

## Ugu District Municipality

(Registration number DC21)

Consolidated Financial Statements for the year ended 30 June 2016

### Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015

#### 20. Provisions (continued)

##### Reconciliation of provisions - Controlling entity - 2016

	Opening Balance	Reduction due to re-measurement or settlement without cost to entity	Total
Current portion of post-retirement medical aid benefits liability	944 676	81 960	1 026 636
Current portion of long-service awards	871 315	1 510 278	2 381 593
Performance bonus provision	571 221	268 474	839 695
Leave pay provision	17 374 373	3 535 040	20 909 413
	<b>19 761 585</b>	<b>5 395 752</b>	<b>25 157 337</b>

##### Reconciliation of provisions - Controlling entity - 2015

	Opening Balance	Leave encashed during period	Reduction due to re-measurement or settlement without cost to entity	Total
Current portion of post-retirement medical aid benefits liability	881 832	-	62 844	944 676
Current portion of long-service awards	594 544	-	276 771	871 315
Performance bonus provision	333 762	-	237 459	571 221
Leave pay provision	14 589 341	(33 367)	2 818 399	17 374 373
	<b>16 399 479</b>	<b>(33 367)</b>	<b>3 395 473</b>	<b>19 761 585</b>

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	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015
<b>21. Retirement benefits liabilities</b>				
<b>Post retirement health care benefits liability</b>				
<b>Post retirement health care benefits liability</b>				
Balance at beginning of year	15 250 105	13 524 137	15 250 105	13 524 137
Contributions to provision	2 133 131	1 850 416	2 133 131	1 850 416
Balance at end of year	17 383 236	15 374 553	17 383 236	15 374 553
Transfer to current provisions	(1 026 636)	(944 676)	(1 026 636)	(944 676)
Actuarial loss/(gain)	(784 815)	820 228	(784 815)	820 228
	<b>15 571 785</b>	<b>15 250 105</b>	<b>15 571 785</b>	<b>15 250 105</b>

The municipality provides certain post-retirement health care 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 is entitled to continue as a 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. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. 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.

The members of the post-employment health care benefit plan are made up as follows:

In-service members (employees)	511	510	511	510
Continuation members	55	52	55	52
	<b>566</b>	<b>562</b>	<b>566</b>	<b>562</b>

The unfunded liability in respect of past service has been estimated as follows:

In-service members	7 817 539	7 936 377	7 817 539	7 936 377
Continuation members	8 780 882	8 258 404	8 780 882	8 258 404
	<b>16 598 421</b>	<b>16 194 781</b>	<b>16 598 421</b>	<b>16 194 781</b>

The current-service cost for the year ending 30 June 2016 is estimated to be R746 952, whereas the cost for the ensuing year is estimated to be R692 810 (30 June 2015: R610 859 and R746 952 respectively).

### Key assumptions used

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

Discount rates	8.95%	8.81%	8.95%	8.81%
Health care cost inflation	8.09%	7.95%	8.09%	7.95%
Net effective discount rate	0.80%	0.80%	0.80%	0.80%
Expected retirement age - females	63	63	63	63
Expected retirement age - males	63	63	63	63

Movements in the present value of the defined benefit obligation were as follows:

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>21. Retirement benefits liabilities (continued)</b>				
Balance at beginning of the year	16 194 781	14 405 969	16 194 781	14 405 969
Current service costs	746 952	610 859	746 952	610 859
Interest cost	1 386 179	1 239 557	1 386 179	1 239 557
Benefits paid	(944 676)	(881 832)	(944 676)	(881 832)
Actuarial loss/(gain)	(784 815)	820 228	(784 815)	820 228
	<b>16 598 421</b>	<b>16 194 781</b>	<b>16 598 421</b>	<b>16 194 781</b>

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

Current service cost	746 952	610 859	746 952	610 859
Interest cost	1 386 179	1 239 557	1 386 179	1 239 557
Actuarial losses/(gains)	(784 815)	820 228	(784 815)	820 228
	<b>1 348 316</b>	<b>2 670 644</b>	<b>1 348 316</b>	<b>2 670 644</b>

	2016	2015	2014	2013	2012	2011
Present value of defined benefit obligation	16 598 421	16 194 781	14 405 969	22 229 850	19 731 792	22 877 435
Dificit	16 598 421	16 194 781	14 405 969	22 229 850	19 731 792	22 877 435
Expected adjustments on plan liabilities	(550 000)	729 000	(583 000)	(488 790)	(6 769 737)	1 949 195
	<b>16 048 421</b>	<b>16 923 781</b>	<b>13 822 969</b>	<b>21 741 060</b>	<b>12 962 055</b>	<b>24 826 630</b>

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

2016	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	3 500	(4 400)	3 500	(4 400)
Effect on defined benefit obligation	(89 000)	104 500	(89 000)	104 500
	<b>(85 500)</b>	<b>100 100</b>	<b>(85 500)</b>	<b>100 100</b>

2015	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	4 400	(5 900)	4 400	(5 900)
Effect on defined benefit obligation	(78 100)	92 400	(78 100)	92 400
	<b>(73 700)</b>	<b>86 500</b>	<b>(73 700)</b>	<b>86 500</b>

The municipality expects to make a contribution of R2,133 million (2015: R3,077 million) to the defined benefit plans during the next financial year.

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	Economic entity		Controlling entity	
Figures in Rand	2016	2015	2016	2015

### 22. Other long-term employee benefits

Provision for long service awards	14 010 102	13 234 057	14 010 102	13 234 057
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The movement in non-current provisions are reconciled as follows:

#### Long-term service

Balance at beginning of year	13 234 057	11 076 109	13 234 057	11 076 109
Contributions to provision	3 157 638	3 029 263	3 157 638	3 029 263
	16 391 695	14 105 372	16 391 695	14 105 372
Transfer to current provisions	(2 381 593)	(871 315)	(2 381 593)	(871 315)
<b>Balance at end of year</b>	<b>14 010 102</b>	<b>13 234 057</b>	<b>14 010 102</b>	<b>13 234 057</b>

A long-service Award is payable after 10 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. 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.

At year-end, 855 (2015: 858) employees were eligible for long-service awards.

The current-service cost for the year ending 30 June 2016 is estimated to be R1 560 803, whereas the cost for the ensuing year is estimated to be R1 676 614 (30 June 2015: R1 224 950 and R1 560 803 respectively).

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

Discount rates used	8.57%	8.16%	8.57%	8.16%
Cost inflation rate	7.22%	7.17%	7.22%	7.17%
Net effective discount rate	1.26%	0.92%	1.26%	0.92%
Expected retirement age - females	63	63	63	63
Expected retirement age - males	63	63	63	63

Movements in the present value of the defined benefit obligation were as follows:

Balance at beginning of the year	14 105 372	11 670 653	14 105 372	11 670 653
Current service cost	1 560 803	1 244 950	1 560 803	1 244 950
Interest cost	1 116 149	933 835	1 116 149	933 835
Benefits paid	(871 315)	(594 544)	(871 315)	(594 544)
Actuarial losses/(gains)	480 686	850 478	480 686	850 478
	<b>16 391 695</b>	<b>14 105 372</b>	<b>16 391 695</b>	<b>14 105 372</b>

The history of experienced adjustments is as follows:

	2016	2015	2014	2013	2012	2011
Present value of defined benefit obligation	16 391 695	14 105 372	11 670 653	9 150 868	9 765 467	9 366 466
Deficit	16 391 695	14 105 372	11 670 653	9 150 868	9 765 467	9 366 466
Experienced adjustments on plan liabilities	904 695	910 954	1 671 011	(1 664 673)	(991 516)	870 061



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Figures in Rand	2016	2015	2016	2015

### 22. Other long-term employee benefits (continued)

	17 296 390	15 016 326	13 341 664	7 486 195	8 773 951	10 236 527
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In accordance with the transitional provisions for the amendments to GRAP 25 employee benefits in December 2004, the disclosures above are determined prospectively from the 2006 reporting period.

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

	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	225 600	(201 200)	225 600	(201 200)
Effect on defined benefit obligation	(69 100)	75 400	(69 100)	75 400
	<b>156 500</b>	<b>(125 800)</b>	<b>156 500</b>	<b>(125 800)</b>

### 2015

	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate of the current service cost and the interest cost	192 800	(171 600)	192 800	(171 600)
Effect on defined benefit obligation	4 400	(5 900)	4 400	(5 900)
	<b>197 200</b>	<b>(177 500)</b>	<b>197 200</b>	<b>(177 500)</b>

The municipality expects to make a contribution of R2 980 708 (2015: R2 434 719) to the defined benefit plans during the next financial year.

### 23. Service charges

Sale of water	208 858 377	192 674 258	208 858 377	192 674 258
Sewerage and sanitation charges	107 249 508	102 345 828	107 249 508	102 345 828
	<b>316 107 885</b>	<b>295 020 086</b>	<b>316 107 885</b>	<b>295 020 086</b>

### 24. Rental of facilities and equipment

#### Premises

Rental of premises	224 745	382 206	224 745	382 206
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#### Facilities and equipment

Rental of facilities	864 261	2 048 059	864 261	2 048 059
	<b>1 089 006</b>	<b>2 430 265</b>	<b>1 089 006</b>	<b>2 430 265</b>

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### Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>25. Other income</b>				
Revaluation reserve / Assets acquired at no cost	137 368	1 993 683	137 368	810 785
Administration fees	50 892	386 794	5 700	83 100
Building plan fees	91 870	113 946	91 870	113 946
Connection fees	1 845 226	1 977 049	1 845 226	1 977 049
Other revenue	753 373	2 046 802	334 875	1 635 787
Atmospheric emissions licenses	942 856	163 600	942 856	163 600
Reconnection fees	632 143	595 481	632 143	595 481
Tender deposits	241 937	214 352	173 708	128 829
Water rates certificates	922 934	836 191	922 934	836 191
Developers fees	11 011 074	8 636 202	11 011 074	8 636 202
	<b>16 629 673</b>	<b>16 964 100</b>	<b>16 097 754</b>	<b>14 980 970</b>

### 26. Investment revenue

<b>Interest revenue</b>				
Short term investments	5 672 082	6 323 233	5 672 082	6 323 233
Bank	20 936 704	9 701 650	20 182 661	9 182 726
Interest charged on trade and other receivables	4 019 407	3 490 009	4 019 407	3 490 009
	<b>30 628 193</b>	<b>19 514 892</b>	<b>29 874 150</b>	<b>18 995 968</b>

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## Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>27. Government grants and subsidies</b>				
<b>Operating grants</b>				
National equitable share	303 885 000	264 864 935	303 885 000	264 864 935
Levies replacement	58 891 000	54 816 000	58 891 000	54 816 000
Other grants	135 650	1 936 728	135 650	1 936 728
	<b>362 911 650</b>	<b>321 617 663</b>	<b>362 911 650</b>	<b>321 617 663</b>
<b>Capital grants</b>				
National: MIG grant	249 316 000	265 189 000	249 316 000	265 189 000
National: FMG grant	1 325 000	1 251 468	1 325 000	1 251 468
National: DEAT grant	430 395	-	430 395	-
National: Local Government grant	84 356 635	56 295 629	84 356 635	56 295 629
National: DWAF grant	27 216 031	47 545 597	27 216 031	47 545 597
Provincial: Department of Cooperative Governance and Traditional Affairs grant	3 515 479	25 998 847	3 515 479	25 998 847
Provincial: Department of Public Works grant	1 826 000	1 041 576	1 826 000	1 041 576
Provincial: Department of Transport grant	2 446 000	2 944 356	2 446 000	2 944 356
Development Bank of Southern Africa	38 575	523 957	38 575	523 957
	<b>370 470 115</b>	<b>400 790 430</b>	<b>370 470 115</b>	<b>400 790 430</b>
	<b>733 381 765</b>	<b>722 408 093</b>	<b>733 381 765</b>	<b>722 408 093</b>

### National equitable Share

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

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

Current-year receipts	353 845 000	316 768 000	353 845 000	316 768 000
Conditions met transferred to revenue: operating expenses	(353 845 000)	(316 768 000)	(353 845 000)	(316 768 000)
	-	-	-	-

During the current financial period an amount of R8 931 000 was withheld from the DORA allocate for equitable share. In terms of the Constitution, this unconditional grant is used primarily to subsidise the provision of basic services to the community. All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant.

### National: MIG grant

Current-year receipts	249 316 000	265 189 000	249 316 000	265 189 000
Conditions met - transferred to revenue: Operating expenses	-	(5 029 963)	-	(5 029 963)
Conditions met - transferred to revenue: Capital expenses	(249 316 000)	(260 159 037)	(249 316 000)	(260 159 037)
	-	-	-	-

Conditions still to be met - remain liabilities (see note 19).

The MIG grant is aimed at supplementing municipal budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households and for the provision, rehabilitation and renewal of municipal infrastructure. No funds were withheld.

### National: Finance Management Grant (FMG)

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	2016	2015	2016	2015
<b>27. Government grants and subsidies (continued)</b>				
Balance unspent at beginning of year	-	1 468	-	1 468
Current-year receipts	1 325 000	1 250 000	1 325 000	1 250 000
Conditions met - transferred to revenue: Operating expenses	(1 325 000)	(1 251 468)	(1 325 000)	(1 251 468)
	-	-	-	-

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 Programme (e.g. salary costs of the Financial Management Interns). No funds were withheld.

### National: Economic Affairs and Tourism Grant (DEAT)

Balance unspent at beginning of year	430 395	430 395	430 395	430 395
Conditions met - transferred to revenue: Operating expenses	(430 395)	-	(430 395)	-
	-	<b>430 395</b>	-	<b>430 395</b>

Conditions still to be met - remain liabilities (see note 19).

The European Community represented by the Department of Economic Development (Gijima KZN) awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment".

### National: Local Government Grant

Balance unspent at beginning of year	5 205 998	17 262 272	5 205 998	17 262 272
Current-year receipts	101 035 000	33 433 000	101 035 000	33 433 000
Conditions met - transferred to revenue: Operating expenses	(940 000)	(727 002)	(940 000)	(727 002)
Conditions met - transferred to revenue: Capital expenses	(96 696 422)	(42 288 841)	(96 696 422)	(42 288 841)
Transfers withheld during the year	(8 604 576)	(2 473 431)	(8 604 576)	(2 473 431)
	-	<b>5 205 998</b>	-	<b>5 205 998</b>

Conditions still to be met - remain liabilities (see note 19).

Various grants are paid by National Local Government to help implement the IDP, PMS, Sports Stadium and financial reform initiatives as required by the Municipal Finance Management Act (MFMA), 2003 and the Municipal Systems Act (MSA), 2000.

### National: Department of Water Affairs and Forestry Grant (DWAF)

Balance unspent at beginning of year	11 878 556	1 973 316	11 878 556	1 973 316
Current-year receipts	18 850 503	57 450 838	18 850 503	57 450 838
Conditions met - transferred to revenue: Operating expenses	(4 166 503)	-	(4 166 503)	-
Conditions met - transferred to revenue: Capital expenses	(22 912 556)	(47 545 598)	(22 912 556)	(47 545 598)
	<b>3 650 000</b>	<b>11 878 556</b>	<b>3 650 000</b>	<b>11 878 556</b>

Conditions still to be met - remain liabilities (see note 19).

DWAF grants are aimed at supplementing municipal budgets to assist with the construction of water delivery infrastructure, execution of water service delivery and the development of an Asset Management Plan.



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<b>27. Government grants and subsidies (continued)</b>				
<b>Provincial: Department of Cooperative Governance and Traditional Affairs Grant (COGTA)</b>				
Balance unspent at beginning of year	3 350 163	25 076 273	3 350 163	25 076 273
Current-year receipts	5 250 000	4 310 000	5 250 000	4 310 000
Conditions met - transferred to revenue: Operating expenses	(1 092 030)	(4 001 950)	(1 092 030)	(4 001 950)
Conditions met - transferred to revenue: Capital expenses	(2 428 181)	(22 034 160)	(2 428 181)	(22 034 160)
	<b>5 079 952</b>	<b>3 350 163</b>	<b>5 079 952</b>	<b>3 350 163</b>

Conditions still to be met - remain liabilities (see note 19).

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act. They are aimed at supplementing municipal budgets to assist with the assessment of water service delivery mechanisms, water delivery planning and water services technical support.

### Provincial: Department of Public Works Grant

Balance unspent at beginning of year	326 424	116 505	326 424	116 505
Current-year receipts	1 826 000	1 368 000	1 826 000	1 368 000
Conditions met - transferred to revenue: Operating expenses	(1 826 000)	(1 041 576)	(1 826 000)	(1 041 576)
Transfers withheld during the year	(326 424)	(116 505)	(326 424)	(116 505)
	<b>-</b>	<b>326 424</b>	<b>-</b>	<b>326 424</b>

Conditions still to be met - remain liabilities (see note 19).

This is an incentive grant from Public Works for the promotion of labour intensive projects within the District. No funds were withheld.

### Provincial: Department of Transport Grant (DOT)

Balance unspent at beginning of year	-	837 356	-	837 356
Current-year receipts	2 446 000	2 430 000	2 446 000	2 430 000
Conditions met - transferred to revenue: Operating expenses	(2 446 000)	(2 944 356)	(2 446 000)	(2 944 356)
Transfers withheld during the year	-	(323 000)	-	(323 000)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

This funding was furnished by the KZN Department of Transport to assist with the preparation of a Public Transport Plan as required by the National Land Transport Transition Act, 2000. No funds were transferred to the municipality for the year under review.

### Development Bank of Southern Africa

Balance unspent at beginning of year	38 582	562 624	38 582	562 624
Conditions met - transferred to revenue: Operating expenses	(38 582)	(524 042)	(38 582)	(524 042)
	<b>-</b>	<b>38 582</b>	<b>-</b>	<b>38 582</b>

Conditions still to be met - remain liabilities (see note 19).

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Figures in Rand	2016	2015	2016	2015

#### 27. Government grants and subsidies (continued)

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment.

##### Other Government: Industrial Development Corporation (IDC)

Balance unspent at beginning of year	-	45 020	-	45 020
Conditions met - transferred to revenue: Operating expenses	-	(45 020)	-	(45 020)
	-	-	-	-

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment. No funds were withheld.

##### Other Sponsors: NPC

Balance unspent at beginning of year	129 049	555 497	129 049	555 497
Conditions met - transferred to revenue: Operating expenses	(129 049)	(426 448)	(129 049)	(426 448)
	-	129 049	-	129 049

Conditions still to be met - remain liabilities (see note 19).

##### Other Sponsors: National Lottery

Balance unspent at beginning of year	6 650	1 472 362	6 650	1 472 362
Conditions met - transferred to revenue: Operating expenses	(6 650)	(1 465 712)	(6 650)	(1 465 712)
	-	6 650	-	6 650

Conditions still to be met - remain liabilities (see note 19).

Provide explanations of conditions still to be met and other relevant information.

#### 28. Public contributions and donations

Hibiscus Coast Municipality	3 296 000	3 200 000	-	-
Vulamehlo Municipality	418 700	395 000	-	-
Umdoni Municipality	420 000	220 000	-	-
Umzumbe Municipality	402 800	380 000	-	-
Umuziwabantu Municipality	318 150	300 000	-	-
Ezinqoleni Municipality	106 000	100 000	-	-
	4 961 650	4 595 000	-	-