

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
38. Auditors' remuneration				
Fees	3 740 676	3 765 919	3 210 452	3 090 207
39. Cash generated from operations				
Surplus	53 032 868	23 306 049	54 122 888	19 227 926
Adjustments for:				
Depreciation and amortisation	201 732 993	195 107 992	201 477 998	194 949 604
Loss on sale of assets and liabilities	(492 315)	(716 192)	(502 707)	(646 992)
Loss from transfer of functions between entities not under common control	30 512 574	-	30 512 574	-
Assets acquired at no cost	-	(137 368)	-	(137 368)
Fair value adjustments	149 310	(96 749)	(100 000)	(96 749)
Impairment deficit	38 220 070	244 666 071	38 213 407	244 666 071
Debt impairment	17 731	196 710	-	172 017
Movements in operating lease assets and accruals	35 332	15 820	2 434	(12 937)
Movements in retirement benefit assets and liabilities	430 372	321 680	430 372	321 680
Movements in provisions -current	3 066 139	5 446 839	2 598 553	5 395 752
Movement in provisions - non-current	1 446 805	776 045	1 446 805	776 045
Changes in working capital:				
Inventories	3 894 678	2 902 413	3 894 678	2 902 413
Receivables from exchange transactions	(77 312 427)	(60 894 622)	(77 020 902)	(61 464 514)
Other receivables from non-exchange transactions	5 182 899	25 172 662	7 193 336	23 389 105
Payables from exchange transactions	(4 296 162)	23 046 560	(4 513 837)	22 932 638
VAT	10 995 975	(30 468 010)	11 295 361	(30 725 591)
Unspent conditional grants and receipts	(7 329 920)	(12 635 897)	(8 329 920)	(12 635 897)
Consumer deposits	224 356	572 602	224 356	572 602
	259 511 278	416 582 605	260 945 396	409 585 805

40. Transfer of functions between entities not under common control

In terms of Section 12 of the Local Government Municipal Structures Act, No 117 of 1998; 3,5 wards were transferred to Ethekwini Municipality and Harry Gwala District Municipality respectively. The effective date of the transfer is 10th August 2016.

The assets that were transferred are immovable assts, which are infrastructure complete and under construction.

The details of assets transferred are as follows

Assets transferred to other municipalities	Ethekwini	Total
Cost	48 166 698	48 166 698
Accumulated depreciation	(17 654 124)	(17 654 124)
	30 512 574	30 512 574

There was no consideration received or receivable from a transfer of assets, as result a loss of carrying amount of assets transferred was incurred, which amounts to R30 512 574 (2016: R0)

41. Financial instruments disclosure

Categories of financial instruments

Economic entity - 2017

Financial assets

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Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

41. Financial instruments disclosure (continued)

	At fair value	At amortised cost	Total
Long-term receivables	-	-	-
- Sundry loans	-	30 812	30 812
Receivables from Exchange Transactions	-	-	-
- Sewerage	-	19 407 883	19 407 883
- Other trade receivables	-	3 693 523	3 693 523
- Water	-	66 734 183	66 734 183
- Water rates	-	11 468 337	11 468 337
Receivables from Non-Exchange Transactions	-	-	-
- Payments made in advance	-	11 235 490	11 235 490
- Ray Nkonyeni Municipality	-	836 413	836 413
- Sundry deposits	-	1 605 132	1 605 132
- Sundry debtors	-	8 271 892	8 271 892
Cash and Cash Equivalents	-	-	-
- Call deposits	9 971 908	-	9 971 908
- Notice deposits	-	165 000 000	165 000 000
- Bank balances	14 220 880	-	14 220 880
- Cash floats and advances	8 933	-	8 933
Current-portion of Long-term Receivables	-	-	-
- Sundry loans	-	58 731	58 731
	24 201 721	288 342 396	312 544 117

Financial liabilities

	At amortised cost	Total
Compound instruments	-	-
-Annuity loans	126 521 313	126 521 313
Other financial liabilities	-	-
- Trade and other payables from exchange transactions	172 851 370	172 851 370
- Bank overdraft	150 443	150 443
	299 523 126	299 523 126

Economic entity - 2016

Financial assets

	At fair value	At amortised cost	Total
Long-term Receivables	-	-	-
- Sundry loans	-	251 734	251 734
Receivables from Exchange Transactions	-	-	-
- Sewerage	-	24 765 754	24 765 754
- Other trade receivables	-	1 821 087	1 821 087
- Water	-	61 089 682	61 089 682
- Water rates	-	7 924 214	7 924 214
Receivables from Non-Exchange Transactions	-	-	-
- Payments made in advance	-	9 740 266	9 740 266
- Sundry deposits	-	1 604 432	1 604 432
- Sundry debtors	-	15 786 685	15 786 685
Cash and Cash Equivalents	-	-	-
- Call deposits	50 184 752	-	50 184 752
- Notice deposits	-	165 018 579	165 018 579
- Bank balances	61 045 657	-	61 045 657
- Cash floats and advances	11 692	-	11 692

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Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
41. Financial instruments disclosure (continued)				
Current-portion of Long-term Receivables	-	-	-	-
- Sundry loans	-	-	11 594	11 594
	111 242 101	288 014 027	399 256 128	

Financial liabilities

	At fair value	At amortised cost	Total
Compound instruments	-	-	-
- Annuity loans	-	145 553 238	145 553 238
Other financial liabilities	-	-	-
- Trade and other payables from exchange transactions	-	177 147 532	177 147 532
- Bank overdraft	2 306 145	-	2 306 145
	2 306 145	322 700 770	325 006 915

Controlling entity - 2017

Financial assets

	At fair value	At amortised cost	Total
Long-term Receivables	-	-	-
- Sundry loans	-	30 812	30 812
Receivables from Exchange Transactions	-	-	-
- Sewerage	-	9 924 784	9 924 784
- Other trade receivables	-	2 985 616	2 985 616
- Water	-	31 941 960	31 941 960
- Water rates	-	103 070	103 070
Receivables from Non-Exchange Transactions	-	-	-
- Payments made in advance	-	10 045 723	10 045 723
- Sundry deposits	-	1 604 432	1 604 432
- Sundry debtors	-	8 949 947	8 949 947
Cash and Cash Equivalents	-	-	-
- Call deposits	7 881 921	-	7 881 921
- Notice deposits	-	165 000 000	165 000 000
- Bank balances	6 750 640	-	6 750 640
- Cash floats and advances	4 967	-	4 967
Current-portion of Long-term Receivables	-	-	-
- Sundry loans	-	58 731	58 731
	14 637 528	230 645 075	245 282 603

Financial liabilities

	At fair value	At amortised cost	Total
Compound instruments	-	-	-
- Annuity loans	-	126 789 518	126 789 518
Other financial liabilities	-	-	-
- Trade and other payables from exchange transactions	-	147 638 363	147 638 363
- Bank overdraft	150 443	-	150 443
	150 443	274 427 881	274 578 324

Controlling entity - 2016

Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

41. Financial instruments disclosure (continued)

Financial assets

	At fair value	At amortised cost	Total
Long-term Receivables	-	-	-
- Sundry deposits	-	240 668	240 668
Receivables from Exchange Transactions	-	-	-
- Sewerage	-	24 765 754	24 765 754
- Other trade receivables	-	1 821 087	1 821 087
- Water	-	61 089 682	61 089 682
- Water rates	-	7 924 214	7 924 214
Receivables from Non-Exchange Transactions	-	-	-
- Payments made in advance	-	9 740 266	9 740 266
- Sundry deposits	-	1 604 432	1 604 432
- Sundry debtors	-	15 770 685	15 770 685
Cash and Cash Equivalents	-	-	-
- Call deposits	50 184 752	-	50 184 752
- Notice deposits	-	165 018 579	165 018 579
- Bank balances	43 554 709	-	43 554 709
- Cash floats and advances	4 967	-	4 967
Current-portion of Long-term Receivables	-	-	-
- Sundry loans	-	11 594	11 594
	93 744 428	287 986 961	381 731 389

Financial liabilities

	At fair value	At amortised cost	Total
Compound instruments	-	-	-
- Annuity loans	-	145 553 238	145 553 238
Other financial liabilities	-	-	-
- Trade and other payables from exchange transactions	-	176 397 203	176 397 203
- Bank overdraft	2 306 145	-	2 306 145
	2 306 145	321 950 441	324 256 586

Fair value

Notes to the Consolidated Financial Statements

	Economic entity		Controlling entity	
Figures in Rand	2017	2016	2017	2016

41. Financial instruments disclosure (continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practical to estimate such value:

Cash and short-term investments

The carrying amount approximates the fair value because of the short maturity of these instruments.

Long-term investments

The fair value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted equity investments are estimated using the discounted cash flow method.

Loan receivables/payables

Interest-bearing borrowings and receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the fair value of these financial assets and liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Trade and other receivables/payables

The management of the municipality is of the opinion that the carrying value of trade and other receivables recorded at amortised cost in the annual financial statements approximate their fair values. The fair value of trade receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

Other financial assets and liabilities

The fair value of other financial assets and financial liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term liabilities

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the annual financial statements to approximate their fair values on 30 June 2015, as a result of the short-term maturity of these assets and liabilities.

No financial instruments of the municipality were reclassified during the year

Assumptions used in determining fair value of financial assets and financial liabilities

The table below analyses financial instruments carried at fair value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1: Fair values are based on quoted market prices (unadjusted) in active markets for an identical instrument

Level 2: Fair values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data

Notes to the Consolidated Financial Statements

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Figures in Rand	2017	2016	2017	2016

41. Financial instruments disclosure (continued)

Level 3: Fair values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument

Capital risk management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2011.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in note 14, bank, cash and cash equivalents and equity, comprising accumulated Surplus as disclosed and the statement of changes in net assets.

Gearing Ratio

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 100%, decreasing to 90%. This ratio is as a result of the developmental challenges faced by the municipality. Some of the borrowings are below market related rates.

The gearing ratio at the year-end was as follows:

Debt	136 657 781	155 407 428	136 657 781	155 407 428
Cash and cash equivalents	(189 051 278)	(276 260 879)	(180 353 244)	(256 456 861)
	(52 393 497)	(120 853 451)	(43 695 463)	(101 049 433)



Notes to the Consolidated Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
41. Financial instruments disclosure (continued)				
Equity	3 943 427 802	3 889 145 624	3 923 012 838	3 868 889 950
Net debt to equity ratio	1,33 %	3,11 %	1,11 %	2,61 %

Debt is defined as long-term and short-term liabilities, as detailed in Note 14.

Equity includes all funds and reserves of the municipality, disclosed as net assets in the statement of financial performance and net debt as described above.

Financial risk management objectives

The accounting officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the Grap Standards mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The directorate: Treasury monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. Further quantitative disclosures are included throughout these annual financial statements.

Significant risks

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

1. Credit risk
2. Liquidity risk; and
3. Market risk

Risks and exposures are disclosed as follows:

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Credit risk

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

Liquidity risk

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	2017	2016	2017	2016

41. Financial instruments disclosure (continued)

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

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 timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

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. Included below is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts. The following tables detail the municipality's remaining contractual maturity for its nonderivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Economic Entity:

2017	6 Month or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	144 078 104	-	-	-	-	144 078 104
Variable interest rate instruments	150 443	-	-	-	-	150 443
Fixed interest rate instruments	14 047 649	14 047 649	28 095 298	49 454 012	39 492 595	145 137 203
	158 276 196	14 047 649	28 095 298	49 454 012	39 492 595	289 365 750

2016	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	185 715 629	-	-	-	-	185 715 629
Variable interest rate	3 036 785	-	-	-	-	3 036 785
Fixed interest rate instruments	14 047 648	14 047 648	28 095 298	66 869 952	50 171 952	173 232 498
	202 800 062	14 047 648	28 095 298	66 869 952	50 171 952	361 984 912

Controlling entity

2017	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	144 078 104	-	-	-	-	144 078 104
Variable interest bearing	150 443	-	-	-	-	150 443
Fixed interest rate instruments	14 047 649	14 047 649	28 095 298	49 454 012	39 492 595	145 137 203
	158 276 196	14 047 649	28 095 298	49 454 012	39 492 595	289 365 750

2016	6 Moths or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	185 715 629	-	-	-	-	185 715 629
Variable interest bearing	3 036 785	-	-	-	-	3 036 785
	188 752 414	-	-	-	-	188 752 414

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			Economic entity		Controlling entity	
Figures in Rand			2017	2016	2017	2016
41. Financial instruments disclosure (continued)						
Fixed interest rate instruments	14 047 648	14 047 648	28 095 298	66 869 952	50 171 952	173 232 498
	202 800 062	14 047 648	28 095 298	66 869 952	50 171 952	361 984 912

The following table details the municipality's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

Economic Entity:

2017	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	140 338 572	-	-	-	-	140 338 572
Variable interest rate	15 855 231	-	-	-	-	15 855 231
Fixed interest rate instruments	732 438	-	-	-	-	732 438
	156 926 241	-	-	-	-	156 926 241
2016	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	154 045 729	-	-	-	-	154 045 729
Variable interest rate	15 855 231	-	-	-	-	15 855 231
Fixed interest rate instruments	732 438	-	-	-	-	732 438
	170 633 398	-	-	-	-	170 633 398

Controlling Entity:

2017	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	140 338 572	-	-	-	-	140 338 572
Variable interest rate	15 855 231	-	-	-	-	15 855 231
Fixed interest rate instruments	732 438	-	-	-	-	732 438
	156 926 241	-	-	-	-	156 926 241
2016	6 Moths or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Non-interest bearing	154 045 729	-	-	-	-	154 045 729
Variable interest rate	15 855 231	-	-	-	-	15 855 231
Fixed interest rate instruments	732 438	-	-	-	-	732 438
	170 633 398	-	-	-	-	170 633 398

The municipality has access to financing facilities, the total unused amount which is R9,268 million at the balance sheet date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio, within 20-25% limits increasing it to 25%. This will be achieved through the issue of new debt and the increased use of secured bank loan facilities.

Effective interest and repricing analysis

In accordance with Grap 104 (financial instruments) the following tables indicate the average effective interest rates of Income earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

Economic Entity:

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41. Financial instruments disclosure (continued)

2017	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Notice deposits	165 000 000	-	-	-	-	165 000 000
Call deposits	9 103 731	-	-	-	-	9 103 731
Bank balances and cash	14 231 831	-	-	-	-	14 231 831
	188 335 562	-	-	-	-	188 335 562

2016	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Notice deposits	185 734 892	-	-	-	-	185 734 892
Call deposits	36 344 664	-	-	-	-	36 344 664
Bank balances and cash	30 646 700	-	-	-	-	30 646 700
	252 726 256	-	-	-	-	252 726 256

Controlling Entity:

2017	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Notice deposits	165 000 000	-	-	-	-	165 000 000
Call deposits	7 881 921	-	-	-	-	7 881 921
Bank balances and cash	5 960 112	-	-	-	-	5 960 112
	178 842 033	-	-	-	-	178 842 033

2016	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years	Total
Notice deposits	185 734 892	-	-	-	-	185 734 892
Call deposits	36 344 664	-	-	-	-	36 344 664
Bank balances and cash	10 842 683	-	-	-	-	10 842 683
	232 922 239	-	-	-	-	232 922 239

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

Investments/bank, cash and cash equivalents