,892,014          | 5,127,624          |
| Proclaimed Roads                | 7,903,112          | 2,843,076          |
| Refuse Removal                  | 7,625,164          | 9,633,176          |
| SPCA - Small Animal Pound       | 1,756,128          | 1,510,357          |
| Security                        | 13,106,870         | 8,253,176          |
| Street Cleansing                | 2,001,831          | 248,242            |
| Streets and Stormwater          | 999,329            | 725,540            |
| Town Planning                   | 393,888            | 643,195            |
| Traffic Contractors             | 1,409,123          | 2,757,733          |
| Water Distribution              | 3,506,216          | 2,589,743          |
|                                 | <b>287,682,748</b> | <b>280,518,747</b> |

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail.

**36. Grants and subsidies paid**

|                            |                |                |
|----------------------------|----------------|----------------|
| <b>Other subsidies</b>     |                |                |
| Bursary Grants             | 120,000        | 87,780         |
| Merit Grants and Donations | 1,750          | 139,980        |
|                            | <b>121,750</b> | <b>227,760</b> |

The Bursary grants are in respect of providing bursaries for further tertiary education.

Merit Grants and Donations are given to schools and non-profit organisations in the community.

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail.

**37. Gains or (losses) on sale of assets**

|                               |           |              |
|-------------------------------|-----------|--------------|
| Property, plant and equipment | (101,022) | (10,454,913) |
|-------------------------------|-----------|--------------|

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand                        | 2017              | 2016              |
|--|-------------------|-------------------|
| <b>38. Other materials / Inventory</b> |                   |                   |
| Fuel                                   | 9,726,301         | 7,758,155         |
| Chemicals                              | 21,172,680        | 17,137,442        |
| Other                                  | 2,570,953         | 3,439,547         |
|  | <b>33,469,934</b> | <b>28,335,144</b> |

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail.

**39. General expenses**

|  |                   |                   |
|--|-------------------|-------------------|
| Advertising, publicity and marketing                           | 2,510,736         | 955,696           |
| Auditors remuneration  | 3,632,565         | 3,185,995         |
| Bank charges   | 2,700,210         | 1,574,722         |
| Bargaining Council (previously Membership fees)                | 4,024,748         | 3,247,332         |
| Commission Third Party Vendors (previously Easy Pay Cost)      | 1,563,260         | 1,928,413         |
| External computer services (previously IT Expenses)            | 10,351,784        | 6,092,035         |
| Insurance  | 6,836,609         | 6,548,130         |
| Leaverships and interns  | 3,403,531         | 3,925,699         |
| Lease rentals on operating leases                              | 13,800,659        | 10,454,144        |
| Net Realisable Value written down for inventory (Note 2)       | -                 | 1,159,200         |
| Other general expenses   | 6,320,936         | 13,442,718        |
| Postage  | 1,793,531         | 1,768,150         |
| Printing and publications (previously Printing and stationery) | 3,066,716         | 2,496,416         |
| Refuse   | 6,371,449         | 4,037,478         |
| Skills Development Levy  | 4,043,307         | 3,330,463         |
| Telephone and fax  | 2,673,073         | 1,800,126         |
| Training   | 76,033            | 118,832           |
| Travel - local   | 2,359,956         | 2,356,878         |
| Uniforms   | 1,836,030         | 1,570,180         |
| Vehicle Tracking   | 7,090,639         | 358,707           |
| Workmen's Compensation Fund                                    | 2,001,777         | 1,816,878         |
|  | <b>86,457,549</b> | <b>72,168,192</b> |

The municipality adopted the Standard Chart of Accounts for Local Government (mSCOA) as prescribed by National Treasury on 1 July 2016 and the comparative figures were reclassified to conform with mSCOA. Refer to note 45.2 for more detail.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>  | <b>2017</b>        | <b>2016</b>        |
|---|--------------------|--------------------|
| <b>40. Cash generated from operations</b>   |                    |                    |
| Surplus   | 63,058,904         | 108,549,023        |
| <b>Adjustments for:</b>   |                    |                    |
| Depreciation and amortisation   | 155,475,216        | 141,581,652        |
| Gain on sale of assets and liabilities  | 101,022            | 10,454,913         |
| Donated asset receipts included in other income   | (504,253)          | -                  |
| Net realisable value adjustment of inventory  | -                  | 1,159,200          |
| Finance costs - Finance leases  | 1,298,703          | 1,539,967          |
| Impairment of assets  | 72,145,389         | 88,516,206         |
| Housing Development Fund payments   | -                  | (32,437)           |
| Movements in bonus provision  | 677,017            | 1,006,447          |
| Movements in provisions   | 91,546             | 10,738,963         |
| Provisions utilised during the year   | (1,098,673)        | (2,416,381)        |
| Movement in Employee benefit asset and liabilities - Medical Aid, Pension and Long Service Awards | 4,328,601          | 451,643            |
| Movement in Employee benefit asset and liabilities - Staff leave                                  | 5,160,428          | (280,784)          |
| Benefits paid regarding employee benefits   | (6,847,548)        | (7,117,085)        |
| Unspent conditional grants received   | 550,790,720        | 443,697,329        |
| Payments from unspent conditional grants  | (459,831,835)      | (426,958,546)      |
| Non-cash movements on unspent conditional grants  | -                  | (5,537,202)        |
| <b>Changes in working capital:</b>  |                    |                    |
| (Increase) / Decrease in Inventories  | 9,009,248          | 4,488,643          |
| Receivables from exchange transactions  | (27,935,720)       | (50,521,502)       |
| Other receivables from non-exchange transactions  | (21,667,744)       | (48,392,420)       |
| (Increase) / Decrease in Prepayments  | (1,846,902)        | (3,668,222)        |
| Increase / (Decrease) in Trade and other payables from exchange transactions                      | 30,776,471         | 13,254,454         |
| (Increase) / Decrease in VAT  | 1,009,240          | (1,406,226)        |
| Increase / (Decrease) in Consumer deposits  | 3,062,622          | (1,826,522)        |
|   | <b>377,252,452</b> | <b>277,281,109</b> |
| <b>41. Commitments</b>  |                    |                    |
| <b>Authorised capital expenditure</b>   |                    |                    |
| <b>Approved and contracted for</b>  |                    |                    |
| • Infrastructure  | 110,582,044        | 88,226,840         |
| • Community   | 2,336,814          | 4,052,092          |
| • Other   | 11,184,860         | 24,349,237         |
|   | <b>124,103,718</b> | <b>116,628,169</b> |
| <b>These expenses will be financed from:</b>  |                    |                    |
| • Capital replacement reserve   | 6,927,747          | 5,202,367          |
| • External loans  | 2,504,981          | 12,560,069         |
| • Government Grants   | 114,670,990        | 98,865,733         |
|   | <b>124,103,718</b> | <b>116,628,169</b> |



**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand   | 2017                     | 2016               |
|---|--------------------------|--------------------|
| <b>41. Commitments (continued)</b>  |                          |                    |
| <b>Operating leases - as lessee (expense)</b>   |                          |                    |
| <b>Minimum lease payments due</b>   |                          |                    |
| - within one year   | 1,452,304                | 1,267,933          |
| - in second to fifth year inclusive   | 1,023,000                | 2,475,304          |
|   | <b>2,475,304</b>         | <b>3,743,237</b>   |
| Operating leases relate to property, plant and equipment with lease terms not longer than 5 years with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period. |                          |                    |
| <b>42. Financial instruments disclosure</b>   |                          |                    |
| <b>Categories of financial instruments</b>  |                          |                    |
| <b>2017</b>   |                          |                    |
| <b>Financial assets</b>   |                          |                    |
| <b>Loans and Receivables</b>  | <b>At amortised cost</b> | <b>Total</b>       |
| Housing Scheme Loans  | 358,094                  | 358,094            |
| Sale of Erven Loans   | 95,334                   | 95,334             |
| Loans to Other Organisations  | 12,888                   | 12,888             |
| Actaris Meter Debt  | 219,362                  | 219,362            |
| <b>Trade and other receivables from exchange transactions</b>   |                          |                    |
| Service Debtors   | 83,958,994               | 83,958,994         |
| Other Debtors   | 4,791,823                | 4,791,823          |
| <b>Other receivables from non-exchange transactions</b>   |                          |                    |
| Other Debtors   | 2,812,058                | 2,812,058          |
| <b>Cash and cash equivalents</b>  | 505,440,767              | 505,440,767        |
|   | <b>597,689,320</b>       | <b>597,689,320</b> |
| <b>Financial liabilities</b>  |                          |                    |
| <b>Loans and borrowings</b>   | <b>At amortised cost</b> | <b>Total</b>       |
| Annuity Loans   | 348,285,098              | 348,285,098        |
| Other Loans   | 542,532                  | 542,532            |
| <b>Consumer Deposits</b>  |                          |                    |
| Electricity and water   | 22,822,167               | 22,822,167         |
| <b>Payables</b>   |                          |                    |
| Trade payables  | 174,576,280              | 174,576,280        |
|   | <b>546,226,077</b>       | <b>546,226,077</b> |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

**42. Financial instruments disclosure (continued)**

**2016**

**Financial assets**

|   | At amortised cost  | Total              |
|---|--------------------|--------------------|
| <b>Loans and Receivables</b>                                  |                    |                    |
| Housing Scheme Loans  | 421,572            | 421,572            |
| Sale of Erven Loans   | 93,407             | 93,407             |
| Loans to Other Organisations                                  | 18,612             | 18,612             |
| Actaris Meter Debt  | 597,992            | 597,992            |
| <b>Trade and other receivables from exchange transactions</b> |                    |                    |
| Service Debtors   | 94,404,205         | 94,404,205         |
| Other Debtors   | 8,359,763          | 8,359,763          |
| <b>Other receivables from non-exchange transactions</b>       |                    |                    |
| Other Debtors   | 2,014,906          | 2,014,906          |
| <b>Cash and cash equivalents</b>                              | 365,322,659        | 365,322,659        |
|   | <b>471,233,116</b> | <b>471,233,116</b> |

**Financial liabilities**

|                             | At amortised cost  | Total              |
|-----------------------------|--------------------|--------------------|
| <b>Loans and Borrowings</b> |                    |                    |
| Annuity Loans               | 368,670,712        | 368,670,712        |
| Other Loans                 | 723,376            | 723,376            |
| <b>Consumer Deposits</b>    |                    |                    |
| Electricity and water       | 19,759,545         | 19,759,545         |
| <b>Payables</b>             |                    |                    |
| Trade payables              | 145,503,571        | 145,503,571        |
|                             | <b>534,657,204</b> | <b>534,657,204</b> |

**43. Contingencies**

**Compensation for damages**

|  |                  |                   |
|--|------------------|-------------------|
| JE & JA Maree  | -                | 108,000           |
| J Kimari / T Gozongo                                     | -                | 100,000           |
| SAPS / Minister of Police                                | -                | 3,811             |
| Nqela Civil Construction and D Christians                | -                | 77,854            |
| J Barnard  | 465,000          | 465,000           |
| Expropriation of Portion 4 of the Farm Sandkraal No. 197 | 1,835,000        | 10,000,000        |
| N Landu  | 2,307,000        | -                 |
|  | <b>4,607,000</b> | <b>10,754,665</b> |

**JE & JA Maree:** The municipality is involved in a legal claim of R108,000 from JE & JA Maree. The claim is for the repayment of municipal rates, taxes and costs pursuant to expropriation of portion 29 of the farm 197, Sandkraal. The matter was settled during the year since the claimants did not respond to any requests from the municipality.

**J Kimari / T Gozongo:** J Kimari instituted a defamation claim of R100,000 against the municipality. The summons was handed over to the municipality's insurers. The plaintiff withdrew the claim and the case has been closed.

**SAPS / Minister of Police:** An official of the municipality collided with a SAPS vehicle and the SAPS is claiming the damages of R3,811 from the municipality. This amount was paid during the year.

**Nqela Civil Construction and D Christians** is claiming damages of R77,854 to a vehicle caused by a pothole. The claim was paid by the municipality's insurance company.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

**43. Financial instruments disclosure (continued)**

J Barnard: The individual was injured in a motor vehicle accident in Blanco when her vehicle crashed into grounded overhead electricity cables which were caused by another vehicle. She issued summons against the municipality of R465,000 for her alleged injuries. The summons was handed to the municipality's insurers but the matter is still pending.

Expropriation of Portion 4 of the Farm Sandkraal No. 197: Council is in the process of expropriating Portion 4 of the Farm Sandkraal No. 197, George for low cost housing purposes. Council is willing to compensate the owner in the amount of R1,613 000 which was not accepted. The owner wants R10,000,000. The matter is currently subject to arbitration. The arbitrator suggested that a final valuation be obtained to establish the current market value of the property. A valuation of R1,835,000 was obtained and the matter is pending to the outcome of the arbitration process.

N Landu: Acting on behalf of a minor, S Landu, he instituted a claim for damages of R2,307,000 against the municipality as a result of an incident when the minor's hand was injured when the rear loading mechanism of one of the municipality's refuse compactors allegedly closed on the minor's left hand. This matter was referred to the Municipality's insurers.

**Contingent assets**

George Housing Association:

The municipality contributed an amount of R5.1 million towards the establishment of the George Housing Association. The contributions were made in the 2005/06 to 2007/08 financial years with the last amount contributed during March 2008. The association was established as an Article 21 company and was never legally regarded as a municipal entity as stipulated in the Municipal Finance Management Act.

Upon legal action taken by the municipality, a court order was issued on 8 June 2012 against George Housing Association that the R5.1 million should be repaid to the municipality. The municipality received R1,604,568, being the balance in the bank account of the George Housing Association, on 5 July 2012. It is uncertain if the municipality will receive the balance of the R5.1 million.

During the process of preparing the application for the liquidation of the George Housing Association it became apparent that the municipality would be the only creditor applying for the liquidation and as such runs a substantial risk of paying a contribution during the liquidation process. On legal advice received, liquidation was halted until further notice.

## George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

#### 44. Related parties

##### Relationships

| Councillor<br>Ward | Before 10 August 2016 election     | After 10 August 2016 election                          |
|--------------------|------------------------------------|--|
| 1                  | MG Naik                            | J Sifers   |
| 2                  | C Neethling                        | DL Cronje  |
| 3                  | EP De Villiers                     | EP De Villiers   |
| 4                  | LD van Wyk                         | M Viljoen  |
| 5                  | LBC Esau                           | P Louw   |
| 6                  | HH Ingo                            | HH Ingo  |
| 7                  | FZ Ntozini                         | S Roodland   |
| 8                  | C Standers (resigned 26 July 2016) | AD Willemse  |
| 9                  | T Teyisi                           | S Dikille  |
| 10                 | MD Gingcana                        | BH Mool  |
| 11                 | NF Kamte                           | G Xesi (deceased on 25 September 2016)                 |
|                    |                                    | CI Lesele (declared elected on 2 February 2017 by IEC) |
| 12                 | GN Sixolo                          | B Plata  |
| 13                 | B Salmani                          | L Langa  |
| 14                 | C Remas                            | E Bussack  |
| 15                 | FS Guga                            | NF Mdaka   |
| 16                 | HJ Jones (suspended 2 June 2016)   | CH Noble   |
| 17                 | D Maritz                           | V Muller   |
| 18                 | GC Niehaus                         | GC Niehaus   |
| 19                 | IC Kritzinger                      | S Snyman   |
| 20                 | M Draghoender                      | M Draghoender  |
| 21                 | JS Thanda                          | NR James   |
| 22                 | PH de Swardt                       | G Pretorius  |
| 23                 | GJ Stander                         | GJ Stander   |
| 24                 | AM Wildeman                        | M Daniels  |
| 25                 | MEF Kleynhans                      | M du Preez (deceased 4 October 2016)                   |
|                    |                                    | JD Esau (declared elected on 2 February 2017 by IEC)   |
| 26                 |                                    | J von Brandis  |
| 27                 |                                    | BM Cornelius   |
| Proportional       | C Bob                              | L Aries  |
| Proportional       | BM Cornelius                       | N Bungane  |
| Proportional       | NNE Diephu                         | JP Buys  |
| Proportional       | J du Toit                          | CM Clarke  |
| Proportional       | T Fortuin (resign 26/04/2016)      | J du Toit  |
| Proportional       | V Gericke                          | RS Figland   |
| Proportional       | WT Harris (resign 26/04/2016)      | J Fry  |
| Proportional       | LS Hayward                         | V Gericke  |
| Proportional       | NV Kom                             | WT Harris  |
| Proportional       | PB Komani                          | N Jantjes  |
| Proportional       | PS Lehlo                           | A Kwit   |
| Proportional       | R Lombaard                         | IC Kritzinger  |
| Proportional       | G Macclune                         | H Loff   |
| Proportional       | VE Mashini (appointed 12/05/2016)  | MG Naik  |
| Proportional       | SM Mekana (deceased 17/04/2016)    | J Ncamazana  |
| Proportional       | ZM Moyi (appointed 30/05/2016)     | PP Nosana  |
| Proportional       | MM Nyakathi                        | MM Nyakathi  |
| Proportional       | B Petrus                           | B Petrus   |
| Proportional       | LN Qupe                            | I Stemela  |
| Proportional       | GMV Sihoyiya                       | EH Stroebel  |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

**44. Related parties (continued)**

| Councillor  | Before 10 August 2016 election | After 10 August 2016 election                           |
|---|--------------------------------|---|
| Proportional  | I Stemela                      | T Teyisi  |
| Proportional  | PJ van der Hoven               | PJ van der Hoven  |
| Proportional  | AJ van Zyl                     | GJ van Niekerk  |
| Proportional  | M Viljoen                      | LD van Wyk  |
| Proportional  | CT Williams                    | DJ Wessels  |
| Proportional  | W Witbooi                      | CT Williams   |
| <b>Directors</b>                                      |                                |   |
| Directorate Financial Services                        |                                | K Jordaan   |
| Directorate Civil Engineering Services                |                                | HL Basson (early termination of contract 31/05/2017)    |
| Directorate Corporate & Social Services               |                                | EM Rankwana (early termination of contract 31/05/2017)  |
| Directorate Community Services                        |                                | S James   |
| Directorate Human Settlement, Land Affairs & Planning |                                | SB Erasmus  |
| Directorate Electrotechnical Services                 |                                | KD Grünewald (early termination of contract 31/05/2017) |
| <b>Municipal Manager</b>                              |                                | T Botha   |

**Related party transactions**

Related party transactions are disclosed below if there were transactions between the municipality and the related party.

**Related party transactions for the year ended 30 June 2017**

|                   | Rates  | Services | Total  | Outstanding /<br>(Account in credit) |
|-------------------|--------|----------|--------|--------------------------------------|
| <b>Councillor</b> |        |          |        |                                      |
| LH Arries         | 966    | 10,549   | 11,515 | (704)                                |
| JP Buys           | 850    | 6,704    | 7,554  | (274)                                |
| CM Clark          | 2,373  | 5,579    | 7,952  | (9)                                  |
| BM Cornelius      | 1,480  | 8,379    | 9,859  | (246)                                |
| M Daniels         | -      | 2,194    | 2,194  | 137                                  |
| EP De Villiers    | 6,486  | 6,264    | 12,750 | -                                    |
| S Dikilli         | -      | 5,525    | 5,525  | 689                                  |
| M Draghoender     | 799    | 5,394    | 6,193  | (792)                                |
| R Figland         | -      | 2,998    | 2,998  | 296                                  |
| WT Harris         | 814    | 7,305    | 8,119  | (330)                                |
| H Ingo            | 803    | 15,306   | 16,109 | 25,089                               |
| GN Jantjies       | -      | 5,612    | 5,612  | (44)                                 |
| IC Kritzinger     | 4,150  | 5,829    | 9,979  | (784)                                |
| LK Langa          | -      | 7,498    | 7,498  | 416                                  |
| CI Lesele         | -      | 4,984    | 4,984  | (1,260)                              |
| P Louw            | 3,135  | 13,475   | 16,610 | -                                    |
| VN Muller         | 1,432  | 6,362    | 7,794  | 1                                    |
| CV Ncamazana      | 1,932  | 6,634    | 8,566  | (513)                                |
| GC Niehaus        | 15,709 | 23,907   | 39,616 | -                                    |
| CH Noble          | 3,128  | 8,347    | 11,475 | 192                                  |
| MM Nyakati        | -      | 5,328    | 5,328  | 863                                  |
| G Pretorius       | 14,019 | 12,567   | 26,586 | -                                    |
| MM Roodland       | -      | 5,351    | 5,351  | (30)                                 |
| S Snyman          | 5,034  | 6,271    | 11,305 | 1,018                                |
| GJ Stander        | 14,671 | 7,040    | 21,711 | -                                    |
| I Stemela         | 820    | 17,505   | 18,325 | (3,998)                              |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

**44. Related parties (continued)**

|   | Rates          | Services       | Total          | Outstanding /<br>(Account in<br>credit) |
|---|----------------|----------------|----------------|---|
| EH Stroebel   | -              | 6,296          | 6,296          | 8                                       |
| T Teyisi  | -              | 5,352          | 5,352          | 32                                      |
| P Van der Hoven                                     | 6,881          | 7,144          | 14,025         | 1,307                                   |
| GJ Van Niekerk                                      | 6,723          | 7,673          | 14,396         | -                                       |
| LD Van Wyk  | 9,095          | 7,272          | 16,367         | (33)                                    |
| M Viljoen   | 10,394         | 4,293          | 14,687         | -                                       |
| CT Williams   | 864            | 7,440          | 8,304          | 208                                     |
| <b>Section 56 and 57 personnel</b>                  |                |                |                |   |
| T Botha - Municipal Manager                         | 18,033         | 3,018          | 21,051         | (861)                                   |
| HL Basson - Director Civil<br>Engineering Services  | 19,566         | 2,327          | 21,893         | 5,794                                   |
| KD Grünwald - Director<br>Electrotechnical Services | 13,124         | 3,779          | 16,903         | (1,406)                                 |
|   | <b>163,281</b> | <b>267,501</b> | <b>430,782</b> | <b>24,772</b>                           |

**Related party transactions for the year ended 30 June 2016**

|                    | Rates  | Services | Total  | Outstanding /<br>(Account in<br>credit) |
|--------------------|--------|----------|--------|---|
| <b>Councillors</b> |        |          |        |   |
| C Bob              | 1,565  | 5,763    | 7,328  | -                                       |
| BM Cornelius       | 1,383  | 7,405    | 8,788  | (247)                                   |
| PH de Swardt       | 11,662 | 4,030    | 15,692 | (164)                                   |
| EP De Villiers     | 6,061  | 6,327    | 12,388 | (2,824)                                 |
| NNE Dlephu         | 699    | 7,747    | 8,446  | 1,507                                   |
| M Draghoender      | 747    | 5,503    | 6,250  | (986)                                   |
| LBC Esau           | 4,193  | 6,665    | 10,858 | (905)                                   |
| T Fortuin          | -      | 5,911    | 5,911  | 95                                      |
| FS Guga            | -      | 6,086    | 6,086  | (297)                                   |
| WT Harris          | 761    | 7,845    | 8,606  | 165                                     |
| LS Hayward         | 11,355 | 7,627    | 18,982 | (952)                                   |
| HH Ingo            | 751    | 26,981   | 27,732 | 27,188                                  |
| NF Kamte           | -      | 5,864    | 5,864  | 363                                     |
| NV Korn            | -      | 4,958    | 4,958  | (469)                                   |
| PB Komani          | 561    | 7,082    | 7,643  | 9                                       |
| IC Kritzing        | 3,878  | 5,048    | 8,926  | (1,161)                                 |
| PS Lehlo           | -      | 4,030    | 4,030  | (336)                                   |
| R Lombaard         | -      | 5,094    | 5,094  | (298)                                   |
| G Macclune         | -      | 2,260    | 2,260  | (1,302)                                 |
| D Maritz           | 421    | 5,517    | 5,938  | 96                                      |
| SM Mekana          | -      | 4,951    | 4,951  | 411                                     |
| GC Niehaus         | 14,682 | 64,656   | 79,338 | 6,059                                   |
| FZ Ntozini         | -      | 4,959    | 4,959  | (555)                                   |
| MM Nyakathi        | -      | 6,072    | 6,072  | (109)                                   |
| LN Qupe            | -      | 5,893    | 5,893  | (89)                                    |
| C Remas            | 4,033  | 12,719   | 16,752 | 245                                     |
| GN Sxolo           | -      | 4,955    | 4,955  | (7)                                     |
| I Stemela          | 766    | 4,967    | 5,733  | (43)                                    |
| GJ Stander         | 13,711 | 6,197    | 19,908 | 1,649                                   |
| C Standers         | 2,813  | 5,055    | 7,868  | 43,254                                  |
| GMY Sihoyiya       | -      | 5,681    | 5,681  | (898)                                   |
| JS Thanda          | -      | 4,030    | 4,030  | (93)                                    |
| PJ van der Hoven   | 6,430  | 11,861   | 18,291 | 1,446                                   |
| LD van Wyk         | 8,500  | 8,062    | 16,562 | 2,580                                   |



## George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

#### 44. Related parties (continued)

|  | Rates          | Services       | Total          | Outstanding /<br>(Account in<br>credit) |
|--|----------------|----------------|----------------|---|
| AJ Van Zyl   | 11,613         | 5,499          | 17,112         | 1,418                                   |
| AM Wildeman  | -              | 3,719          | 3,719          | (33)                                    |
| CT Williams  | 810            | 7,723          | 8,533          | (353)                                   |
| <b>Section 56 and 57 Personnel</b>                                 |                |                |                |   |
| T Botha - Municipal Manager  | 15,525         | 12,577         | 28,102         | 4,493                                   |
| KD Grünewald - Director<br>Electrotechnical Services               | 10,287         | 6,793          | 17,080         | (722)                                   |
| HL Basson - Director Civil<br>Engineering Services                 | 8,602          | 7,837          | 16,439         | 1,184                                   |
| SB Erasmus - Director Human<br>Settlement, Land Affairs & Planning | -              | 1,358          | 1,358          | 84                                      |
|  | <b>141,809</b> | <b>333,307</b> | <b>475,116</b> | <b>79,403</b>                           |

Only related parties who entered into transactions with the municipality are listed above.

The services rendered to related parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer deposits were received from Councillors, the municipal manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

#### Loans granted to related parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. The balance of the loans granted to employees amounts to R15,910 and forms part of Sundry Receivables as set out in note 4.

#### Compensation of related parties

Compensation of Key Management Personnel and Councillors is set out in notes 28 and 29 to the Annual Financial Statements.

#### GIPTN Compensation Liability

I Stemela will be receiving another compensation payment of R200,000 with the roll out of the next phases of the George Integrated Public Transport Network. Refer to note 18 for more detail on the provision.

#### Payments made to related parties

Refer to note 52 for details of payments made to related parties during the year.

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand  | 2017                     | 2016                  |                       |                      |
|--|--------------------------|-----------------------|-----------------------|----------------------|
| 45. Prior period errors and reclassifications              |                          |                       |                       |                      |
| STATEMENT OF FINANCIAL POSITION                            | 2016 previously reported | Reclassification 45.1 | Reclassification 45.2 | 2016 restated        |
| Assets   |                          |                       |                       |                      |
| Current Assets   |                          |                       |                       |                      |
| Inventories  | 161,212,199              | -                     | -                     | 161,212,199          |
| Trade receivables from exchange transactions               | 103,343,949              | -                     | -                     | 103,343,949          |
| Trade and other receivables from non-exchange transactions | 88,506,853               | -                     | -                     | 88,506,853           |
| Prepayments  | 11,820,934               | -                     | -                     | 11,820,934           |
| VAT receivable   | 663,683                  | -                     | -                     | 663,683              |
| Loans and receivables                                      | 284,066                  | -                     | -                     | 284,066              |
| Cash and cash equivalents                                  | 365,322,659              | -                     | -                     | 365,322,659          |
|  | <b>731,154,343</b>       | <b>-</b>              | <b>-</b>              | <b>731,154,343</b>   |
| Non-current Assets   |                          |                       |                       |                      |
| Property, plant and equipment                              | 2,708,865,889            | -                     | -                     | 2,708,865,889        |
| Intangible assets  | 1,007,717                | -                     | -                     | 1,007,717            |
| Heritage assets  | 4,236,000                | -                     | -                     | 4,236,000            |
| Investment property  | 152,249,977              | -                     | -                     | 152,249,977          |
| Loans and receivables                                      | 847,517                  | -                     | -                     | 847,517              |
|  | <b>2,867,207,100</b>     | <b>-</b>              | <b>-</b>              | <b>2,867,207,100</b> |
| Total Assets   | <b>3,598,361,443</b>     | <b>-</b>              | <b>-</b>              | <b>3,598,361,443</b> |
| Liabilities  |                          |                       |                       |                      |
| Current Liabilities  |                          |                       |                       |                      |
| Loans and borrowings                                       | 38,513,167               | -                     | -                     | 38,513,167           |
| Finance lease obligation                                   | 4,085,827                | -                     | -                     | 4,085,827            |
| Trade and other payables from exchange transactions        | 162,714,805              | -                     | -                     | 162,714,805          |
| Consumer deposits  | 19,759,545               | -                     | -                     | 19,759,545           |
| Employee benefits  | 42,832,278               | -                     | -                     | 42,832,278           |
| Provisions   | 41,105,209               | -                     | -                     | 41,105,209           |
| Unspent conditional grants and receipts                    | 34,491,337               | -                     | -                     | 34,491,337           |
|  | <b>343,502,168</b>       | <b>-</b>              | <b>-</b>              | <b>343,502,168</b>   |
| Non-Current Liabilities                                    |                          |                       |                       |                      |
| Loans and borrowings                                       | 330,880,921              | -                     | -                     | 330,880,921          |
| Finance lease obligation                                   | 10,876,102               | -                     | -                     | 10,876,102           |
| Employee benefits  | 142,260,723              | -                     | -                     | 142,260,723          |
| Provisions   | 49,047,183               | -                     | -                     | 49,047,183           |
| Trade and other payables from exchange transactions        | 8,156,395                | -                     | -                     | 8,156,395            |
|  | <b>541,221,324</b>       | <b>-</b>              | <b>-</b>              | <b>541,221,324</b>   |
| Total Liabilities  | <b>884,723,492</b>       | <b>-</b>              | <b>-</b>              | <b>884,723,492</b>   |
| Total Net Assets   | <b>2,713,637,951</b>     | <b>-</b>              | <b>-</b>              | <b>2,713,637,951</b> |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

Figures in Rand

2017

2016

**45. Prior period errors and reclassifications (continued)**

**Net Assets**

Housing development fund  
Accumulated surplus

|                      |          |          |                      |
|----------------------|----------|----------|----------------------|
| 64,940,105           | -        | -        | 64,940,105           |
| 2,648,697,846        | -        | -        | 2,648,697,846        |
| <b>2,713,637,951</b> | <b>-</b> | <b>-</b> | <b>2,713,637,951</b> |

**STATEMENT OF FINANCIAL PERFORMANCE**

|   | 2016<br>previously<br>reported | Reclassifi-<br>cation<br>45.1 | Reclassifi-<br>cation<br>45.2 | 2016 restated        |
|---|--------------------------------|-------------------------------|-------------------------------|----------------------|
| <b>Revenue from exchange transactions</b>         | 907,150,434                    | -                             | (7,284,001)                   | 899,866,433          |
| Service charges                                   | 776,896,566                    | (776,896,566)                 | -                             | -                    |
| Service charges - Electricity                     | -                              | 534,778,495                   | -                             | 534,778,495          |
| Service charges - Water                           | -                              | 110,115,289                   | -                             | 110,115,289          |
| Service charges - Sewerage and sanitation charges | -                              | 77,683,156                    | -                             | 77,683,156           |
| Service charges - Refuse removal                  | -                              | 54,000,706                    | -                             | 54,000,706           |
| Service charges - Other                           | -                              | 318,920                       | -                             | 318,920              |
| Rental revenue                                    | 2,422,718                      | -                             | -                             | 2,422,718            |
| Income from agency services                       | 8,538,652                      | -                             | -                             | 8,538,652            |
| Licences and permits                              | 2,262,046                      | -                             | -                             | 2,262,046            |
| Sale of erven                                     | 5,311,378                      | -                             | -                             | 5,311,378            |
| GIPIN Fare Revenue                                | 32,532,521                     | -                             | -                             | 32,532,521           |
| Other income                                      | 43,772,747                     | -                             | (7,284,001)                   | 36,488,746           |
| Interest received                                 | 35,413,806                     | (35,413,806)                  | -                             | -                    |
| Interest received - External                      | -                              | 30,704,018                    | -                             | 30,704,018           |
| Investments                                       | -                              | -                             | -                             | -                    |
| Interest received - Outstanding debtors           | -                              | 4,709,788                     | -                             | 4,709,788            |
| <b>Revenue from non-exchange transactions</b>     | 680,674,441                    | -                             | 7,284,001                     | 687,958,442          |
| Property rates                                    | 192,653,692                    | -                             | -                             | 192,653,692          |
| Property rates - penalties and collection charges | 5,009,483                      | -                             | (5,009,483)                   | -                    |
| Government grants and subsidies - Operating       | 426,958,547                    | (426,958,547)                 | -                             | -                    |
| Government grants and subsidies - Capital         | -                              | 297,573,818                   | 340,871                       | 297,914,689          |
| Fines, penalties and forfeits                     | -                              | 129,384,729                   | 5,378,155                     | 134,762,884          |
|   | 56,052,719                     | -                             | 6,574,458                     | 62,627,177           |
| <b>1,587,824,875</b>                              | <b>-</b>                       | <b>-</b>                      | <b>-</b>                      | <b>1,587,824,875</b> |

# George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

| Figures in Rand   | 2017                                    | 2016                                   |  |                      |
|---|---|--|--|----------------------|
| 45. Prior period errors and reclassifications (continued) |   |  |  |                      |
|   | 2016<br>previously<br>reported          | Reclassifi-<br>cation<br>45.1          | Reclassifi-<br>cation<br>45.2          | 2016 restated        |
| <b>Expenditure</b>  |   |  |  |                      |
| Employee related cost                                     | 356,552,460                             | -                                      | (9,745,819)                            | 346,806,641          |
| Remuneration of councillors                               | 17,466,635                              | -                                      | -                                      | 17,466,635           |
| Depreciation and amortisation                             | 141,581,652                             | -                                      | -                                      | 141,581,652          |
| Impairment losses   | 88,516,206                              | -                                      | -                                      | 88,516,206           |
| Finance cost  | 48,714,952                              | -                                      | -                                      | 48,714,952           |
| Collection cost   | 4,758,417                               | -                                      | (4,758,417)                            | -                    |
| Repairs and maintenance                                   | 87,655,593                              | -                                      | (8,053,565)                            | 79,602,028           |
| Bulk purchases  | 359,854,084                             | -                                      | -                                      | 359,854,084          |
| Contracted services                                       | 223,343,453                             | -                                      | 57,175,294                             | 280,518,747          |
| Grants and subsidies paid                                 | 2,971,833                               | -                                      | (2,744,073)                            | 227,760              |
| Cost of erven sold  | 5,028,900                               | -                                      | -                                      | 5,028,900            |
| Loss on disposal of assets                                | 10,454,913                              | -                                      | -                                      | 10,454,913           |
| Other materials / inventory                               | -                                       | -                                      | 28,335,144                             | 28,335,144           |
| General Expenses  | 132,376,756                             | -                                      | (60,208,564)                           | 72,168,192           |
|   | <b>1,479,275,854</b>                    | <b>-</b>                               | <b>-</b>                               | <b>1,479,275,854</b> |
| Surplus / (Deficit) for the year                          | 108,549,021                             | -                                      | -                                      | 108,549,021          |
| <b>CASH FLOW STATEMENT</b>                                | <b>2016<br/>previously<br/>reported</b> | <b>Reclassifi-<br/>cation<br/>45.1</b> | <b>Reclassifi-<br/>cation<br/>45.2</b> | <b>2016 restated</b> |
| Net cash from operating activities                        | 277,281,109                             | -                                      | -                                      | 277,281,109          |
| Net cash from investing activities                        | (210,540,684)                           | -                                      | -                                      | (210,540,684)        |
| Net cash from financing activities                        | (47,298,303)                            | -                                      | -                                      | (47,298,303)         |
| Total cash movement for the year                          | 19,442,122                              | -                                      | -                                      | 19,442,122           |
| Cash and cash equivalents at the beginning of the year    | 345,880,536                             | -                                      | -                                      | 345,880,536          |
|   | <b>365,322,658</b>                      | <b>-</b>                               | <b>-</b>                               | <b>365,322,658</b>   |

Certain comparative figures have been reclassified due to incorrect allocations in the prior period. These reclassifications do not have any effect on the accumulated surplus except where indicated.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

**45. Prior period errors and reclassifications (continued)**

**45.1 Reclassification of line items in Statement of Financial Performance to conform with National Treasury's budget format layout**

The municipality decided to split line items in the Statement of Financial Performance to ensure that the annual financial statements are more comparable with the budget reports submitted to National Treasury.

The following items were reclassified:

|   | Before<br>reclassifi-<br>cation | After<br>reclassifi-<br>cation |
|---|---------------------------------|--------------------------------|
| <b>Service charges</b>                            |                                 |                                |
| Service charges                                   | 776,896,566                     |                                |
| Service charges - Electricity                     |                                 | 534,778,495                    |
| Service charges - Water                           |                                 | 110,115,289                    |
| Service charges - Sewerage and sanitation charges |                                 | 77,683,156                     |
| Service charges - Refuse removal                  |                                 | 54,000,706                     |
| Service charges - Other                           |                                 | 318,920                        |
|   | <u>776,896,566</u>              | <u>776,896,566</u>             |
| <b>Interest received</b>                          |                                 |                                |
| Interest received                                 | 35,413,806                      |                                |
| Interest received - External Investments          |                                 | 30,704,018                     |
| Interest received - Outstanding Debtors           |                                 | 4,709,788                      |
|   | <u>35,413,806</u>               | <u>35,413,806</u>              |
| <b>Government grants and subsidies</b>            |                                 |                                |
| Government grants & subsidies                     | 432,677,573                     |                                |
| Government grants & subsidies - Operating         |                                 | 297,914,689                    |
| Government grants & subsidies - Capital           |                                 | 134,762,884                    |
|   | <u>432,677,573</u>              | <u>432,677,573</u>             |

**45.2 Reclassification of income and expenses to conform with the Standard Chart of Accounts for Local Government**

National Treasury issued a Standard Chart of Accounts for Local Government (mSCOA) and the municipality adopted the chart of accounts on 1 July 2016.

National Treasury have to report on consolidated local government information for incorporation in national accounts and national policy and must obtain financial information from individual municipalities. Currently, each municipality manages and reports on its financial affairs in accordance with its own organisational structure and unique chart of accounts. The result is a disjuncture amongst municipalities and the other spheres of government as to how they classify revenue and expenditure and consequently report thereon.

With mSCOA, National Treasury has specified norms and standards for recording and collecting local government budget, financial and non-financial information. This will result in a seamless alignment of information between budgeted information and the actual achievements in financial statements.

Reclassification of income and expenditure to conform with the mSCOA chart of accounts was:

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand   | 2017               | 2016                       |                    |
|---|--------------------|----------------------------|--------------------|
| 45. Prior period errors and reclassifications (continued) |                    |                            |                    |
| Revenue   | 2016               | mSCOA reclassified-cations | 2016 reclassified  |
| Revenue from exchange transactions                        |                    |                            |                    |
| Other income  | 43,772,744         | (7,284,001)                | 36,488,743         |
| Revenue from non-exchange transactions                    |                    |                            |                    |
| Property rates - penalties imposed and collection charges | 5,009,483          | (5,009,483)                | -                  |
| Fines, penalties and forfeits                             | 56,052,721         | 6,574,459                  | 62,627,180         |
| Government grants & subsidies - Operating                 | 297,573,818        | 340,871                    | 297,914,689        |
| Government grants & subsidies - Capital                   | 129,384,729        | 5,378,154                  | 134,762,883        |
|   | <b>531,793,495</b> | <b>-</b>                   | <b>531,793,495</b> |
| Expenditure   | 2016               | mSCOA reclassified-cations | 2016 reclassified  |
| Employee related cost                                     | 356,552,460        | (9,745,819)                | 346,806,641        |
| Collection cost   | 4,758,417          | (4,758,417)                | -                  |
| Repairs and maintenance                                   | 87,655,593         | (8,053,565)                | 79,602,028         |
| Contracted services                                       | 223,343,453        | 57,175,294                 | 280,518,747        |
| Grants and subsidies paid                                 | 2,971,833          | (2,744,073)                | 227,760            |
| Other materials / inventory                               | -                  | 28,335,144                 | 28,335,144         |
| General expenses  | 132,376,754        | (60,208,564)               | 72,168,190         |
|   | <b>807,658,510</b> | <b>-</b>                   | <b>807,658,510</b> |

**46. Risk management**

**Financial risk management**

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk.

The municipality seeks to minimise the effects of these risks in accordance with its policies approved by the Council. The policies provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and in the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the Director Financial Services on a continuous basis. The municipality does not enter into or trade in financial instruments, including derivative financial instruments, for speculative purposes.

The Treasury function reports periodically to the municipality's finance committee, that monitors risks and policies implemented to mitigate risk exposures.



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**44. Risk management (continued)**

**Liquidity risk**

Liquidity risk is the risk that the municipality will encounter difficulty in raising funds to meet commitments associated with financial liabilities.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timely basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

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

| <b>At 30 June 2017</b>   | <b>Less than 1 year</b> | <b>Between 1 and 2 years</b> | <b>Between 2 and 5 years</b> | <b>Over 5 years</b> |
|--------------------------|-------------------------|------------------------------|------------------------------|---------------------|
| Loans and borrowings     | 74,900,183              | 68,375,632                   | 163,388,514                  | 255,453,395         |
| Consumer Deposits        | 22,822,167              | -                            | -                            | -                   |
| Trade and other payables | 162,766,463             | 3,365,468                    | 2,093,792                    | -                   |
| <b>At 30 June 2016</b>   | <b>Less than 1 year</b> | <b>Between 1 and 2 years</b> | <b>Between 2 and 5 years</b> | <b>Over 5 years</b> |
| Loans and borrowings     | 76,773,934              | 69,350,926                   | 165,233,142                  | 315,593,043         |
| Consumer Deposits        | 19,759,545              | -                            | -                            | -                   |
| Trade and other payables | 136,475,497             | 3,340,469                    | 9,782,062                    | 36,502              |

The 2016 figures for Loans and borrowings have been restated to reflect the total actual cash flows which will take place on the repayment of the loans. The over 5 years repayments was corrected from R504,084,039 in the prior year's financial statements to R315,593,043.

**Interest rate risk**

The municipality is exposed to interest rate risk due to the movements in long-term and short term interest rates.

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

The municipality's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer-term borrowings and finance leases are therefore usually at fixed rates.

This risk is managed on an ongoing basis.

**Credit risk**

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

Potential concentrations of credit rate risk consist mainly of investments, loans and receivables, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents.

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#### 46. Risk management (continued)

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction/ exposure limits, which are included in the municipality's Investment Policy.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers. Trade receivables are presented net of an allowance for impairment and where appropriate, credit limits are adjusted.

Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply.

In the case of customers whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Non-current Receivables and Other Receivables are collectively evaluated annually at reporting date for impairment or discounting. A report on the various categories of customers is drafted to substantiate such evaluation and subsequent impairment / discount, where applicable.

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

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

| Financial Instrument                             | 2017        | 2016        |
|--|-------------|-------------|
| Loans and receivables                            | 685,678     | 1,131,583   |
| Trade receivables from exchange transactions     | 88,750,817  | 103,343,949 |
| Trade receivables from non-exchange transactions | 59,783,789  | 88,506,853  |
| Cash and cash equivalents                        | 505,440,767 | 365,322,659 |

The method for determining the credit quality of the different financial instruments are disclosed in their individual notes.

#### Price risk

The effect of any price risk in the foreseeable future is regarded as minimal given the fact that amounts receivable from the municipality's customers are levied in terms of the relevant statutes. It is not anticipated that given the nature of the municipality's business that changes in market prices will have a material impact on the trading results of the municipality.

There has been no change, since the previous financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

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**47. Unauthorised expenditure**

**Employee related cost**

**Reconciliation of unauthorised expenditure**

|                     |          |              |
|---------------------|----------|--------------|
| Opening balance     | -        | 25,185,861   |
| Approved by Council | -        | (25,185,861) |
|                     | <u>-</u> | <u>-</u>     |

**Impairment losses**

**Reconciliation of unauthorised expenditure**

|                                       |                          |                          |
|---------------------------------------|--------------------------|--------------------------|
| Opening balance                       | 26,335,465               | 7,604,162                |
| Unauthorised expenditure current year | 8,721,339                | 26,335,465               |
| Approved by Council                   | -                        | (7,604,162)              |
|                                       | <u><b>35,056,804</b></u> | <u><b>26,335,465</b></u> |

The unauthorised expenditure relates to budget overspending due to fine and consumer debtors being impaired.

Unauthorised expenditure for the year ending 30 June 2017 will be presented to Council after year end for approval.

Unauthorised expenditure for the year ending 30 June 2016 will be presented to the Municipal Public Accounts Committee (MPAC) before the completion of the audit for a recommendation to Council for the approval of thereof.

**Depreciation and amortisation**

**Reconciliation of unauthorised expenditure**

|                                       |          |             |
|---------------------------------------|----------|-------------|
| Opening balances                      | -        | 1,534,175   |
| Unauthorised expenditure current year | -        | -           |
| Approved by Council                   | -        | (1,534,175) |
|                                       | <u>-</u> | <u>-</u>    |

**Finance charges**

**Reconciliation of unauthorised expenditure**

|                                       |                         |                         |
|---------------------------------------|-------------------------|-------------------------|
| Opening balances                      | 4,610,535               | 1,649,470               |
| Unauthorised expenditure current year | 4,788,936               | 4,610,535               |
| Approved by Council                   | -                       | (1,649,470)             |
|                                       | <u><b>9,399,471</b></u> | <u><b>4,610,535</b></u> |

The unauthorised expenditure relates to the interest charge on the provision for the rehabilitation of the landfill sites and the provision for the GIPTN Compensation Liability not being budgeted for. Refer to note 18 for more detail.

Unauthorised expenditure for the year ending 30 June 2017 will be presented to the Council after year for approval.

Unauthorised expenditure for the year ending 30 June 2016 will be presented to the Municipal Public Accounts Committee (MPAC) before the completion of the audit for a recommendation to Council for the approval of thereof.

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| <b>Figures in Rand</b>                            | <b>2017</b>      | <b>2016</b> |
|---|------------------|-------------|
| <b>47. Unauthorised expenditure (continued)</b>   |                  |             |
| <b>Other materials / Inventory</b>                |                  |             |
| <b>Reconciliation of unauthorised expenditure</b> |                  |             |
| Opening balance                                   | -                | -           |
| Unauthorised expenditure current year             | 5,801,824        | -           |
| Approved by Council                               | -                | -           |
|   | <b>5,801,824</b> | <b>-</b>    |

The unauthorised expenditure relates the book value of property sold being more than budgeted for.

Unauthorised expenditure for the year ending 30 June 2017 will be presented to the Council after year for approval.

**Loss on disposal of PPE**

**Reconciliation of unauthorised expenditure**

|                                       |               |          |
|---------------------------------------|---------------|----------|
| Opening balance                       | -             | -        |
| Unauthorised expenditure current year | 97,823        | -        |
| Approved by Council                   | -             | -        |
|                                       | <b>97,823</b> | <b>-</b> |

The unauthorised expenditure relates the book value of property, plant and equipment sold being more than budgeted for.

Unauthorised expenditure for the year ending 30 June 2017 will be presented to the Council after year for approval.

**Capital expenditure**

**Reconciliation of unauthorised expenditure**

|                                       |                  |                  |
|---------------------------------------|------------------|------------------|
| Opening balance                       | 2,350,696        | 7,561,768        |
| Unauthorised expenditure current year | -                | 2,350,696        |
| Approved by Council                   | -                | (7,561,768)      |
|                                       | <b>2,350,696</b> | <b>2,350,696</b> |

Unauthorised expenditure for the year ending 30 June 2016 will be presented to the Municipal Public Accounts Committee (MPAC) before the completion of the audit for a recommendation to Council for the approval of thereof.

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| <b>48. Fruitless and wasteful expenditure</b>   |                |                |
| Opening balance   | 168,368        | -              |
| Interest paid for incorrect submission of the Value Added Tax return at SARS                                      | -              | 22,193         |
| Procurement of goods and services in the upgrading of various sport facilities during the previous financial year | -              | 103,063        |
| Misuse of a 3G data card  | -              | 43,112         |
| GO George bus tickets: Cost price of old bus tickets destroyed after bus tariff increase                          | 518,903        | -              |
|   | <b>687,271</b> | <b>168,368</b> |

Procurement of goods and services in the upgrading of various sport facilities

The case reported in the 30 June 2015 financial statements as alleged irregular expenditure for the procurement of goods and services in the upgrading of various sport facilities has been investigated but is not finalised yet. To date the fruitless and wasteful expenditure amounts to R103,063. A debtor was raised for this amount during the previous financial year.

The fruitless and wasteful expenditure of 30 June 2016 will be presented to the Municipal Public Accounts Committee (MPAC) during September 2017 for a recommendation to Council.

**49. Irregular expenditure**

|  |                |                |
|--|----------------|----------------|
| Opening balance  | 137,071        | 12,241         |
| Add: Procurement of goods and services in the upgrading of various sport facilities during the previous financial year | -              | 78,760         |
| Add: Overpayment of telephone allowance and petrol advance for the previous mayor                                      | -              | 46,070         |
| Less: Amounts approved by Council  | (12,241)       | -              |
|  | <b>124,830</b> | <b>137,071</b> |

The irregular expenditure of 30 June 2016 will be presented to the Municipal Public Accounts Committee (MPAC) during September 2017 for a recommendation to Council.

**Details of irregular expenditure**

Procurement of goods and services in the upgrading of various sport facilities: The case reported in the 30 June 2015 financial statements for the procurement of goods and services in the upgrading of various sport facilities has been investigated but is not finalised yet. To date the irregular expenditure amounts to R78,760. This matter still has to appear before a Section 32 committee for consideration and should be concluded in the following financial year. A debtor was raised for this amount.

Overpayment of telephone allowance and petrol advance for the previous mayor: The previous mayor received an overpayment of this telephone allowance and petrol advance during the period 25 June 2011 to 25 January 2014. This expenditure incurred by the municipality is not in accordance with the requirement of the Public Office-Bearers Act. The overpayment was charged to the previous mayor's services account with the municipality and will be collected in the 2017 financial year in accordance with the Debt and Credit Control Policy of the Council.

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#### 49. Irregular expenditure (continued)

##### **Alleged Irregular Expenditure under investigation**

The municipality was, in terms of Section 32 of the Municipal Finance Management Act (No. 56 of 2003), conducted or is in the process of conducting two investigations regarding alleged irregular expenditure committed by municipal officials.

An incident of alleged irregular expenditure committed by municipal officials in the procurement of sewer network, pumpstations and switchgear maintenance for pumpstations was reported to Council during the previous financial year. This incident is still under investigation and the quantum cannot be determined yet. This will be possible once the processes are concluded and the matter referred to the Section 32 committee and subsequently resolved by Council.

##### **Potential Irregular expenditure: GIPTN**

A matter has been referred to Provincial Treasury for further determination and guidance as to whether the payment to another Organ of State from grant funding in relation to the GIPTN qualifies as irregular expenditure, to the estimated value of R98 million.

Once the matter is resolved or it is determined that irregular expenditure was incurred, the necessary disclosure will be finalised.

#### 50. Material losses

##### **Electricity distribution**

|                                     |             |             |
|-------------------------------------|-------------|-------------|
| Units purchased (KWh)               | 471,388,798 | 461,910,028 |
| Units lost during distribution      | 36,047,703  | 34,439,505  |
| Percentage lost during distribution | 7.65%       | 7.45%       |

##### **Water distribution**

|                                     |            |            |
|-------------------------------------|------------|------------|
| Kilolitres purified                 | 13,157,011 | 12,390,930 |
| Kilolitres lost during distribution | 3,908,501  | 3,047,375  |
| Percentage lost during distribution | 29.71%     | 24.59%     |

#### 51. In-kind donations and assistance

The following assets have been donated to the municipality and form part of the Property, plant and equipment additions for the year:

|   |                |   |
|---|----------------|---|
| Vehicles for the law enforcement department     | 410,650        | - |
| Electronic equipment for the housing department | 14,647         | - |
| Computer equipment for the branch libraries     | 78,956         | - |
|   | <b>504,253</b> |   |



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| <b>52. Additional disclosure in terms of Municipal Finance Management Act</b>  |                    |                    |
| <b>Contributions to organised local government</b>   |                    |                    |
| Opening balance  | (3,245,749)        | (3,074,886)        |
| Current year subscription / fee  | 3,725,739          | 3,074,886          |
| Amount paid - current year   | (4,403,834)        | (3,245,749)        |
|  | <b>(3,923,844)</b> | <b>(3,245,749)</b> |
| The municipality pays the SALGA membership fees annually in May for the following financial year in order to receive a 5% discount. Refer to note 5 for more detail. |                    |                    |
| <b>Audit fees</b>  |                    |                    |
| Current year fee   | 3,465,843          | 3,120,835          |
| Amount paid - current year   | (3,465,843)        | (3,120,835)        |
|  | <b>*</b>           | <b>*</b>           |
| <b>PAYE and UIF</b>  |                    |                    |
| Current year subscription / fee  | 59,292,452         | 50,951,175         |
| Amount paid - current year   | (59,292,452)       | (50,951,175)       |
|  | <b>*</b>           | <b>*</b>           |
| <b>Pension and Medical Aid Deductions</b>  |                    |                    |
| Current year subscription / fee  | 78,109,994         | 72,701,513         |
| Amount paid - current year   | (78,109,994)       | (72,701,513)       |
|  | <b>*</b>           | <b>*</b>           |
| <b>VAT</b>   |                    |                    |
| VAT receivable / (payable)   | (345,563)          | 663,683            |

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

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**52. Additional disclosure in terms of Municipal Finance Management Act (continued)**

**Councillors' arrear consumer accounts**

The following Councillors had arrear accounts outstanding for more than 90 days at any point in time during the year ended 30 June 2017:

| 30 June 2017        | Outstanding<br>less than 90<br>days<br>R           | Outstanding<br>more than 90<br>days<br>R           | Total<br>R         |
|---------------------|--|--|--------------------|
| HH Ingo             | 3,841  | 21,248   | 25,089             |
| <b>30 June 2016</b> | <b>Outstanding<br/>less than 90<br/>days<br/>R</b> | <b>Outstanding<br/>more than 90<br/>days<br/>R</b> | <b>Total<br/>R</b> |
| HH Ingo             | 9,786  | 17,101   | 26,887             |

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**52. Additional disclosure in terms of Municipal Finance Management Act (continued)**

**Supply chain management regulations**

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Accounting Officer and noted by Council. Deviations from the Supply Chain Management processes were identified for the following categories and have been approved by the Accounting Officer and reported to Council.

|   | Less than<br>R30,000 | Between<br>R30,001 and<br>R200,000 | Between<br>R200,001 and<br>R2,000,000 | More than<br>R2,000,000 |
|---|----------------------|------------------------------------|---------------------------------------|-------------------------|
| Office of the Municipal Manager           | 775,041              | 1,595,647                          | 727,991                               | -                       |
| Corporate Services                        | 187,072              | 339,342                            | 504,108                               | 2,971,828               |
| Civil Engineering Services                | 497,983              | 2,387,493                          | -                                     | 9,195,661               |
| Electro-technical Services                | 483,508              | 1,005,065                          | 1,901,791                             | -                       |
| Human Settlement, Land Affairs & Planning | 46,398               | 281,550                            | 319,369                               | -                       |
| Community Services                        | 863,744              | 1,603,970                          | 1,287,704                             | -                       |
| Financial Services                        | 109,134              | 272,354                            | 486,000                               | -                       |
|   | <b>2,962,880</b>     | <b>7,485,421</b>                   | <b>5,226,963</b>                      | <b>12,167,489</b>       |

The major deviations were as follows:

| Awarded                              | Amount            | Reason / Explanation   |
|--------------------------------------|-------------------|--|
| Entsha Henra                         | 9,195,661         | Impossible to follow the official procurement process. Urgently needed to construct bulk sewer to connect to areas 8A, B, C and 3. |
| Microsoft                            | 2,971,828         | Sole supplier  |
| BDE Electrical & Adenco Construction | 1,424,899         | Emergency: Vandalism of line   |
| Almex Transport Solutions            | 512,544           | Sole supplier  |
| Canon                                | 504,108           | Impractical to follow the official procurement process due to the compatibility of the hardware                                    |
| NMS Management Solutions             | 486,000           | Exceptional case and impossible to follow the official procurement process   |
| Numocento (Pty) Ltd                  | 484,842           | Impossible to follow the official procurement process. Service providers on the tender didn't have the equipment available.        |
| ABB South Africa                     | 476,892           | Emergency. Power supply to Eden Meander  |
| Mr Noodles                           | 388,512           | Impossible to follow the official procurement process. Service providers on the tender didn't have the equipment available.        |
| Must Build                           | 319,369           | Emergency. Relocated 19 families in Golden Valley  |
| Eden FM                              | 215,447           | Sole supplier of specific community radio station. Utilization of radio airtime  |
| TCS                                  | 212,000           | Impossible to follow the official procurement process. Sole supplier of specific product.  |
| Electrical Pro                       | 202,350           | Impossible to follow the official procurement process. Direct negotiations with suppliers.   |
| OTI Petrosmart                       | 200,000           | Impossible to follow the official procurement process. Sole supplier of specific product.  |
|                                      | <b>17,594,452</b> |  |

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

Purchases from persons in service of the state

The municipality made the following payments to companies / persons in service of the state:

| Company name   | Related person             | Company capacity                       | Capacity at State / Municipality                                   | Relationship      | Payments   |
|--|----------------------------|--|--|-------------------|------------|
| Willvest Twenty Three (Pty) Ltd t/a Urhwebo E-Transand | Various                    | Various                                | Various  | Various           | 20,398,836 |
| Royal Haskoning DHV                                    | JD van Eeden               | Member                                 | Councillor Langeberg<br>Department of Water Affairs                | Brother<br>Nephew | 16,101,754 |
| Aurecon SA (Pty) Ltd                                   | Various<br>ZB Ebrahim      | Various<br>Non-executive director      | Various<br>Social Housing Regulatory                               | Various           | 7,221,025  |
| Moreki Distributors                                    | MD Moreki                  | Director                               | Palm Springs Magistrates Courts                                    | Spouse            | 10,809,397 |
| SMEC South Africa (Pty) Ltd                            | M Phosa                    | Member                                 | Finance - Mpumalanga Provincial Government                         | Spouse            | 7,123,439  |
| ABSA Bank  | M Ramos<br>LL Von Zeuner   | CEO<br>Director                        | SA Politician<br>Department of Health                              | Spouse<br>Brother | 5,898,205  |
| Servelec (Pty) Ltd                                     | W Louw                     | Proposals Manager                      | SARS Port Elizabeth - Debtors Clerk                                | Spouse            | 2,852,044  |
| MVD Consulting Engineers                               | CV Swart                   | Director                               | Teacher  | Spouse            | 2,485,464  |
| Raubenheimers Incorporated                             | WM Luttig                  | Director                               | Teacher  | Spouse            | 1,915,599  |
| Minalta SA:George                                      | KR Mthimunya               | Non-executive director                 | Mintek   |                   | 1,898,741  |
| IKapa Reticulation and Flow CC                         | SFA Davids                 | Director                               | Western Cape Education Department - Teacher                        | Spouse            | 1,569,713  |
| ISHS   | CM Willemse                | Director                               | Teacher  | Parent            | 1,056,837  |
| Conlog   | L Moodley<br>L Gaxeni      | Commercial director<br>Quality Manager | Provincial Health Department of KZN<br>Eskom KZN: Deductor Manager | Spouse<br>Spouse  | 840,533    |
| Adenco Construction                                    | V Machimana<br>DCC Jackson | Director<br>Director                   | Department of Health<br>Teacher                                    | Parent<br>Parent  | 360,267    |
| SMS ICT Choice (Pty) Ltd                               | SS Maqula                  | Director                               | Eastern Cape Department of Human Settlements (Director)            | Spouse            | 339,976    |
| Montidox CC  | N Beja                     | Director                               | Department of Health   | Spouse            | 336,030    |
| Tuiniqua Consulting Engineers                          | E Huistra                  | Member                                 | Department of Education  | Spouse            | 243,143    |
| Total Client Service                                   | V Zitumane<br>BKD Mafu     | Member<br>Non-executive director       | EC Parks & Tourism<br>EC Liquor Board                              |                   | 241,652    |

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

| Company name                           | Related person | Company capacity       | Capacity at State / Municipality          | Relationship  | Payments          |
|--|----------------|------------------------|---|---------------|-------------------|
| Bearing Warehouse                      | FC Zeelie      | Member                 | Department of Agriculture                 | Spouse        | 195,920           |
| Noble Enterprise                       | J Noble        | Director               | Councillor at George Municipality         | Spouse        | 172,963           |
| Wolfe Pack Race                        | K Langeveldt   | Owner                  | Official at George Municipality           | Spouse        | 131,699           |
| NB Trading and Garage Doors            | JJ Frans       | Owner                  | Official at George Municipality           | Spouse        | 131,589           |
| Elster Kent Metering                   | NY Nkabinde    | Director               | Competition Commissioner                  |               | 129,082           |
| Sebastian Catering                     | ME Classen     | Owner                  | Official at George Municipality           | Daughter      | 99,777            |
| A Louw t/a Goossen, Clough & Louw      | A Louw         | Director               | Western Cape Education Department         | Spouse        | 91,666            |
| Trenfyre                               | MP Mona        | Member                 | SA Forestry Company                       |               | 84,122            |
|  | A Sing         | Non-executive director | DBSA                                      |               |                   |
| INCA Portfolio Managers                | M Mokoene      | Non-executive director | Gautrain Management Agency                |               | 75,240            |
| Leap Quantity Survey                   | AN Grobler     | Director               | Department of Justice                     | Spouse        | 70,538            |
| Avela General Service and Construction | N Nongogo      | Owner                  | Department of Health: Ambulance Assistant | Son           | 54,953            |
|  | P Nongogo      | Owner                  | Department of Health: Admin Clerk         | Daughter      |                   |
| 2 Brothers Enterprise                  | J Booyesen     | Director               | Official at George Municipality           | Sister in law | 49,367            |
| Jaji Bee Relocation and Honey Farming  | GJ Jaji        | Owner                  | Official at George Municipality           | Daughter      | 29,600            |
| Huriqua (Pty) Ltd                      | C Lamberts     | Director               | Deputy Director WC Agriculture            |               | 22,170            |
| DWMN Contractors                       | D Williams     | Owner                  | Official at George Municipality           |               | 13,100            |
| Omnisolar                              | JE Albert      | Member                 | Not indicated                             | Spouse        | 11,041            |
|  |                |                        |   |               | <b>83,055,482</b> |

### 53. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised

348,827,630

369,394,088

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date. Refer to note 13 for detail of long-term liabilities.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

**54. Municipal Land Transport Fund**

Included in the Accumulated surplus is the Municipal Land Transport Fund for the George Integrated Public Transport Network as required by the National Land Transport Act, (Act No. 5 of 2009). Refer to accounting policy 1.24 for more information on the fund.

The transactions for the year were:

|                   |                   |               |
|-------------------|-------------------|---------------|
| Opening balance   | 351               | 351           |
| Provincial grants | 91,134,776        | 93,226,507    |
| National grants   | 72,998,000        | 73,676,798    |
| Fare Revenue      | 37,301,627        | 32,532,521    |
| Other income      | 1,171,947         | 1,230,332     |
| Interest received | 2,609,325         | 2,150,759     |
| Less: Expenses    | (195,161,925)     | (202,816,917) |
|                   | <b>10,054,101</b> | <b>351</b>    |

**55. Budget differences**

**55.1 Service charges**

The variance of 1.31% between the actual and budget amounts received relates mainly to electricity sales. The consumption of electricity has declined during the year.

**55.2 Investment revenue**

The difference between the final adjustments budget and the actual amounts is 16%. The differences consist of interest received as a result of more short term investments made on surplus funds.

**55.3 Transfers recognised - Operational**

The spending on housing operating projects did not materialise which has a direct impact on the amount recognised as income. Income can only be recognised once the conditions of the grant has been met.

**55.4 Other own revenue**

The difference between the final adjustments budget and the actual amounts is 18%. Traffic fines issued were less than budgeted.

**55.5 Employee cost**

The variance of 2% between the actual amount spent and the amount budgeted is due to vacant posts that was budgeted for and that was not filled at year end.

**55.6 Remuneration of councillors**

The difference between the final adjustments budget and the actual amounts is 9%. The actual increase of 4% that councillors received on their remuneration was less than the budgeted 7%.

**55.7 Debt impairment**

The difference between the final adjustments budget and the actual amounts is 12% and the majority of the difference consist of the interest on the provisions for the rehabilitation of landfill sites and the GIPTN compensation provision not budgeted for.

**55.8 Depreciation and asset impairment**



## George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

#### 55. Budget differences (continued)

The difference between the final adjustments budget and the actual amounts is 2%. The budgeted depreciation was calculated to include depreciation on capital expenditure in the 2016/2017 financial year. The actual depreciation is less than the amount budgeted for since the capital budget was not fully spent during the year.

##### 55.9 Finance charges

The difference between the final adjustments budget and the actual amounts is 12% and the majority of the difference consist of the interest on the provisions for the rehabilitation of landfill sites and the GIPTN compensation provision not budgeted for.

##### 55.10 Materials and bulk purchases

The difference between the final adjustments budget and the actual amounts is 1% and the decrease in purchases from Eskom is a direct result from the decline in electricity consumption.

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>   | <b>2017</b> | <b>2016</b> |
|--|-------------|-------------|
| <b>55. Budget differences (continued)</b>  |             |             |
| <b>55.11 Transfers and grants</b>  |             |             |
| The difference between the final adjustments budget and the actual amounts is 67% and consist mainly out of bursaries budget for to community members which did not materialise.   |             |             |
| <b>55.12 Other expenditure</b>   |             |             |
| The difference between the final adjustments budget and the actual amounts is 6% and consist mainly out of the housing projects that could not be completed by year end.   |             |             |
| <b>55.13 Transfers recognised - Capital</b>  |             |             |
| The difference between the final adjustments budget and the actual amounts is 23% and consist mainly of upgrading of the Nelson Mandela Boulevard project which was not completed.   |             |             |
| <b>55.14 Contributions recognised - Capital</b>  |             |             |
| Capital contributions received and sale of property was more than budgeted for.  |             |             |
| <b>55.15 Capital expenditure: Executive and council</b>  |             |             |
| The difference between the final adjustments budget and the actual amounts is 26% and consist mainly out furniture for the Internal Audit department which was not purchased since the vacancies in the department was not filled.   |             |             |
| <b>55.16 Capital expenditure: Budget and treasury office</b>   |             |             |
| The difference between the final adjustments budget and the actual amounts is 18%. The department purchased a double cab bakkie and the the actual amount was less than the amount budgeted for.   |             |             |
| <b>55.17 Capital expenditure: Corporate services</b>   |             |             |
| The difference between the final adjustments budget and the actual amounts is 50% and consist mainly of the enterprise agreement which was budgeted as capital expenditure but was shifted to the operating budget.  |             |             |
| <b>55.18 Capital expenditure: Community and social services</b>  |             |             |
| The difference between the final adjustments budget and the actual amounts is 36% and consist mainly out of the Conville Library project where the air conditioning have to be fitted and the roof of the Conville Community Hall which was rolled over to the 2017/2018 financial year. |             |             |
| <b>55.19 Capital expenditure: Sport and recreation</b>   |             |             |
| The difference between the final adjustments budget and the actual amounts is 35% and consist mainly out of tractors and trailers that was not purchased as no suitable tenderer could be found on the state tender. Projects will be rolled over to the 2017/2018 financial year.       |             |             |
| <b>55.20 Capital expenditure: Housing</b>  |             |             |
| The difference between the final adjustments budget and the actual amounts is 21% and consist mainly out of the procurement of the fitting of a canopy on a newly purchased vehicle and the purchasing of a trailer. Projects will be rolled over to the 2017/2018 financial year.       |             |             |
| <b>55.21 Capital expenditure: Health</b>   |             |             |
| The difference between the final adjustments budget and the actual amounts is 14%. There was a saving on the burglar bars for the wendy house project. The amount spent was less than the budgeted amount.   |             |             |

## George Local Municipality

Annual Financial Statements for the year ended 30 June 2017

### Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

#### 55. Budget differences (continued)

##### 55.22 Capital expenditure: Planning and development

A laptop was purchased during the year and the amount spent was less than the amount budgeted for.

##### 55.23 Capital expenditure: Road transport

The difference between the final adjustments budget and the actual amounts is 41% and consist mainly out the upgrading of the Nelson Mandela Boulevard project. The project could not be completed due to the time frame of when the grant was gazetted. The project will be rolled over the the 2017/2018 financial year.

##### 55.24 Capital expenditure: Electricity

The difference between the final adjustments budget and the actual amounts is 20% and consist mainly out switch gear that was ordered and not delivered on year end as well and a transformer being refurbished on year end. These projects was rolled over to the 2017/2018 financial year.

##### 55.25 Capital expenditure: Water

The difference between the final adjustments budget and the actual amounts is 12% and consist mainly out the Thembaletu UISP water infrastructure project which could not be completed because the tender for the project was more than the budgeted amount.

##### 55.26 Capital expenditure: Waste water management

The difference between the final adjustments budget and the actual amounts is 32% and consist mainly out the Thembaletu UISP sanitation infrastructure project which could not be completed because the tender for the project was more than the budgeted amount.

##### 55.27 Capital expenditure: Waste management

The difference between the final adjustments budget and the actual amounts is 44%. The rehabilitation of the landfill site and the construction of a transfer station could not be completed at year end and will be rolled over to the 2017/2018 financial year.

##### 55.28 Capital expenditure: Other

The difference between the final adjustments budget and the actual amounts is 63%. This difference consist mainly out of the purchasing of small assets which were not completed on year end and rolled over to the 2016/2017 financial year.

**GEORGE LOCAL MUNICIPALITY**  
 SPECIAL NOTICE: We have died 30 June 2017  
 Notice to the Financial Statements

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**GEORGE LOCAL MUNICIPALITY**  
 10000 100th Street, Suite 100, Richmond, BC V6V 1G1  
 Tel: 604-273-1111 Fax: 604-273-1112  
 Website: [www.georgelocal.ca](http://www.georgelocal.ca)

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**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

## **APPENDIX: GEORGE INTEGRATED PUBLIC TRANSPORT NETWORK**

A bus service was introduced to provide a quality public transport service that is reliable, affordable, safe, convenient, and accessible, and contributes to a better quality of life for all.

The George Integrated Public Transport Network (GIPTN) has been developed by the municipality and the Provincial Government of the Western Cape to transform the road-based public transport sector through the establishment of a high quality, flexible and integrated public transport network.

The GO GEORGE bus service will be operated by the public transport operator "George Link" within the entire George area. The first phase was launched on 8 December 2014; a phased approach is used for service route roll out.

At the heart of the project is an empowerment model where public transport operators were operating minibus taxi or bus services in George forming a company to deliver the new scheduled bus service in terms of an operating contract. The municipality is responsible for the service, ensuring that safety, quality and customer service standards are maintained.

The George Municipality, with the support of the Western Cape Government, has negotiated a 12-year contract with this new company, in line with national policy. Part of the agreement is that other public transport services cease to operate on the GO GEORGE routes.

### **Establishment of a Municipal Land Transport Fund (MLTF)**

The Municipal Land Transport Fund was established on 8 December 2014, which is the date the transport service commenced.

The National Land Transport Act, (Act No. 5 of 2009) requires that a municipality establishing an integrated public transport network must establish a Municipal Land Transport Fund (MLTF) in terms of Section 27 of the Act. Money appropriated by the Minister and / or MEC for the Fund, user charges collected and interest on invested cash balances belonging to the Fund, should be paid into the fund. The funds are utilised to defray the costs of the functions in terms of its integrated transport plan.

The transactions for the transport department during the year consist of the following:

### **STATEMENT OF FINANCIAL PERFORMANCE**

|                                 | <b>MLTF</b>        | <b>NON-MLTF</b>   | <b>Total</b>       |
|---------------------------------|--------------------|-------------------|--------------------|
| <b>Revenue</b>                  |                    |                   |                    |
| Fare revenue                    | 37,301,627         | -                 | 37,301,627         |
| Government Grants and subsidies | 164,132,776        | 80,144,524        | 244,277,300        |
| Other income                    | 1,171,948          | -                 | 1,171,948          |
| Interest received               | 2,609,325          | -                 | 2,609,325          |
| <b>Total revenue</b>            | <b>205,215,676</b> | <b>80,144,524</b> | <b>285,360,200</b> |
| <b>Expenditure</b>              |                    |                   |                    |
| Employee related cost           | 639,520            | 1,231,127         | 1,870,647          |
| Depreciation                    | -                  | 25,766,727        | 25,766,727         |
| Finance cost                    | 1,222,914          | -                 | 1,222,914          |
| Contracted services             | 161,686,837        | -                 | 161,686,837        |
| Repairs and maintenance         | 17,785,485         | -                 | 17,785,485         |
| Loss on disposal of assets      | -                  | 6,471             | 6,471              |
| Inventory / Other materials     | 144,522            | -                 | 144,522            |
| General expenses                | 13,682,647         | 3,850,000         | 17,532,647         |
| <b>Total expenditure</b>        | <b>195,161,925</b> | <b>30,854,325</b> | <b>226,016,250</b> |
| <b>Surplus for the year</b>     | <b>10,053,751</b>  | <b>49,290,199</b> | <b>59,343,950</b>  |

**George Local Municipality**  
Annual Financial Statements for the year ended 30 June 2017

**APPENDIX: GEORGE INTEGRATED PUBLIC TRANSPORT NETWORK**

Items in the Statement of Financial Position consisted of the following on year end:

**Custom Schedule**

**Assets**

**Property, plant and equipment**

|   | <b>Cost price</b>  | <b>Accumulated depreciation</b> | <b>Book value</b>  |
|---|--------------------|---------------------------------|--------------------|
| Standard 12m & Midli 10.5m bus (69 buses) | 179,437,265        | (25,062,320)                    | 154,374,945        |
| Sprinter / Mini bus (35 buses)            | 26,823,258         | (6,447,888)                     | 20,375,370         |
|   | <b>206,260,523</b> | <b>(31,510,208)</b>             | <b>174,750,315</b> |

**Receivables from exchange and non-exchange transactions**

|   | <b>Note</b> | <b>2017</b>       |
|---|-------------|-------------------|
| GIPTN Fare Revenue  | 3           | 237,484           |
| George Link (Pty) Ltd (part of sundry debtors)                        | 4           | 154,320           |
| Mercedes-Benz South Africa Ltd (part of sundry debtors)               | 4           | 654,127           |
| Conditional grants and subsidies: National Transport Operations Grant | 19          | 22,010,770        |
|   |             | <b>23,056,701</b> |

**Prepayments**

|  |   |           |
|--|---|-----------|
| Mercedes-Benz South Africa Ltd - maintenance contracts for buses | 5 | 8,043,992 |
|--|---|-----------|

**Liabilities**

**Provisions**

|                              |    |              |
|------------------------------|----|--------------|
| Compensation liability GIPTN | 18 | (63,140,460) |
|------------------------------|----|--------------|

**Trade and other payables from exchange transactions**

|   |  |                     |
|---|--|---------------------|
| GIPTN Compensation Accrual                            |  | (8,920,244)         |
| George Link (Pty) Ltd                                 |  | (3,096,115)         |
| Department of Transport                               |  | (18,383,185)        |
| George Link (Pty) Ltd retentions (including interest) |  | (8,333,828)         |
|   |  | <b>(38,733,372)</b> |

## Annexure B

### Report of the Auditor General

# Report of the auditor-general to Western Cape Provincial Legislature and the council on George Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the George Municipality set out on pages 1 to 123, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the George Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

7. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2016 have been restated at, and for the year ended, 30 June 2017 as a result of a reclassification of certain income and expenditure items to conform with the mSCOA chart of accounts.

#### **Material impairment**

8. As disclosed in note 31 to the financial statements, material losses to the amount of R72 million (2015-2016: R88 million) were incurred as a result of a write-off of irrecoverable trade debtors.

#### **Material losses - water**

9. As disclosed in note 50 to the financial statements, material water losses of 3,9 million kilolitres (2015-2016: 3,0 million kilolitres) was incurred which represents 29.71% (2015-2016: 24.59%) of total water purchased and purified.

#### **Material underspending of the conditional grant**

10. As disclosed in the Statement of Comparison of Budget and Actual Amounts, the municipality has materially underspent the budget on road transport to the amount of R68 million.

#### **Other matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

#### **Unaudited disclosure notes**

12. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

#### **Unaudited supplementary schedules**

13. The supplementary information set out on pages 12 to 15 and 122 to 123 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

#### **Responsibilities of the accounting officer**

14. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
15. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.



## **Auditor-general's responsibilities for the audit of the financial statements**

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
20. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic objective presented in the annual performance report of the municipality for the year ended 30 June 2017:

| <b>Strategic objective</b>                          | <b>Pages in the annual performance report</b> |
|---|---|
| Strategic objective 1 – affordable quality services | 8 – 13  |

21. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
22. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following strategic objective:

- Strategic objective 1 – affordable quality services

### **Other matters**

23. I draw attention to the matters below.

#### **Achievement of planned targets**

24. Refer to the annual performance report on pages 8 to 13 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement targets.

#### **Adjustment of material misstatements**

25. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Strategic objective 1 – affordable quality services. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

### **Report on audit of compliance with legislation**

#### **Introduction and scope**

26. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. I did not raise any material findings on compliance with the specific matters in key legislation as set out in the general notice issued in terms of the PAA.

#### **Other information**

28. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected strategic objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

29. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

30. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected strategic objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

31. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

**Internal control deficiencies**

32. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. I did not identify any significant deficiencies in internal control.

*Auditor-General*  
Cape Town

30 November 2017



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected strategic objectives and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the George municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.



## Annexure C

### Audit and Performance Audit

### Committee Report

# **REPORT OF THE AUDIT AND PERFORMANCE AUDIT COMMITTEE OF GEORGE MUNICIPALITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017**

We present our report for the financial year ended 30 June 2017.

## **RESPONSIBILITY**

The GEORGE MUNICIPALITY (hereinafter referred to as GM) has constituted its Audit- and Performance Audit Committee (hereinafter referred to as the Audit Committee) to function in terms of the provisions of Section 166 of the Municipal Finance Management Act, 2003 (MFMA).

The audit committee is an independent advisory body to the council, accounting officer and the management and staff of the municipality on matters relating to internal financial control and internal audits; risk management; accounting policies; the adequacy, reliability and accuracy of financial reporting and information; performance management; effective governance; the MFMA and any other applicable legislation; performance evaluation; and any other issues.

The role of the audit committee is to promote accountability and service delivery through evaluating and monitoring responses to risks and overseeing the effectiveness of the internal control environment, including financial and performance reporting and compliance with legislation.

The audit committee is also expected to review the annual financial statements to provide an authoritative and credible view of the municipality, its efficiency and effectiveness and its overall level of compliance with applicable legislation.

## **TERMS OF REFERENCE**

The Audit Committee is constituted in terms of the requirements of sound corporate governance practices and operates in accordance with a written charter that incorporates the specific requirements of section 166 of the MFMA. The Committee amended the charter to reflect the revised membership composition as approved by the Council. The Municipal Manager has signed the charter as confirmation.

## **COMPOSITION OF THE AUDIT COMMITTEE**

At the end of the financial year ended 30 June 2017, the Audit Committee comprised of four independent members. An independent member chairs the committee. Both the internal and external auditors had unrestricted access to the Audit Committee during the year under review.

Said members are:

1. Mr. J. Stoffels (Independent Member and Chairperson) – re-appointed 01.05.2015

2. Dr A. Potgieter – (Independent Member) re-appointed 01.04.2016
3. Mr C. Kritzinger – (Independent Member) appointed 01.11.2015
4. Mr S. Qumana - (Independent Member) appointed 01.04.2016.

## **ACTIVITIES**

The Audit Committee met 6 times during the financial year ended 30 June 2017.

We carried out the following functions in terms of our charter:

1. Reviewed and amended the Audit Committee Charter, and referred it to Council for approval.
2. Reviewed and approved the rolling and annual internal audit plans including the definition of audit units, audit universe, and prioritisation of audit coverage taking into account the outputs of the risk assessments performed.
3. Reviewed executive summaries of all internal audit reports issued.
4. Reviewed the reporting by internal audit on performance management and performance information.
5. Issued reports and recommendations to Council on performance management and performance information.
6. Reviewed the annual financial statements as at 30 June 2017, the Final Management Report of the Auditor-General (hereinafter referred to as the A-G), as well as the Report of the A-G on the annual financial statements and the findings of the A-G on predetermined objectives and compliance with certain laws and regulations, and their detailed management letter.
7. Performed assessments on the effectiveness of the Committee for review and comment by the Municipal Manager and for presentation to Council.
8. Deliberated on the implementation of mSCOA
9. Considered other matters as deemed appropriate.

The A-G's assessment of the work performed by the Audit Committee is reflected on page 15, section 3.1.5 of the Final Management Report (hereinafter referred to as the A-G Report). In this section, the A-G reports as follows:

***"The audit committee has carried out its functions in accordance with its mandate. The financial statements submitted for auditing were reviewed by the audit committee prior to submission thereof for audit purposes.***

***The work of the audit committee provides full assurance and the committee covered all the required aspects in terms its mandate."***

## **THE A-G REPORT**

### **Report on the Annual Financial Statements**

The municipality achieved a 6th consecutive clean audit outcome, and we would like to take this opportunity to congratulate Council and management on this significant milestone.

The A-G as well as Internal Audit raised certain concerns in their respective reports. The Audit Committee recommends continued focus on the implementation of all the recommendations of the A-G and Internal Audit in this regard.

We do not want to restate the pertinent issues highlighted in the A-G Report for the year 2016/2017. These are detailed on pages 4 to 32 of said report, dated 30 November 2017. However, we want to draw Council's attention to the following issues of concern highlighted in these documents.

#### **Material Impairments**

Irrecoverable debts in the amount of R 72 million have been written off during 2017.

#### **Underspending of Conditional Grants**

As disclosed in the Statement of Comparison of Budget and Actual Amounts, the municipality has materially underspent the budget on road transport to the amount of R 68 million.

#### **Audit of the Annual Performance Report**

The A-G's findings on their audit of the municipality's Annual Performance Report are detailed on pages 10-11 of the Final Management Report, and we will not restate these findings. Other matters deserving Council's attention are:

- **Performance Management**

There is still no performance management system in place for staff other than senior managers. In addition, the bi-annual and annual assessments of the municipal manager and managers reporting to the municipal manager did not take place during 2017. The Audit Committee has previously reported on the manner in which these assessments are conducted. We feel that this is an important compliance matter that deserves urgent intervention by Council.

- **Policies and procedures**

According to the A-G Report, management did not ensure that policies and procedures governing **overtime and leave administration** are in place to effectively manage these two critical HR functions. The Audit Committee has on numerous occasions highlighted these matters in our meetings as well as in internal audit steering committee meetings. It appears as if management do not want to take responsibility for what we regard as a huge risk of fraud and corruption for the organization. **We again urge Council to give this matter priority attention.**

## **RISK MANAGEMENT**

To maintain an overall positive perception of the municipality and confidence in the municipality from the public and other stakeholders, well planned goals and objectives should be coordinated and achieved within the municipality. Section 62(1) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) stipulates that the Accounting Officer must take all reasonable steps to ensure that the municipality has, and maintains, an effective, efficient and transparent system of financial- and risk management and internal control as well as the effective, efficient and economical use of the resources of the municipality.

The municipality has instituted such a systematic and formalised process to identify, assess, manage and monitor risks which effectively ensures achievement of those planned goals and objectives. Thus, risk management is essentially a good governance measure instituted to ensure the municipality accomplish its vision, mission and strategic plans.

The municipality has an approved risk management policy, framework and implementation plan as approved by council. The policy is reviewed annually. The risk management function is facilitated internally by the Chief Internal Auditor. However, no Risk Committee meetings were held during the year under review.

## **SPECIFIC FOCUS AREAS**

### **Financial Viability**

The A-G's audit included a high-level overview of the financial viability of George Municipality as at 30 June 2017. This financial viability assessment provides management with useful information for accountability and decision-making purposes and complements the financial statements by providing insights and perspectives thereon.

The A-G looked at Expenditure management, Revenue Management, Asset and Liability Management as well as Cash Management. According to the A-G Report in Note 56 on page 23:

***"the municipality is in a healthy financial position".***

Given the financial constraints of municipalities, this is a commendable achievement.

### **Water/Sanitation and Roads Infrastructure**

The A-G's findings on the above, listed in sections 4.6 and 4.7 on page 27 makes for disquieting reading.

National Government allocated R 90 million to the GM to establish a Water Purification Plant. According to verbal reports by councillors during the last

Council meeting in December 2017, this plant is currently mothballed and not working. Given the fact that George is facing a potential water crisis, this situation borders on serious dereliction of duty by the responsible officials, as well as lack of oversight by Council. Urgent intervention in this regard is needed.

#### **Deviation from competitive bidding processes**

In terms of SCM regulation 36, an accounting officer may deviate from official competitive bidding procurement processes established by the SCM policy and procure any required goods or services through any convenient process, provided that such deviation is properly approved and justifiable. SCM regulation 36(1)(a) sets out the circumstances under which a deviation could be justifiable and SCM regulation 36(2) sets out the recording and reporting requirements regarding such deviations.

The A-G expressed concern about the fact that GM increasingly uses this SCM regulation to circumvent processes of competitive bidding, even when it is not impractical to invite competitive bids. It is the duty of the accounting officer to ensure that these deviations are appropriately justified and/or that the justification can be appropriately supported through adequately documented reasons.

George Municipality disclosed in note 52 to the financial statements that R28,7 million of good and/or services were procured during the 2016-17 financial year using SCM regulation 36 (2015- 16: R15,3 million). The Audit Committee has repeatedly warned against this practice, and fully concurs with the A-G in this regard. Council is advised ensure that demand and acquisitioning are properly planned to limit the use of SCM regulation 36 to instances where deviations are unavoidable and that such cases are properly motivated/justifiable and documented.

#### **Bid Adjudication Committee (BAC)**

This committee is not functioning properly. The chairperson of the Audit Committee attended all the Bid Adjudication Committee meetings for the year, and we can report that there are serious control deficiencies in this critical aspect of our procurement and contract management programme. It poses enormous financial- and reputational risks for the municipality, and we have highlighted this in our meetings and reports to Council. The chairperson has also alerted both the municipal manager and the Executive Mayor about the huge risks that this problem poses for the municipality.

We would like to take this opportunity to urge Council to give priority attention to the complete restructuring/re-composition of the BAC and the Bid Evaluation Committee.

#### **EMERGING RISKS**

- mSCOA



The mSCOA regulations were gazetted on 22 April 2014, which established the application of the mSCOA in local government as a legislated requirement. mSCOA took effect on 1 July 2017 and will thus impact on the 2017-18 financial statements and audits of all local government auditees.

- **GIPTN**

The GIPTN roll-out programme has been fraught with ongoing challenges since its inception. Continued focus by the municipality on capacitation of its internal resources to facilitate adherence to all contractual requirements is necessary.

The A-G issued a 9-page COMAF (Communication of Audit Finding) on 31 October 2017, in which it details various problems regarding GIPTN. Contentious issues like bus fares, bus tickets, the operator agreement, monitoring and oversight, pre-payment agreements as well as internal control deficiencies about leadership and financial and performance management, are highlighted and questioned.

Council should treat this Communication No. 18 of 2017 as a top priority.

- **Environmental Issues**

The ongoing drought and veld fires appear to have become part of our daily lives. Council is aware of the challenges faced by the municipality, and should remain vigilant and proactive in this regard. So are the challenges about Waste Removal.

- **Unemployment, homelessness**

During the last 6 years, the unemployed and the homeless in the Greater George area have grown beyond our wildest estimates. They are not going to disappear, and are putting tremendous strain on our resources. Rapid urbanisation and the socio-economic problems it brings will need visionary leadership from politicians and senior officials alike. We need to take this into account when we do our future planning.

We will also see more service delivery protests in future, and Council needs to develop deadlock-breaking mechanisms to deal with this complex matter.

#### **EVENTS AFTER THE REPORTING DATE**

Mr S. Qumana resigned as a member of the Audit Committee on 30 September 2017.

We also extend our condolences to the families of staff and councilors who passed away during 2017.



## **CONCLUSION**

The Audit Committee acknowledges that the environment within which management is operating is difficult given the many challenges, and the fact that grant funding has decreased. There have also been ongoing changes to accounting practices, systems, policies and procedures (note mSCOA) which have been difficult to adopt especially given the scarcity of skills.

The Audit Committee remains concerned about the validity and credibility of "clean audit outcomes" achieved by municipalities, and the exorbitant costs involved in these external audits. We again issue a word of caution about complacency in this regard. GM has achieved a 6<sup>th</sup> clean audit outcome in 2017, but there remain significant deficiencies in our practices, policies, procedures and systems, and these will be exacerbated by the introduction of mSCOA.

We would also like to urge councilors to refrain from using their political influence to encroach on the operational/administrative activities of the municipality.

In conclusion, it is our wish that all stakeholders will work harder in future in order to improve the quality of the lives of the people we serve.

.....  
**J.STOFFELS – MEMBER AND CHAIRPERSON**  
**(On behalf of the Audit Committee)**

**28 December 2017.**