



Umkhanyakude District Municipality and its Municipal Entity
Consolidated Annual Financial Statements
for the year ended 30 June 2016

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	DC27 Umkhanyakude District Municipality Umhlosinga Development Agency - Municipal Entity and wholly owned subsidiary of Umkhanyakude District Municipality
Mayoral committee	
Executive Mayor	Cllr Vilane SJ (Mayor) Cllr Swartz CG (Deputy Mayor) Cllr Mavimbela HGS (Speaker) - Ex Officio Cllr Nxumalo SH (Exco Member) Cllr Moodley GP (Exco Member) Cllr Zungu MC (Exco Member)
Councillors	Cllr Gumbi DL Cllr Hlabisa VF Cllr Khumalo LV Cllr Khumalo SR Cllr Langa ME Cllr Mabuyakhulu PJ Cllr Mathenjwa SM Cllr Mathonsi ZW Cllr Mdaka SF Cllr Mkhombo TS Cllr Mkwanazi MQ Cllr Mngomezulu BZ Cllr Mthethwa B Cllr Mthethwa SP Cllr Msane MS Cllr Msweli MCF Cllr Ngema TN Cllr Ntsele MJ Cllr Nxumalo MW Cllr Sangweni MB Cllr Shobede MZ Cllr Zikhali AT Cllr Madlopha BP
Accounting Officer	Mokhatla TZ (Acting)
Chief Finance Officer (CFO)	Ngcobo M (Acting CFO)
Business address	Harlingen No. 13433 Kingfisher Road Mkuze 3965
Postal address	P.O Box 449 Mkuze 3965
Bankers	First National Bank - Primary and Call Accounts ABSA Ithala Bank
Auditors	Auditor-General South Africa

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The municipality is wholly dependent on the grant allocations through Division of Revenue Act (DORA) for continued funding of operations. The consolidated annual financial statements are prepared on the basis that the municipality is a going concern and that Umkhanyakude District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of operations.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the financial statements below are within the upper limits of the Framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The consolidated annual financial statements set out on pages 4 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2016 and were signed on its behalf by:

T.Z Mokhatla
Accounting Officer (Acting)

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Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2016	2015 Restated*	2016	2015 Restated*
Assets					
Current Assets					
Inventories	6	124 637 776	143 974 260	124 637 776	143 974 260
Receivables from non-exchange transactions	7	3 757 395	1 347 015	3 757 395	1 347 015
VAT receivable	8	47 080 711	16 437 162	46 541 889	16 160 353
Receivables from exchange transactions	9	66 648 220	88 267 157	59 299 734	79 948 741
Cash and cash equivalents	10	32 523 410	13 804 730	27 315 140	12 696 413
		274 647 512	263 830 324	261 551 934	254 126 782
Non-Current Assets					
Property, plant and equipment	3	1 663 910 843	1 515 094 922	1 663 293 551	1 514 636 957
Intangible assets	4	365 307	511 562	365 307	511 562
Heritage assets	5	586 000	586 000	586 000	586 000
		1 664 862 150	1 516 192 484	1 664 244 858	1 515 734 519
Total Assets		1 939 509 662	1 780 022 808	1 925 796 792	1 769 861 301
Liabilities					
Current Liabilities					
Other financial liabilities	12	5 356 952	5 119 463	5 356 952	5 119 463
Payables from exchange transactions	15	241 122 428	192 885 029	240 209 422	190 119 480
Consumer deposits	16	2 074 608	1 988 144	2 074 608	1 988 144
Unspent conditional grants and receipts	11	34 385 211	39 698 335	24 101 775	33 540 298
Defined benefit plan obligation	13	223 000	108 000	223 000	108 000
Current portion of non-current loans	14	839 102	1 499 973	839 102	1 499 973
		284 001 301	241 298 944	272 804 859	232 375 358
Non-Current Liabilities					
Defined benefit plan obligation	13	5 946 000	4 779 000	5 946 000	4 779 000
Non-current loans	14	7 225 468	7 400 108	7 225 468	7 400 108
		13 171 468	12 179 108	13 171 468	12 179 108
Total Liabilities		297 172 769	253 478 052	285 976 327	244 554 466
Net Assets		1 642 336 893	1 526 544 756	1 639 820 465	1 525 306 835
Accumulated surplus		1 642 336 893	1 526 544 756	1 639 820 465	1 525 306 835

* See Note 38

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Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2016	2015 Restated*	2016	2015 Restated*
Revenue					
Revenue from exchange transactions					
Service charges	18	23 260 011	32 562 143	23 260 011	32 562 143
Rental of facilities and equipment	19	66 939	75 322	66 939	75 322
Other income	21	34 530 556	13 917 240	34 355 684	13 839 085
Interest received	22	7 323 414	1 428 101	7 214 594	1 377 989
Total revenue from exchange transactions		65 180 920	47 982 806	64 897 228	47 854 539
Revenue from non-exchange transactions					
Transfer revenue					
Government grants & subsidies	23	522 463 700	395 174 646	499 263 522	391 167 607
Total revenue	17	587 644 620	443 157 452	564 160 750	439 022 146
Expenditure					
Employee related costs	24	(132 541 916)	(124 471 296)	(127 157 592)	(119 633 057)
Remuneration of councillors	25	(6 445 539)	(6 721 030)	(6 445 539)	(6 721 030)
Depreciation and amortisation	26	(36 515 366)	(28 269 912)	(36 347 769)	(28 097 711)
Finance costs	27	(2 352 023)	(6 362 222)	(2 225 598)	(6 226 907)
Debt Impairment	28	(6 920 591)	32 334 658	(6 920 591)	32 376 106
Repairs and maintenance		(35 092 226)	(44 263 460)	(35 088 863)	(44 215 414)
Bulk purchases	29	(89 343 431)	(82 977 794)	(89 343 431)	(82 977 794)
Contracted services	30	(41 137 857)	(40 124 056)	(23 533 493)	(32 051 789)
General Expenses	31	(115 723 262)	(106 217 069)	(116 848 009)	(111 440 080)
Total expenditure		(466 072 211)	(407 072 181)	(443 910 885)	(398 987 676)
Operating surplus		121 572 409	36 085 271	120 249 865	40 034 470
Loss on on disposal of assets		(350 791)	-	(350 791)	-
Surplus before taxation		121 221 618	36 085 271	119 899 074	40 034 470
Taxation	33	44 035	-	-	-
Surplus for the year		121 177 583	36 085 271	119 899 074	40 034 470

* See Note 38

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Economic entity		
Opening balance as previously reported	1 453 034 453	1 453 034 453
Adjustments		
Prior period errors	37 425 032	37 425 032
Balance at 01 July 2014 as restated*	1 490 459 485	1 490 459 485
Changes in net assets		
Surplus for the year	36 085 271	36 085 271
Total changes	36 085 271	36 085 271
Restated* Balance at 01 July 2015	1 526 544 756	1 526 544 756
Changes in net assets		
Prior period errors	(5 385 446)	(5 385 446)
Net income (losses) recognised directly in net assets	(5 385 446)	(5 385 446)
Surplus for the year	121 177 583	121 177 583
Total recognised income and expenses for the year	115 792 137	115 792 137
Total changes	115 792 137	115 792 137
Balance at 30 June 2016	1 642 336 893	1 642 336 893
Note(s)		
Controlling entity		
Opening balance as previously reported	1 446 952 935	1 446 952 935
Adjustments		
Prior period errors	38 319 430	38 319 430
Balance at 01 July 2014 as restated*	1 485 272 365	1 485 272 365
Changes in net assets		
Surplus for the year	40 034 470	40 034 470
Total changes	40 034 470	40 034 470
Restated* Balance at 01 July 2015	1 525 306 835	1 525 306 835
Changes in net assets		
Prior period errors	(5 385 444)	(5 385 444)
Net income (losses) recognised directly in net assets	(5 385 444)	(5 385 444)
Surplus for the year	119 899 074	119 899 074
Total recognised income and expenses for the year	114 513 630	114 513 630
Total changes	114 513 630	114 513 630
Balance at 30 June 2016	1 639 820 465	1 639 820 465
Note(s)		

* See Note 38

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Cash Flow Statement

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2016	2015 Restated*	2016	2015 Restated*
Cash flows from operating activities					
Receipts					
Grants		522 463 700	395 174 646	499 263 522	391 167 607
Interest income		7 323 414	1 428 101	7 214 594	1 377 989
Other receipts		34 597 496	13 917 240	34 355 684	13 914 407
		564 384 610	410 519 987	540 833 800	406 460 003
Payments					
Employee costs		(138 808 455)	(131 192 326)	(133 424 131)	(126 354 087)
Suppliers		(170 044 167)	(212 088 763)	(156 430 783)	(214 168 319)
Finance costs		(2 352 023)	(6 362 222)	(2 225 598)	(6 226 907)
		(311 204 645)	(349 643 311)	(292 080 512)	(346 749 313)
Net cash flows from operating activities	34	253 179 965	60 876 676	248 753 288	59 710 690
Cash flows from investing activities					
Purchase of property, plant and equipment	3	(234 189 804)	(51 865 419)	(233 862 880)	(51 807 750)
Loss on property, plant and equipment	3	350 791	-	350 791	-
Purchase of other intangible assets	4	(24 250)	(300 271)	(24 450)	(300 271)
Net cash flows from investing activities		(233 863 263)	(52 165 690)	(233 536 539)	(52 108 021)
Cash flows from financing activities					
Repayment of other financial liabilities		237 489	(4 562 640)	237 489	(4 562 640)
Movement in non-current loans		(835 511)	(837 667)	(835 511)	(837 667)
Movement in non-current portion of finance lease liabilities		-	(425 193)	-	(425 193)
Movement in current portion of finance lease liabilities		-	(458 832)	-	(458 832)
Net cash flows from financing activities		(598 022)	(6 284 332)	(598 022)	(6 284 332)
Net increase/(decrease) in cash and cash equivalents		18 718 680	2 426 654	14 618 727	1 318 337
Cash and cash equivalents at the beginning of the year		13 804 730	11 378 076	12 696 413	11 378 076
Cash and cash equivalents at the end of the year	10	32 523 410	13 804 730	27 315 140	12 696 413

* See Note 38

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Economic entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	48 063 207	(13 665 622)	34 397 585	23 260 011	(11 137 574)	Refer to Appendix 1
Rental of facilities and equipment	198 153	(110 143)	88 010	66 939	(21 071)	
Other income	28 379 000	10 512 369	38 891 369	34 530 556	(4 360 813)	
Interest received	5 797 527	1 414 857	7 212 384	7 323 414	111 030	
Total revenue from exchange transactions	82 437 887	(1 848 539)	80 589 348	65 180 920	(15 408 428)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	284 386 950	3 755 000	288 141 950	522 463 700	234 321 750	
Total revenue	366 824 837	1 906 461	368 731 298	587 644 620	218 913 322	
Expenditure						
Employee costs	(135 490 852)	10 161 000	(125 329 852)	(132 541 916)	(7 212 064)	
Remuneration of councillors	(11 409 000)	4 332 718	(7 076 282)	(6 445 539)	630 743	
Depreciation and amortisation	(24 607 000)	(3 597 382)	(28 204 382)	(36 515 366)	(8 310 984)	
Finance costs	(316 800)	(389 937)	(706 737)	(2 352 023)	(1 645 286)	
Bad debts written off	(38 511 000)	9 301 578	(29 209 422)	(6 920 591)	22 288 831	
Repairs and maintenance	(29 072 460)	(1 867 541)	(30 940 001)	(35 092 226)	(4 152 225)	
Bulk purchases	(63 237 737)	2 694 159	(60 543 578)	(89 343 431)	(28 799 853)	
Contracted Services	(18 309 224)	(1 500 000)	(19 809 224)	(41 137 857)	(21 328 633)	
General Expenses	(45 870 629)	(21 041 149)	(66 911 778)	(115 723 262)	(48 811 484)	
Total expenditure	(366 824 702)	(1 906 554)	(368 731 256)	(466 072 211)	(97 340 955)	
Operating surplus	135	(93)	42	121 572 409	121 572 367	
Loss on disposal of assets	-	-	-	(350 791)	(350 791)	
Surplus before taxation	135	(93)	42	121 221 618	121 221 576	
Taxation	-	-	-	44 035	44 035	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	135	(93)	42	121 177 583	121 177 541	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Controlling entity						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	48 063 207	(13 665 622)	34 397 585	23 260 011	(11 137 574)	
Rental of facilities and equipment	198 153	(110 143)	88 010	66 939	(21 071)	
Other income	829 704	8 600 097	9 429 801	34 355 684	24 925 883	
Interest received	5 797 527	1 414 857	7 212 384	7 214 594	2 210	
Total revenue from exchange transactions	54 888 591	(3 760 811)	51 127 780	64 897 228	13 769 448	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	284 386 950	3 755 000	288 141 950	499 263 522	211 121 572	
Total revenue	339 275 541	(5 811)	339 269 730	564 160 750	224 891 020	
Expenditure						
Employee costs	(135 490 852)	10 161 000	(125 329 852)	(127 157 592)	(1 827 740)	
Remuneration of councillors	(11 409 000)	4 332 718	(7 076 282)	(6 445 539)	630 743	
Depreciation and amortisation	(24 607 000)	(3 597 382)	(28 204 382)	(36 347 769)	(8 143 387)	
Finance costs	(316 800)	(389 937)	(706 737)	(2 225 598)	(1 518 861)	
Bad debts written off	(38 511 000)	9 301 578	(29 209 422)	(6 920 591)	22 288 831	
Repairs and maintenance	(29 072 460)	(1 867 541)	(30 940 001)	(35 088 863)	(4 148 862)	
Bulk purchases	(63 237 737)	2 694 159	(60 543 578)	(89 343 431)	(28 799 853)	
Contracted Services	(18 309 224)	(1 500 000)	(19 809 224)	(23 533 493)	(3 724 269)	
General Expenses	(19 409 061)	(21 041 149)	(40 450 210)	(116 848 009)	(76 397 799)	
Total expenditure	(340 363 134)	(1 906 554)	(342 269 688)	(443 910 885)	(101 641 197)	
Operating surplus	(1 087 593)	(1 912 365)	(2 999 958)	120 249 865	123 249 823	
Loss on disposal of assets	-	-	-	(350 791)	(350 791)	
Surplus before taxation	(1 087 593)	(1 912 365)	(2 999 958)	119 899 074	122 899 032	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(1 087 593)	(1 912 365)	(2 999 958)	119 899 074	122 899 032	

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Accounting Policies

1. Presentation of Consolidated Annual Financial Statements

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

These consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

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 consolidated annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

These consolidated annual financial statements have been prepared based on a going concern basis.

1.3 Consolidation

Basis of consolidation

The consolidated annual financial statements comprise the annual financial statements of Umkhanyakude District Municipality and Umhlosinga Development Agency, which is controlled by the Municipality.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities, are included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases.

The consolidated annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated consolidated annual financial statements are prepared as of the same reporting date.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

1.4 Significant judgements and sources of estimation uncertainty

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

Valuation of inventory
Useful lives and residual values of property, plant, and equipment
Impairment of assets
Provision for doubtful debts
Provision for long service awards
Water and electricity losses

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Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Provisions

A provision is recognised when:
the municipality has a present obligation (legal or constructive) as a result of a past event;
it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
a reliable estimate can be made of the amount of the obligation.

Provisions were raised and management determined an estimate based on the information available.

Provisions for annual leave and 13th cheque payments were recognised in the annual financial statements for the current and comparative period.

Taxation

The Municipality's entity, Umhlosinga Development Agency, is a registered tax payer for income tax purposes.

Amounts included in taxable income have been provided for and recognised in the annual financial statements as normal tax payable.

Future tax benefits related to deferred income tax assets are recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services to meet service delivery objectives, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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, and depreciated separately.

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

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

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

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Accounting Policies

1.5 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Depreciation is calculated as soon as an asset is available for use.

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight line	
• Residential dwellings		10-25 years
• Non residential dwellings		15-25 years
Infrastructure	Straight line	
• Electricity		5-60 years
• Water		5-100 years
• Sewerage		10-40 years
• Airports		15-30 years
• Stormwater		30-80 years
Other property, plant and equipment	Straight line	
• Furniture and office equipment		5-10 years
• Computer equipment		3-5 years
• Transport assets		5-7 years
• Other machinery and equipment		5-15 years
Assets under construction	Straight line	Not applicable

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.

Property, plant and equipment are considered to have a nil residual value.

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

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

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

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.

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Accounting Policies

1.6 Intangible assets

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost and comprised of computer software. Computer software is capitalised to computer equipment where it forms part of an integral part of computer equipment.

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software	3 years

Intangible assets are derecognised:

- 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 an intangible assets is included in surplus or deficit when the asset is derecognised.

1.7 Heritage assets

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

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

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1.7 Heritage assets (continued)

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

Recognition

The economic entity 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 economic entity, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at deemed cost.

As the acquisition cost of the Mayoral chain was not available on the adoption of the Standards of GRAP when heritage assets were recognised, the acquisition cost was measured using a deemed cost. Deemed cost was determined as the fair value of the asset at the measurement date.

The Municipality determined a deemed cost in accordance with Directive 7 for heritage assets as the information relating to the acquisition cost of the asset was not available.

Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

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

Derecognition

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

1.8 Financial instruments

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

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at fair value
Financial liabilities (loans payable)	Financial liability measured at amortised cost
Finance leases liabilities	Financial liability measured at amortised cost

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Accounting Policies

1.8 Financial instruments (continued)

Initial recognition

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

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value.

Subsequent measurement of financial assets and financial liabilities

The entity 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, or cost, are subject to an impairment review.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or 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 entity 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.

Financial assets measured at amortised cost:

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 directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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 directly OR 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.

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Accounting Policies

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;

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 entity 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.

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 is 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 entity 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.

1.9 Leases

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

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

Finance leases - lessee

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

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

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

The economic entity incorrectly recognised assets leased under an operating lease, as a finance lease in prior years. The lease classification criteria in accordance with GRAP13 was revisited and retrospectively corrected.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a cash basis.

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

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Accounting Policies

1.9 Leases (continued)

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

As the Municipality's mandate is to undertake service delivery, all assets are classified and treated as non-cash generating assets.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

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

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

A cash-generating unit is the smallest identifiable group of assets 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.

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

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

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

Useful life is either:

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Accounting Policies

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

- (a) the period of time over which an asset is expected to be used by the economic entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the economic entity.

Identification

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

The economic entity 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 economic entity estimates the recoverable service amount 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 surplus or deficit.

Reversal of an impairment loss

The economic entity 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 economic entity 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.

1.13 Employee benefits

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

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

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1.13 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include:

- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service.

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

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

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

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

Long service awards

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

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation.

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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1.14 Provisions and contingencies (continued)

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

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

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

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

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax (i.e. VAT) and volume rebates.

Interest revenue

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.17 Revenue from non-exchange transactions

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

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

Recognition

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

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1.17 Revenue from non-exchange transactions (continued)

Measurement

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

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability.

1.18 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

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

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

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

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

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

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1.22 Budget information

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

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

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

The approved budget covers the fiscal period from 2015/07/01 to 2016/06/30.

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

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

1.23 Events after reporting date

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

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The economic entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The economic entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.24 VAT

The Municipality and Municipal Entity are both registered VAT vendors and account for VAT on a cash basis.

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	01 April 2017
• GRAP 20: Related parties	01 April 2017
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016
• GRAP 108: Statutory Receivables	01 April 2016
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016
• GRAP 16 (as amended 2015): Investment Property	01 April 2016
• GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016
• GRAP 109: Accounting by Principals and Agents	01 April 2017
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 April 2017
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

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3. Property, plant and equipment

Economic entity

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	35 875 018	(11 535 895)	24 339 123	35 875 018	(10 210 183)	25 664 835
Infrastructure	942 381 582	(139 649 934)	802 731 648	772 728 298	(109 795 790)	662 932 508
Other property, plant and equipment	45 368 026	(22 936 905)	22 431 121	45 421 975	(19 131 308)	26 290 667
Assets under construction	813 251 701	-	813 251 701	799 049 662	-	799 049 662
Total	1 838 033 577	(174 122 734)	1 663 910 843	1 654 232 203	(139 137 281)	1 515 094 922

Controlling entity

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	35 875 018	(11 535 895)	24 339 123	35 875 018	(10 210 183)	25 664 835
Infrastructure	942 381 582	(139 649 934)	802 731 648	772 728 298	(109 795 790)	662 932 508
Other property, plant and equipment	45 076 524	(22 936 905)	22 139 619	44 964 010	(19 131 308)	25 832 702
Assets under construction	812 925 911	-	812 925 911	799 049 662	-	799 049 662
Total	1 837 416 285	(174 122 734)	1 663 293 551	1 653 774 238	(139 137 281)	1 514 636 957

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Economic entity - 2016

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	25 664 835	-	-	-	-	(1 325 712)	24 339 123
Infrastructure	662 932 508	-	-	169 653 284	-	(29 854 144)	802 731 648
Other property, plant and equipment	26 290 667	1 656 250	(350 791)	-	-	(5 165 005)	22 431 121
Assets under construction	799 049 662	232 533 554	-	(169 653 284)	(48 678 231)	-	813 251 701
	1 515 094 922	234 189 804	(350 791)	-	(48 678 231)	(36 344 861)	1 663 910 843

Reconciliation of property, plant and equipment - Economic entity - 2015

	Opening balance	Additions	Additions through entity combinations	Transfers	Depreciation	Impairment loss	Total
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	26 981 903	-	-	-	(1 318 752)	1 684	25 664 835
Infrastructure	684 929 309	-	3 104	-	(21 389 430)	(610 475)	662 932 508
Other property, plant and equipment	22 892 201	7 293 132	696 547	245 659	(4 693 271)	(143 601)	26 290 667
Assets under construction	755 422 685	43 872 636	-	(245 659)	-	-	799 049 662
	1 491 383 348	51 165 768	699 651	-	(27 401 453)	(752 392)	1 515 094 922

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Controlling entity - 2016

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	25 664 835	-	-	-	-	(1 325 712)	24 339 123
Infrastructure	662 932 508	-	-	169 653 284	-	(29 854 144)	802 731 648
Other property, plant and equipment	25 832 702	1 655 116	(350 791)	-	-	(4 997 408)	22 139 619
Other equipment	799 049 662	232 207 764	-	(169 653 284)	(48 678 231)	-	812 925 911
	1 514 636 957	233 862 880	(350 791)	-	(48 678 231)	(36 177 264)	1 663 293 551

Reconciliation of property, plant and equipment - Controlling entity - 2015

	Opening balance	Additions	Additions through entity combinations	Transfers	Depreciation	Impairment loss	Total
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	26 981 903	-	-	-	(1 318 752)	1 684	25 664 835
Infrastructure	684 929 309	-	3 104	-	(21 389 430)	(610 475)	662 932 508
Other property, plant and equipment	22 319 705	7 235 463	696 547	245 659	(4 521 071)	(143 601)	25 832 702
Assets under construction	755 422 685	43 872 636	-	(245 659)	-	-	799 049 662
	1 490 810 852	51 108 099	699 651	-	(27 229 253)	(752 392)	1 514 636 957

Pledged as security

There were no assets pledged as security during the year.

Loss on disposal of property, plant and equipment – included in operating surplus.

Other property, plant and equipment	(350 791)	-	(350 791)	-
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Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

3. Property, plant and equipment (continued)

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

4. Intangible assets

Economic entity	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	759 478	(394 171)	365 307	735 228	(223 666)	511 562

Controlling entity	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	759 478	(394 171)	365 307	735 228	(223 666)	511 562

Reconciliation of intangible assets - Economic entity - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	511 562	24 250	(170 505)	365 307

Reconciliation of intangible assets - Economic entity - 2015

	Opening balance	Additions	Impairment loss	Total
Computer software	327 357	300 271	(116 066)	511 562

Reconciliation of intangible assets - Controlling entity - 2016

	Opening balance	Additions	Impairment loss	Total
Computer software	511 562	24 450	(170 705)	365 307

Reconciliation of intangible assets - Controlling entity - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	327 357	300 271	(116 066)	511 562

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

5. Heritage assets

Economic entity	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

Controlling entity	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

Reconciliation of heritage assets Economic entity - 2016

	Opening balance	Total
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Economic entity - 2015

	Opening balance	Total
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Controlling entity - 2016

	Opening balance	Total
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets Controlling entity - 2015

	Opening balance	Total
Mayoral regalia	586 000	586 000

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

5. Heritage assets (continued)

Recognition of heritage assets

The Municipality did not account for the Mayoral chain in the accounting records in prior years. Heritage assets were retrospectively recognised and included in the assets register during the current financial period.

Deemed cost

As the acquisition cost of the Mayoral chain was not available on the adoption of the Standards of GRAP when heritage assets were recognised, the acquisition cost was measured using a deemed cost. Deemed cost was determined as the fair value of the at the measurement date.

The Municipality determined a deemed cost in accordance with Directive 7 for heritage assets as the information relating to the acquisition cost of the asset was not available.

Measurement

The deemed cost of the Mayoral chain was determined using fair value. The fair value was determined by a Corlia Luyt, an independent jewellery designer and manufacturer, on 23 August 2016.

6. Inventories

Materials	113 384 698	143 726 179	113 384 698	143 726 179
Water	1 238 246	248 081	1 238 246	248 081
Water meters	10 014 832	-	10 014 832	-
	124 637 776	143 974 260	124 637 776	143 974 260

7. Receivables from non-exchange transactions

Housing loans	-	4 022 951	-	4 022 951
Debtor fraud	-	69 939	-	69 939
Avis loan - Mthombeni LM	-	242 792	-	242 792
Loan to Umhlabuyalingana	-	108 762	-	108 762
Other Debtors	11 497 680	12 378 983	11 497 680	12 378 983
Prepayments	-	3 805 917	-	3 805 917
Debtor Shemula	-	2 730	-	2 730
Provision for doubtful debts	(7 740 285)	(19 285 059)	(7 740 285)	(19 285 059)
	3 757 395	1 347 015	3 757 395	1 347 015

8. VAT receivable

VAT	47 080 711	16 437 162	46 541 889	16 160 353
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The VAT receivable balance is comprised of:

Input VAT claimed through VAT 201 returns	41 864 550	19 588 359	41 325 728	19 311 550
Undeclared VAT output	(9 075 646)	(12 404 708)	(9 075 646)	(12 404 708)
Unclaimed VAT input	23 408 932	16 945 838	23 408 932	16 945 838
Provision for VAT impairment	(9 117 125)	(7 692 327)	(9 117 125)	(7 692 327)
	47 080 711	16 437 162	46 541 889	16 160 353

The provision for impairment on VAT is in respect of VAT input claims that were disallowed by SARS. Attempts are currently being made to recover these amounts.

Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
9. Receivables from exchange transactions				
Gross balances				
Rates	24 297 058	24 504 897	24 297 058	24 504 897
Water	117 401 770	109 280 703	117 401 770	109 280 703
Sewerage	39 932 363	42 738 236	39 932 363	42 738 236
WSSA debtors	3 027 842	22 412 007	3 027 842	22 412 007
Department of Education	7 348 486	8 318 417	-	-
	192 007 519	207 254 260	184 659 033	198 935 843
Less: Allowance for impairment				
Allowance for impairment	(125 359 299)	(118 987 103)	(125 359 299)	(118 987 103)
Net balance				
Service charges	66 648 220	88 267 157	59 299 734	79 948 741
Electricity				
Current (0 -30 days)	189 520	127 183	189 520	127 183
31 - 60 days	383 385	128 710	383 385	128 710
61 - 90 days	278 744	85 737	278 744	85 737
91 - 120 days	204 970	906 313	204 970	906 313
121 - 365 days	23 240 439	23 256 954	23 240 439	23 256 954
	24 297 058	24 504 897	24 297 058	24 504 897
Water				
Current (0 -30 days)	1 486 534	1 559 958	1 486 534	1 559 958
31 - 60 days	389 589	1 604 226	389 589	1 604 226
61 - 90 days	1 798 722	1 375 487	1 798 722	1 375 487
91 - 120 days	747 464	1 366 463	747 464	1 366 463
121 - 365 days	112 979 461	103 374 569	112 979 461	103 374 569
	117 401 770	109 280 703	117 401 770	109 280 703
Sewerage				
Current (0 -30 days)	24 466	84 007	24 466	84 007
31 - 60 days	11 418	50 195	11 418	50 195
61 - 90 days	29 416	121 753	29 416	121 753
91 - 120 days	30 887	70 262	30 887	70 262
121 - 365 days	39 836 176	42 412 019	39 836 176	42 412 019
	39 932 363	42 738 236	39 932 363	42 738 236
Department of Education				
Current (0 -30 days)	2 443 874	-	-	-
31 - 60 days	2 640 461	1 542 369	-	-
61 - 90 days	2 444 151	1 494 485	-	-
91 - 120 days	-	910 279	-	-
121 - 365 days	-	4 371 284	-	-
	7 528 486	8 318 417	-	-

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
9. Receivables from exchange transactions (continued)				
Summary of debtors by customer classification				
Consumers				
Current (0 -30 days)	346 346	536 450	346 346	536 450
31 - 60 days	89 278	501 428	89 278	501 428
61 - 90 days	1 327 536	907 386	1 327 536	907 386
91 - 120 days	457 911	940 001	457 911	940 001
121 - 365 days	135 005 778	129 776 481	135 005 778	129 776 481
	137 226 849	132 661 746	137 226 849	132 661 746
Less: Allowance for impairment	(109 322 350)	(104 943 327)	(109 322 350)	(104 943 327)
	27 904 499	27 718 419	27 904 499	27 718 419
Commercial				
Current (0 -30 days)	417 212	308 483	417 212	308 483
31 - 60 days	106 544	462 954	106 544	462 954
61 - 90 days	275 638	388 413	275 638	388 413
91 - 120 days	178 494	885 113	178 494	885 113
121 - 365 days	26 149 261	23 306 226	26 149 261	23 306 226
WSSA debtors	3 027 842	22 412 007	3 027 842	22 412 007
	30 154 991	47 763 196	30 154 991	47 763 196
Less: Allowance for impairment	(16 036 782)	(14 043 776)	(16 036 782)	(14 043 776)
	14 118 209	33 719 420	14 118 209	33 719 420
National and provincial government				
Current (0 -30 days)	3 380 835	926 216	936 961	926 216
31 - 60 days	3 049 031	2 361 118	588 570	818 749
61 - 90 days	2 947 858	1 781 664	503 707	287 179
91 - 120 days	346 916	1 428 203	346 916	517 924
121 - 365 days	11 257 252	17 010 812	11 257 252	12 639 527
	20 981 892	23 508 013	13 633 406	15 189 595
Total				
Current (0 -30 days)	4 144 394	1 771 149	1 700 520	1 771 149
31 - 60 days	3 244 852	3 325 500	784 391	1 783 131
61 - 90 days	4 551 033	3 077 463	2 106 882	1 582 978
91 - 120 days	983 321	3 253 317	983 321	2 343 038
121 - 365 days	172 401 406	170 082 730	172 401 406	165 711 446
WSSA debtors	3 027 842	22 412 007	3 027 842	22 412 007
	188 352 848	203 922 166	181 004 362	195 603 749
Add: Credit balance debtors	3 654 671	3 332 094	3 654 671	3 332 094
	192 007 519	207 254 260	184 659 033	198 935 843
Less: Allowance for impairment				
Current (0 -30 days)	(6 534)	(6 637)	(6 534)	(6 637)
31 - 60 days	(14 384)	(6 127)	(14 384)	(6 127)
61 - 90 days	(139 094)	(291 371)	(139 094)	(291 371)
91 - 120 days	(275 726)	(216 473)	(275 726)	(216 473)
121 - 365 days	(124 923 561)	(118 466 495)	(124 923 561)	(118 466 495)
	(125 359 299)	(118 987 103)	(125 359 299)	(118 987 103)
Total debtor past due but not impaired				
Current (0 -30 days)	4 137 860	1 764 512	1 693 986	1 764 512

Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
9. Receivables from exchange transactions (continued)				
31 - 60 days	3 230 468	3 319 373	770 007	1 777 004
61 - 90 days	4 411 939	2 786 092	1 967 788	1 291 607
91 - 120 days	707 595	3 036 844	707 595	2 126 565
121 - 365 days (including credit balance debtors)	51 132 516	54 948 329	51 132 516	50 577 046
WWSA debtors	3 027 842	22 412 007	3 027 842	22 412 007
	66 648 220	88 267 157	59 299 734	79 948 741
Reconciliation of allowance for impairment				
Balance at beginning of the year	118 987 103	151 363 209	118 987 103	151 363 209
Contributions to allowance	6 372 029	(32 376 106)	6 372 029	(32 376 106)
	125 359 132	118 987 103	125 359 132	118 987 103
10. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Cash on hand	49 242	39 822	48 281	38 821
Bank balances	13 550 585	12 244 268	13 350 057	12 157 560
Short term deposits	18 923 583	1 520 640	13 916 802	500 032
	32 523 410	13 804 730	27 315 140	12 696 413

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
11. Unspent conditional grants and receipts				
Unspent conditional grants and receipts comprises of:				
Unspent conditional grants and receipts				
PIMMS/ NDT Operational Grant	300	300	300	300
Ndumo Market Stalls Grant	2 992 855	-	(6)	-
Kwadapha	578 891	578 891	578 891	578 891
Ndumo Learners Shelter Grant	9 441 505	9 441 505	9 441 505	9 441 505
Municipal Infrastructure Grant	-	12 274 058	-	12 274 058
Water Services Operating Subsidy	1 945 954	-	1 945 954	-
MTN Grant	515 703	-	-	-
EDTEA Grant	5 015 037	-	-	-
Ingwavuma Prison Electrical Upgrade	101 506	101 506	101 506	101 506
Mkuze Re-Generation Plan Grant	446 289	-	-	-
Shared Services Grant	54 541	250 000	54 541	250 000
Mkuze Market Stalls Grant	400 500	-	-	-
Rural Households Infrastructure Grant	8 498	7 997	8 498	7 997
Kwazibi National Lottery Grant	122 667	122 667	122 667	122 667
Mqobela National Lottery Grant	166 666	166 666	166 666	166 666
Mabibi National Lottery Grant	166 667	166 667	166 667	166 667
Public Participation Customer Satisfaction Survey	154 000	154 000	154 000	154 000
Rural Road & Transport Management Grant	2 446 932	1 114 932	2 446 932	1 114 932
Ndumo Groundnuts	353 847	749 347	353 847	749 347
Industrial Development Corporation Grant	700 873	-	-	-
National Treasury ILO Grant	212 173	-	-	-
Disaster Management Grant	9 120	9 120	9 120	9 120
Expanded Public Works Programme	2 331 774	2 082 000	2 331 774	2 082 000
Lake Tete	267 001	267 001	267 001	267 001
Nyezi Community HIV Centre	303 570	303 570	303 570	303 570
Umkhombe Tours	908 690	908 690	908 690	908 690
Waste Management Grant	145 565	145 565	145 565	145 565
Environmental Management Grant	405 600	405 600	405 600	405 600
Massification Grant	4 172 492	4 172 492	4 172 492	4 172 492
ACIP Grant	4 695	4 695	4 695	4 695
Mbazwana Thusong Centre	-	101 729	-	101 729
Other Grants	11 300	6 169 337	11 300	11 300
	34 385 211	39 698 335	24 101 775	33 540 298

12. Other financial liabilities

At amortised cost

Short term payables	5 356 952	5 119 463	5 356 952	5 119 463
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Current liabilities

At amortised cost	5 356 952	5 119 463	5 356 952	5 119 463
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Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

13. Defined benefit plan obligation

Reconciliation of defined benefit plan obligation - Economic entity - 2016

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial loss	Total
Long service awards	4 887 000	713 000	471 000	(81 000)	179 000	6 169 000

Reconciliation of defined benefit plan obligation - Economic entity - 2015

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial loss	Total
Long service awards	4 189 000	662 000	350 000	(320 000)	6 000	4 887 000

Reconciliation of defined benefit plan obligation - Controlling entity - 2016

	Opening Balance	Service cost	Utilised during the year	Reversed during the year	Change in discount factor	Total
Long service awards	4 887 000	713 000	471 000	(81 000)	179 000	6 169 000

Reconciliation of defined benefit plan obligation - Controlling entity - 2015

	Opening Balance	Additions	Interest cost	Benefits paid	Actuarial loss	Total
Long service awards	4 189 000	662 000	350 000	(320 000)	6 000	4 887 000
Non-current liabilities			5 946 000	4 779 000	5 946 000	4 779 000
Current liabilities			223 000	108 000	223 000	108 000
			6 169 000	4 887 000	6 169 000	4 887 000

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

13. Defined benefit plan obligation (continued)

Long Service Awards

Membership Data

As at 30 June 2016, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of active employees (Years)	Salary weighted average age (Years)	Weighted average past service
Male	204	42.95	6.73
Female	98	40.26	7.80
Total	302		

Long service awards liabilities

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

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The nominal and real zero curves as at 30 June 2016 supplied by the JSE were used to determine the discounted rates and CPI assumptions. As reflected below, the average age for mortality, retirements and withdrawals from service were also considered.

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

The table below reflects a summary of the benefit policy:

Completed years of service	Total long service award (% of annual salary)	Formula used to calculate Total long service benefit award
10	4%	(10/250)*Annual salary
15	8%	(10/250)*Annual salary
20,25,30,35,40 and 45	12%	(10/250)*Annual salary

Valuation assumptions - Key financial variables

	Assumed value	Assumed value
Discount rate per annum	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve**	Difference between nominal and real yield curve**
Normal salary increase	CPI + 1%	6%
Net Effective Discount Rate	Yield Curve based	Yield Curve based
Average retirement age for all active employees	63	63
Mortality before retirement	SA 85-90	SA 85-90

Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 -59	1%	1%

Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

13. Defined benefit plan obligation (continued)

Age 60+ 0% 0%

Valuation of assets

As at the valuation date, the long service leave liability award of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

Amounts recognised in the Statement of Financial Position

Accrued defined benefit obligation	6 169 000	4 887 000	6 169 000	4 887 000
Valuation of plan assets	-	-	-	-
	6 169 000	4 887 000	6 169 000	4 887 000

Long service leave awards - Valuation

Accrued liability as at preceding valuation date	4 887 000	4 189 000	4 887 000	4 189 000
Current service cost	713 000	662 000	713 000	662 000
Interest cost	471 000	350 000	471 000	350 000
Benefits paid	(81 000)	(320 000)	(81 000)	(320 000)
Actuarial loss	179 000	6 000	179 000	6 000
	6 169 000	4 887 000	6 169 000	4 887 000

Net amounts recognised in Statement of Financial Performance

Current service cost	713 000	662 000	713 000	662 000
Interest cost	471 000	350 000	471 000	350 000
Benefits paid	(81 000)	(320 000)	(81 000)	(320 000)
Actuarial loss	179 000	6 000	179 000	6 000
	1 282 000	698 000	1 282 000	698 000

14. Non-current loans

Development Bank of Southern Africa

Non-current portion of borrowings	7 225 468	7 400 108	7 225 468	7 400 108
Current portion of borrowings	839 102	1 499 973	839 102	1 499 973
	8 064 570	8 900 081	8 064 570	8 900 081

The Municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates for each loan are as follows:

Loan 61000800, fixed interest rate at 6.75%

Loan 61000191, semi-floating interest rate. Interest reference is 6 Month Jibar (current base interest plus the margin).

Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.

15. Payables from exchange transactions

Trade payables	202 179 859	155 611 349	201 449 918	152 981 600
Debtor pre-payments	3 654 672	3 332 095	3 654 672	3 332 095
Operating lease payables	95 982	120 116	95 982	120 116
Provision for 13th cheque payments	3 131 127	2 932 104	3 131 127	2 932 104
Provision for leave pay	10 562 086	10 655 241	10 379 021	10 519 441
Retentions	21 498 702	20 234 124	21 498 702	20 234 124
	241 122 428	192 885 029	240 209 422	190 119 480

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
16. Consumer deposits				
Consumer deposits - Water	2 074 608	1 988 144	2 074 608	1 988 144
17. Revenue				
Service charges	23 260 011	32 562 143	23 260 011	32 562 143
Rental of facilities and equipment	66 939	75 322	66 939	75 322
Other income	34 530 556	13 917 240	34 355 684	13 839 085
Interest received	7 323 414	1 428 101	7 214 594	1 377 989
Government grants & subsidies	522 463 700	395 174 646	499 263 522	391 167 607
	587 644 620	443 157 452	564 160 750	439 022 146
The amount included in revenue arising from exchanges of goods or services are as follows:				
Service charges	23 260 011	32 562 143	23 260 011	32 562 143
Rental of facilities and equipment	66 939	75 322	66 939	75 322
Other income	34 530 556	13 917 240	34 355 684	13 839 085
Interest received	7 323 414	1 428 101	7 214 594	1 377 989
	65 180 920	47 982 806	64 897 228	47 854 539
The amount included in revenue arising from non-exchange transactions is as follows:				
Transfer revenue				
Government grants & subsidies	522 463 700	395 174 646	499 263 522	391 167 607
18. Service charges				
Sale of electricity	4 883 908	5 255 863	4 883 908	5 255 863
Sale of water	17 946 130	26 458 450	17 946 130	26 458 450
Sewerage and sanitation charges	429 973	847 830	429 973	847 830
	23 260 011	32 562 143	23 260 011	32 562 143
19. Rental of facilities and equipment				
Facilities and equipment				
Rental of facilities	66 939	75 322	66 939	75 322
20. Other revenue				
Other income	34 530 556	13 917 240	34 355 684	13 839 085
21. Other income				
Connection fees	9 763	30 260	9 763	30 260
Department of Water Affairs refund	34 216 370	13 007 834	34 216 370	13 007 834
Other income	90 387	12 538	65 954	12 538
Airport fees	118 948	43 769	-	-
Tender fees	95 088	123 187	63 597	88 801
Asset fair value adjustment	-	699 652	-	699 652
	34 530 556	13 917 240	34 355 684	13 839 085

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
22. Investment revenue				
Interest revenue				
Bank balances and short term deposits	7 323 414	1 428 101	7 214 594	1 377 989

Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

23. Government grants and subsidies

Operating grants

Equitable share	265 376 000	226 251 945	265 376 000	226 251 945
Rural Road & Transport Management	-	1 325 360	-	1 325 360
Expanded Public Works Programme	1 058 226	1 208 094	1 058 226	1 208 094
Public Participation & Customer Survey	-	596 000	-	596 000
Rural Households Infrastructure Grant	3 999 498	3 996 002	3 999 498	3 996 002
ACIP Grant	-	721 113	-	721 113
Disaster Management Grant	-	990 880	-	990 880
Mbazwana Thusong Centre Grant	101 729	148 271	101 729	148 271
Finance Management Grant	1 250 000	1 250 000	1 250 000	1 250 000
Municipal Systems Improvement Grant	940 000	934 000	940 000	934 000
Ndumo Groundnuts	395 500	-	395 500	-
Shared Services Grant	195 459	-	195 459	-
Water Services Operating Subsidy	3 254 046	-	3 254 046	-
Umkhanyakude Grant	-	(4 311 379)	-	-
National School Nutrition Program	21 864 577	8 318 418	-	-
Other operating grants	1 335 601	-	-	-
	299 770 636	241 428 704	276 570 458	237 421 665

Capital grants

Municipal Infrastructure Grant	222 693 064	153 745 942	222 693 064	153 745 942
	522 463 700	395 174 646	499 263 522	391 167 607

PIMMS/ NDT Operational Grant

Balance unspent at beginning of year	300	300	300	300
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Conditions still to be met - remain liabilities (see note 11).

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

Ndumo Market Stalls Grant

Current-year receipts	3 000 000	-	-	-
Conditions met - transferred to revenue	(7 145)	-	-	-
	2 992 855	-	-	-

Conditions still to be met - remain liabilities (see note 11).

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

Kwadapha

Balance unspent at beginning of year	578 891	578 891	578 891	578 891
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Conditions still to be met - remain liabilities (see note 11).

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

Ndumo Learners Shelter Grant

Balance unspent at beginning of year	9 441 505	9 441 505	9 441 505	9 441 505
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Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 11).

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	12 274 058	-	12 274 058	-
Current-year receipts	210 419 000	166 020 000	210 419 000	166 020 000
Conditions met - transferred to revenue	(222 693 058)	(153 745 942)	(222 693 058)	(153 745 942)
	-	12 274 058	-	12 274 058

Conditions still to be met - remain liabilities (see note 11).

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

Water Services Operating Subsidy

Current-year receipts	5 200 000	-	5 200 000	-
Conditions met - transferred to revenue	(3 254 046)	-	(3 254 046)	-
	1 945 954	-	1 945 954	-

Conditions still to be met - remain liabilities (see note 11).

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

MTN Grant

Balance unspent at beginning of year	515 703	747 621	-	-
Conditions met - transferred to revenue	-	(231 918)	-	-
	515 703	515 703	-	-

Conditions still to be met - remain liabilities (see note 11).

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

EDTEA Grant

Current-year receipts	5 461 000	-	-	-
Conditions met - transferred to revenue	(445 963)	-	-	-
	5 015 037	-	-	-

Conditions still to be met - remain liabilities (see note 11).

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

Ingwavuma Prison Electrical Upgrade

Balance unspent at beginning of year	101 506	101 506	101 506	101 506
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Conditions still to be met - remain liabilities (see note 11).

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

Mkuze Re-generation Plan Grant

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

23. Government grants and subsidies (continued)

Current-year receipts	1 029 288	-	-	-
Conditions met - transferred to revenue	(582 999)	-	-	-
	446 289	-	-	-

Conditions still to be met - remain liabilities (see note 11).

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

Shared Services Grant

Balance unspent at beginning of year	250 000	250 000	250 000	250 000
Conditions met - transferred to revenue	(195 459)	-	(195 459)	-
	54 541	250 000	54 541	250 000

Conditions still to be met - remain liabilities (see note 11).

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

Mkuze Market Stalls Grant

Current-year receipts	700 000	-	-	-
Conditions met - transferred to revenue	(299 500)	-	-	-
	400 500	-	-	-

Conditions still to be met - remain liabilities (see note 11).

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

Rural Households Infrastructure Grant

Balance unspent at beginning of year	7 997	4 499	7 997	4 499
Current-year receipts	4 000 000	4 000 000	4 000 000	4 000 000
Conditions met - transferred to revenue	(3 999 499)	(3 996 502)	(3 999 499)	(3 996 502)
	8 498	7 997	8 498	7 997

Conditions still to be met - remain liabilities (see note 11).

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

Kwazibi National Lottery Grant

Balance unspent at beginning of year	122 667	122 667	122 667	122 667
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Conditions still to be met - remain liabilities (see note 11).

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

Mqobela National Lottery Grant

Balance unspent at beginning of year	166 666	166 666	166 666	166 666
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Conditions still to be met - remain liabilities (see note 11).

Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

23. Government grants and subsidies (continued)

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

Mabibi National Lottery Grant

Balance unspent at beginning of year	166 667	166 667	166 667	166 667
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Conditions still to be met - remain liabilities (see note 11).

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

Public Participation & Customer Satisfaction Survey Grant

Balance unspent at beginning of year	154 000	750 000	154 000	750 000
Conditions met - transferred to revenue	-	(596 000)	-	(596 000)
	154 000	154 000	154 000	154 000

Conditions still to be met - remain liabilities (see note 11).

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

Rural Road & Transport Management Grant

Balance unspent at beginning of year	1 114 932	291	1 114 932	291
Current-year receipts	2 447 000	2 440 000	2 447 000	2 440 000
Conditions met - transferred to revenue	-	(1 325 359)	-	(1 325 359)
Other	(1 115 000)	-	(1 115 000)	-
	2 446 932	1 114 932	2 446 932	1 114 932

Conditions still to be met - remain liabilities (see note 11).

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

Ndumo Groundnuts Grant

Balance unspent at beginning of year	749 347	749 347	749 347	749 347
Conditions met - transferred to revenue	(395 500)	-	(395 500)	-
	353 847	749 347	353 847	749 347

Conditions still to be met - remain liabilities (see note 11).

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

Industrial Development Corporation Grant

Balance unspent at beginning of year	700 873	700 873	-	-
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Conditions still to be met - remain liabilities (see note 11).

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

National Treasury ILO Grant

Balance unspent at beginning of year	212 173	212 173	-	-
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Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 11).

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

Disaster Management Grant

Balance unspent at beginning of year	9 120	-	9 120	-
Current-year receipts	-	1 000 000	-	1 000 000
Conditions met - transferred to revenue	-	(990 880)	-	(990 880)
	9 120	9 120	9 120	9 120

Conditions still to be met - remain liabilities (see note 11).

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

Expanded Public Works Programme

Balance unspent at beginning of year	2 082 000	2 164 094	2 082 000	2 164 094
Current-year receipts	1 308 000	1 126 000	1 308 000	1 126 000
Conditions met - transferred to revenue	(1 058 226)	(1 208 094)	(1 058 226)	(1 208 094)
	2 331 774	2 082 000	2 331 774	2 082 000

Conditions still to be met - remain liabilities (see note 11).

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

Lake Tete Grant

Balance unspent at beginning of year	267 001	267 001	267 001	267 001
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Conditions still to be met - remain liabilities (see note 11).

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

Nyezi Community HIV Centre Grant

Balance unspent at beginning of year	303 570	303 570	303 570	303 570
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Conditions still to be met - remain liabilities (see note 11).

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

Umkhombe Tours Grant

Balance unspent at beginning of year	908 690	908 690	908 690	908 690
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Conditions still to be met - remain liabilities (see note 11).

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

Waste Management Grant

Balance unspent at beginning of year	145 565	145 565	145 565	145 565
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Umkhanyakude District Municipality and its Municipal Entity

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

23. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 11).

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

Environmental Management Grant

Balance unspent at beginning of year	405 600	405 600	405 600	405 600
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Conditions still to be met - remain liabilities (see note 11).

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

Massification Grant

Balance unspent at beginning of year	4 172 492	4 172 492	4 172 492	4 172 492
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Conditions still to be met - remain liabilities (see note 11).

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

ACIP Grant

Balance unspent at beginning of year	4 695	-	4 695	-
Current-year receipts	-	725 808	-	725 808
Conditions met - transferred to revenue	-	(721 113)	-	(721 113)
	4 695	4 695	4 695	4 695

Conditions still to be met - remain liabilities (see note 11).

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

Mbazwana Thusong Centre Grant

Balance unspent at beginning of year	101 729	-	101 729	-
Current-year receipts	-	250 000	-	250 000
Conditions met - transferred to revenue	(101 729)	(148 271)	(101 729)	(148 271)
	-	101 729	-	101 729

Conditions still to be met - remain liabilities (see note 11).

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

Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
24. Employee related costs				
Basic	98 804 400	94 163 693	94 716 905	90 130 466
Medical aid - company contributions	19 718 101	16 424 929	19 202 757	16 003 644
Staff retirement benefits	734 220	347 716	-	-
Defined contribution plans	811 000	-	811 000	-
Travel, motor car, accommodation, subsistence and other allowances	6 792 064	7 241 633	6 792 064	7 241 633
Overtime payments	2 373 907	3 378 864	2 373 907	3 378 864
13th Cheques	199 023	561 021	199 023	561 021
Housing benefits and allowances	2 001 676	1 495 239	2 001 676	1 495 239
Leave pay provision charge	1 107 525	858 201	1 060 260	822 190
	132 541 916	124 471 296	127 157 592	119 633 057

Remuneration of Municipal Manager

Annual Remuneration	727 288	727 288	727 288	727 288
Travel, housing and other allowances	333 122	376 254	333 122	376 254
Contributions to UIF, Medical and Pension Funds	11 168	11 589	11 168	11 589
	1 071 578	1 115 131	1 071 578	1 115 131

The Municipal Manager was suspended on full pay since January 2016. The General Manager - Corporate Services acted as Municipal Manager for the period January - March 2016.

Through section 139(a) of the MFMA, the Municipality subsequently appointed an Acting Municipal Manager on 01 April 2016. For the period April 2016 - June 2016, R300 340 was paid in salaries and allowances to the Acting Municipal Manager.

Remuneration of Chief Executive Officer - Umhlosinga Development Agency

Annual Remuneration	963 000	900 000	-	-
Travel, housing and other allowances	321 000	316 200	-	-
Contributions to UIF, Medical and Pension Funds	239 445	155 737	-	-
	1 523 445	1 373 937	-	-

Remuneration of the Chief Finance Officer

Annual Remuneration	333 424	500 137	333 424	500 137
Travel, housing and other allowances	412 811	680 092	412 811	680 092
Performance Bonuses	9 027	12 258	9 027	12 258
Leave paid	90 931	-	90 931	-
	846 193	1 192 487	846 193	1 192 487

The Chief Financial Officer was suspended on full pay effectively from July 2015. His contract was subsequently terminated during February 2016.

Since November 2015, the municipality subsequently appointed an Acting Chief Financial Officer. R714 558 was paid to the Acting Chief Financial Officer during the period November 2015 - June 2016.

Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

24. Employee related costs (continued)

Remuneration of Chief Financial Officer - Umhlosinga Development Agency

Annual Remuneration	722 250	506 250	-	-
Travel, housing and other allowances	240 750	168 750	-	-
Contributions to UIF, Medical and Pension Funds	168 321	64 656	-	-
	1 131 321	739 656	-	-

Remuneration of General Manager - Corporate Services

Annual Remuneration	648 833	648 833	648 833	648 833
Travel, housing and other allowances	354 652	354 640	354 652	354 640
Contributions to UIF, Medical and Pension Funds	10 937	11 070	10 937	11 070
	1 014 422	1 014 543	1 014 422	1 014 543

The General Manager - Corporate Services acted as Municipal Manager during the period January 2016 - March 2016.

Remuneration of General Manager - Community Services

Annual Remuneration	771 550	203 048	771 550	203 048
Travel, housing and other allowances	203 048	246 944	203 048	246 944
Contributions to UIF, Medical and Pension Funds	10 428	10 960	10 428	10 960
	985 026	460 952	985 026	460 952

Remuneration of General Manager - Technical Services

Annual Remuneration	353 389	658 894	353 389	658 894
Travel, housing and other allowances	168 806	369 376	168 806	369 376
Contributions to UIF, Medical and Pension Funds	7 479	11 117	7 479	11 117
Leave paid	119 301	-	119 301	-
	648 975	1 039 387	648 975	1 039 387

The General Manager - Technical Services resigned in December 2015. The Municipality subsequently appointed a General Manager - Technical Services on 01 April 2016. R275 185 was paid in salaries and allowances to the Acting General Manager - Technical Services during the period April - June 2016.

Remuneration of General Manager - Planning & Economic Development

Annual Remuneration	117 581	705 487	117 581	705 487
Travel, housing and other allowances	51 860	287 287	51 860	287 287
Contributions to UIF, Medical and Pension Funds	2 778	10 925	2 778	10 925
Leave paid	93 124	-	93 124	-
	265 343	1 003 699	265 343	1 003 699

The General Manager - Planning & Economic Development resigned in August 2015. As at 30 June 2016, the position of General Manager - Planning & Economic Development was held in an acting capacity. Acting allowances of R54 636 were paid during the period October 2015 - June 2016.

Umkhanyakude District Municipality and its Municipal Entity

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

25. Remuneration of councillors

Mayor	731 529	731 529	731 529	731 529
Deputy Mayor	590 118	621 714	590 118	621 714
Speaker	591 426	625 323	591 426	625 323
Executive Committee Members	1 672 597	1 714 742	1 672 597	1 714 742
Councillors	2 859 868	3 027 722	2 859 868	3 027 722
	6 445 538	6 721 030	6 445 538	6 721 030

Mayor

Mayoral allowance	563 040	563 040	563 040	563 040
Travel allowance	140 760	140 760	140 760	140 760
Cellphone allowance	20 868	20 868	20 868	20 868
Contributions to UIF, Medical and Pension Funds	6 861	6 861	6 861	6 861
	731 529	731 529	731 529	731 529

Deputy Mayor

Annual remuneration	450 432	450 432	450 432	450 432
Travel allowance	112 608	112 608	112 608	112 608
Cellphone allowance	20 868	20 868	20 868	20 868
Reimbursable allowance	700	32 045	700	32 045
Contributions to UIF, Medical and Pension Funds	5 510	5 761	5 510	5 761
	590 118	621 714	590 118	621 714

Speaker

Annual remuneration	450 432	450 432	450 432	450 432
Travel allowance	112 608	112 608	112 608	112 608
Cellphone allowance	20 868	20 868	20 868	20 868
Reimbursable allowance	2 008	35 625	2 008	35 625
Contributions to UIF, Medical and Pension Funds	5 510	5 790	5 510	5 790
	591 426	625 323	591 426	625 323

In-kind benefits

The Executive Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time.

The Mayor and Speaker are provided with an office and secretarial support at the cost of the Council.

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

All Councillors are re-imbursed for kilometres travelled on official duties with the exception of the Mayor.

The Mayor and Speaker have two full-time bodyguards and one relief bodyguard.

26. Depreciation and amortisation

Property, plant and equipment	36 515 366	28 269 912	36 347 769	28 097 711
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27. Finance costs

Trade and other payables	126 425	135 315	-	-
Current borrowings	2 225 598	6 226 907	2 225 598	6 226 907
	2 352 023	6 362 222	2 225 598	6 226 907

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

27. Finance costs (continued)

Capitalisation rates used during the period were -% on specific borrowings for capital projects and -% being the weighted average cost of funds borrowed generally by the economic entity.

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2015: R -).

28. Debt impairment

Contributions to debt impairment provision	6 372 196	(32 376 106)	6 372 196	(32 376 106)
Bad debts written off	548 395	41 448	548 395	-
	6 920 591	(32 334 658)	6 920 591	(32 376 106)

29. Bulk purchases

Electricity	29 793 680	31 572 417	29 793 680	31 572 417
Water	59 549 751	51 405 377	59 549 751	51 405 377
	89 343 431	82 977 794	89 343 431	82 977 794

30. Contracted services

Specialist Services	41 137 857	40 124 056	23 533 493	32 051 789
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Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
31. General expenses				
Accounting fees	32 014	4 572	32 014	4 572
Advertising	10 784	83 781	-	50 000
Administration expenses	23 277	37 104	-	-
Bank charges	476 846	338 011	461 474	325 860
Cleaning	56 712	7 130	52 761	2 169
Auditors remuneration	3 705 077	3 099 063	3 067 101	2 497 984
Grants & Subsidies - Rural Transport Management	403 825	1 162 596	403 825	1 162 596
Consulting and professional fees	2 029 887	5 129 949	1 806 182	3 913 092
Consumables	15 992	19 519	-	-
Grants & Subsidies - Mseleni Ground Nuts	749 347	289 440	749 347	289 440
Grants & Subsidies - Disaster Management	2 043 135	25 440	2 043 135	25 440
Fines and penalties	515 584	446 000	515 584	446 000
Internal Audit Fees	18 784	172 952	18 784	168 519
Grants & Subsidies - FMG Operational Costs	-	376 305	-	376 305
Grants & Subsidies - Jozini RHIG Sanitation	7 013 596	3 505 265	7 013 596	3 505 265
Grants & Subsidies - MSIG Operational Costs	385 550	599 939	385 550	599 939
Legal Fees	2 541 274	-	2 541 274	-
Insurance	37 612	35 734	-	-
Community development and training	138 500	163 945	138 500	163 945
Conferences and seminars	10 338	42 074	-	-
Fleet	14 000	-	14 000	-
Licences	287 059	611 851	287 059	611 851
Other expenses	1 187 367	3 345 096	1 187 367	3 345 096
Hire of Plant & Equipment	6 994 769	23 226 643	6 994 769	23 226 643
Mayoral Descretionary Fund	26 169	82 423	26 169	82 423
Medical expenses	43 904	29 559	43 904	29 559
Fuel and oil	268 014	531 440	267 282	530 438
Placement fees	-	201 770	-	201 770
Publicity	186 669	911 659	186 669	911 659
Postage and courier	1 621	3 976	961	2 650
Printing and stationery	36 048	200 081	20 803	175 173
Gender, Youth, Children & Senior Citizen	165 815	375 416	165 815	375 416
Disaster Management	-	210 250	-	210 250
Sports DC27	280 470	4 174 231	280 470	4 174 231
Small tools	8 712	229 404	3 770	27 535
Systems Support	570 764	1 249 433	570 764	1 249 433
Subscriptions and membership fees	-	5 526	-	-
Telephone and fax	13 891	62 784	2 368	14 707
Transport and freight	-	540	-	540
Training	606 599	489 346	606 599	470 687
Tourism Projects	300 000	890 556	300 000	890 556
Municipal Health	12 201	332 523	12 201	332 523
Uniforms	206 845	29 062	206 845	27 168
Arts and Culture	4 864	475 370	-	329 531
Inventory expensed - Umhlatuze Water	6 325 579	364 499	5 557 669	-
Inventory loss	24 594 449	17 285 671	24 594 449	17 285 671
Disability	-	228 445	-	228 445
Grants & Subsidies - Extended Public Works	1 048 195	1 312 344	1 048 195	1 312 344
VAT impairment	1 424 799	7 692 327	1 424 799	7 692 327
Operation Turn Around	599 590	-	599 590	-
Grants & Subsidies - ACIP Water	48 678 231	23 265 985	48 678 231	23 265 985
Events Organisations	1 000	-	1 000	-
Accommodation	1 619 254	2 538 001	1 528 884	2 252 146
HIV & AIDS Prevention	8 250	322 039	8 250	322 039
Grants & Subsidies - Umhlosinga Development Agency	-	-	3 000 000	8 330 158
	115 723 262	106 217 069	116 848 009	111 440 080

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
32. Auditors' remuneration				
33. Taxation				
34. Cash generated from operations				
Surplus	121 177 583	36 085 271	119 899 074	40 034 470
Adjustments for:				
Depreciation and amortisation	36 515 366	28 269 912	36 347 769	28 097 711
Loss on disposal of assets	350 791	-	350 791	-
Debt impairment	6 920 591	(32 334 658)	6 920 591	(32 376 106)
Movements in provisions	1 282 000	698 000	1 282 000	698 000
Inventory loss adjustment	24 594 449	17 285 671	-	-
Normal tax payable	44 035	-	-	-
Other non-cash items	18 303 510	9 091 822	42 942 196	21 762 870
Changes in working capital:				
Inventories	19 336 484	(57 132 635)	19 336 484	(57 132 635)
Consumer debtors	14 698 346	(42 361 709)	13 728 416	(34 001 845)
Other receivables from non-exchange transactions	(2 410 380)	1 075 556	(2 410 380)	1 075 556
Payables from exchange transactions	48 237 399	71 072 601	50 089 942	68 307 052
VAT	(30 643 549)	11 575 508	(30 381 536)	11 852 317
Unspent conditional grants and receipts	(5 313 124)	17 425 239	(9 438 523)	11 267 202
Consumer deposits	86 464	126 098	86 464	126 098
	253 179 965	60 876 676	248 753 288	59 710 690
35. Tax paid				
Current tax for the year recognised in surplus or deficit	(44 035)	-	-	-

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
36. Commitments				
Commitments in respect of capital expenditure				
Approved and contracted for				
• Infrastructure	331 726 578	253 869 354	331 726 578	253 869 354
• Airport establishment	4 000 000	20 000 000	-	-
• School nutrition project	22 000 000	22 000 000	-	-
• King Zwelthini Royal Resort	-	2 000 000	-	-
• Other	-	4 800 000	-	-
	357 726 578	302 669 354	331 726 578	253 869 354
Approved but not yet contracted for				
• Infrastructure	-	-	-	-
Total capital commitments				
Approved and contracted for	357 726 578	302 669 354	331 726 578	253 869 354
Authorised operational expenditure				
Approved and contracted for				
• Operating leases (as lessee)	1 078 205	2 217 627	980 399	2 070 918
Total operational commitments				
Already contracted for but not provided for	1 078 205	2 217 627	980 399	2 070 918
Total commitments				
Total commitments				
Authorised capital expenditure	357 726 578	302 669 354	331 726 578	253 869 354
Authorised operational expenditure	1 078 205	2 217 627	980 399	2 070 918
	358 804 783	304 886 981	332 706 977	255 940 272
Operating leases - as lessee				
Minimum lease payments due				
- within one year	798 610	1 139 422	749 707	1 090 519
- in second to fifth year inclusive	279 595	1 078 205	230 692	980 399
	1 078 205	2 217 627	980 399	2 070 918

Operating lease payments represent rentals payable by the Municipality and Umhlosinga Development Agency for office equipment leased. Leases are contracted for an average term of three years with no contingent rentals payable.

Umkhanyakude District Municipality and its Municipal Entity

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Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

37. Contingencies

Wage curve agreement

The Municipality did not conduct the job evaluation as per the Wage curve agreement. As a result, the possible obligation as at 30 June 2016 could not be reliably estimated and provided for in the accounting records.

Disciplinary matters

As at 30 June 2016, the municipality had two (2) separate employee related pending disciplinary matters. The final outcome of the matter between the municipality and the Supply Chain Manager was pending whilst the decision in the matter between the municipality and the Chief Financial Officer was appealed. Should the outcome of both matters favour respective claimants, the municipality may be liable for compensation of up to R400 000.

Unpaid creditors

Letters of demand and court summons in respect of unpaid creditors' invoices were received during the current financial year relating to goods and services rendered to the municipality. As at 30 June 2016, the municipality could not quantify legal costs of claimants.

Contingent assets

A claim was made by Umhlosinga Development Agency, the Municipal Entity, against the former Chief Financial Officer for R705 167 in respect of payments made into another bank account. Case no.98/02/2015 was opened and currently being investigated by the special Commercial Crimes Unit. Recent negotiations with her attorney have given strong indications that the claim may be considered probable to be met in full in the near future.

38. Prior period errors

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Property, plant and equipment - Cost	-	(54 333 998)	-	(54 333 998)
Property, plant and equipment - Accumulated depreciation	-	(6 289 141)	-	(6 289 141)
Heritage assets	-	586 000	-	586 000
Finance lease liability	-	1 526 049	-	1 526 049
Inventories	-	56 989 707	-	56 989 707
Operating lease liability	-	(120 116)	-	(120 116)
Other financial liabilities	-	42 000	-	42 000
Payables from exchange transactions	-	(23 673 173)	-	(23 673 173)
Receivables from exchange transactions	-	22 412 007	-	22 412 007
Receivables from non-exchange transactions	-	49 730 961	-	49 730 961
VAT	-	(7 921 262)	-	(7 921 262)
	-	38 949 034	-	38 949 034

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
38. Prior period errors (continued)				
Statement of Financial Performance				
Service charges	-	(6 584 397)	-	(6 584 397)
Rental of facilities	-	(42 000)	-	(42 000)
Bulk purchases	-	13 574 662	-	13 574 662
Contracted services	-	1 568 930	-	1 568 930
Debt impairment	-	(49 730 961)	-	(49 730 961)
Depreciation	-	109 565	-	109 565
Employee costs	-	139 869	-	139 869
Finance charges	-	(243 083)	-	(243 083)
Repairs and maintenance	-	14 743 080	-	14 743 080
General expenses	-	25 834 729	-	25 834 729
	-	(629 606)	-	(629 606)
Statement of Financial Performance				
Accumulated surplus	-	38 319 428	-	38 319 428
Disclosures				
Fruitless and wasteful expenditure	-	5 470 252	-	5 470 252
Material losses	-	17 285 670	-	17 285 670
	-	22 755 922	-	22 755 922

Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2016

Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

38. Prior period errors (continued)

Correction of the aforementioned prior period errors was attributed to:

Property, plant and equipment

During the physical verification of municipal assets it was discovered that there were assets that belong to the municipality which were never recorded in the municipality's asset register and accounting records. In addition to unrecorded assets, the municipality did not correctly account for the retentions in the past and this resulted in the misstatement of the retentions liability and capital work in progress. These errors were corrected retrospectively and the effect was as follows:

Increase in Property, plant and equipment by R21 951 662

Decrease in Retentions liability - Payables from Exchange Transactions by R1 058 604

Increase in Accumulated depreciation by R6 894 253

Increase in Accumulated surplus by R16 116 013

Accumulated depreciation

Accumulated depreciation had a net increase as a result of newly identified assets and finance lease assets derecognised. The effect was as follows:

Increase in Accumulated depreciation by R7 637 656

Decrease in Finance lease assets by R1 438 524

Heritage assets

The municipality has a Mayoral chain that qualifies as a heritage asset in terms of GRAP103, it was not previously accounted in the accounting records. The valuation of this asset was performed and the correction was performed retrospectively. The effect of this was as follows:

Increase in Heritage Assets as at 30 June 2015 by R586 000.

Increase in the Opening Accumulated Surplus as at 01 July 2014 by R586 000.

Finance and operating lease liabilities

The municipality incorrectly recognised assets leased under an operating lease, as a finance lease. The lease classification criteria per GRAP13 was revisited, the correction was made retrospectively and the effect of this was as follows:

Decrease in Finance lease liability as at 30 June 2015 by R1 526 049

Decrease in Property, plant and equipment - Finance leased assets as at 30 June 2015 by R2 995 328

Decrease in Accumulated Depreciation as at 30 June 2015 by R1 348 524

Increase in the operating lease liability as at 30 June 2015 by R120 116

Decrease in Opening Accumulated surplus as at 01 July 2014 by R129 798

Increase in Contractual services - lease payments for the year ended 30 June 2015 by R988 002

Decrease in Depreciation for the year ended 30 June 2015 by R633 847

Decrease in Finance charges for the year ended 30 June 2015 by R243 083.

Inventories

The municipality purchased water pipes during the 2012 financial year and incorrectly capitalised other inventory pipes costs and related operating expenditure as Capital Work in Progress. Due to lack of supporting documents, the valuation of inventory on hand could not be substantiated in prior financial years. The municipality engaged the services of asset management specialist to assist the valuation of these water pipe inventory. The correction was made retrospectively and the effect was as follows:

Decrease in Property, plant and equipment - Capital Work in Progress by R74 275 377

Increase in General expenditure - Inventory loss by R17 285 671

Increase in Inventory balance by R56 989 707

Other financial liabilities

The municipality did not correctly account for rental income from employees, in respect of the municipal park homes that are rented out, in the past. This resulted in the misstatement of revenue and other financial liabilities in the accounting records. This error was corrected retrospectively and the effect was as follows:

Increase in operating surplus for the year ended 30 June 2015 by R42 000

Decrease in Other financial liabilities by R42 000

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

38. Prior period errors (continued)

Payables from exchange transactions

The municipality did not recognise expenditure in respect of goods and services rendered and received in the prior years, and not paid for at the end of the financial reporting period. This was corrected retrospectively and the effect was as follows:

Decrease in Opening Accumulated Surplus by R1 442 959
Increase in Property, plant and equipment - Capital Work in Progress by R985 046
Increase in Repairs and Maintenance by R13 045 437
Increase in Bulk purchases by R6 580 245
Increase in General expenses by R14 805
Increase in Payables from exchange transactions by R24 591 909
Increase in Unclaimed input VAT by R2 523 417.

Provision for 13th cheque payments

The municipality also did not accurately compute the 13th cheque provision in the prior year. This error was corrected retrospectively and the effect was as follows:

Increase in Provision for 13th cheque payments by R139 868
Increase in Employee costs by R139 868.

Receivables from non exchange transactions

The municipality engaged Water Solutions Southern Africa (WSSA) to assist with the operations and maintenance of certain schemes. WSSA also performs the billing and collection of revenue on behalf of the municipality, these transactions were not recorded in the accounting records, thus resulting in the understatement of consumer debtors and revenue from exchange transactions. The correction was performed retrospectively and the effect was as follows:

Increase in Opening Accumulated Surplus as at 01 July 2015 by R13 075 258
Increase in Revenue from exchange transactions for the year ended 30 June 2015 by R6 584 396
Increase in Receivable from exchange transactions as at 30 June 2015 by R22 412 007
Increase in undeclared VAT output by R2 752 352.

Provision for doubtful debts

The municipality reviewed in detail and revised its the risk profiling utilised to calculate the provision for doubtful debt in the prior year. The correction of the revised calculation was made retrospectively and the effect of this was as follows:

Increase in Contribution to provision for doubtful debts as at 30 June 2015 by R49 730 961
Decrease in Provision for doubtful debt as at 30 June 2015 by R49 730 961.

VAT

The municipality has a VAT receivable in respect of the net VAT input claims submitted to SARS in the prior years. Some of the claims were disallowed by SARS and the municipality did not respond on time to address the issues that resulted in SARS disallowing these claims. Currently there are attempts being undertaken to recover these monies. The municipality has adopted a prudence approach and raised an impairment provision on the VAT receivable. This was performed retrospectively and the effect was as follows:

Increase in the General expenditure - VAT impairment for the year ended 30 June 2015 by R7 692 327
Increase in provision for doubtful debt as at 30 June 2015 by R7 692 327.

Accumulated surplus

The incorrectly processed a prior period adjustment in respect of services rendered in the past, that were not paid as at 30 June 2016. The incorrect entry was processed directly into Accumulated surplus as at 01 July 2014. The correction made had the following effect:

Increase in Bulk water by R6 994 416
Increase in Repairs and maintenance by R1 697 614
Increase in Contract services by R580 928
Increase in General expenditure by R841 927
Increase in Accumulated surplus by R10 114 885.

Disclosures

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

38. Prior period errors (continued)

Interest and penalties

Interest was charged on the late payment of an outstanding creditor relating to the prior year. Interest was previously not included as fruitless and wasteful expenditure.

Inventory losses

The municipality did not account for inventory losses in the comparative period. Inventory losses were subsequently recognised and accounted for in the current financial year. This was retrospectively corrected and restated in the comparative period.

Receivables from exchange and non-exchange transactions

During the year ended 30 June 2014 an amount of R 705 167 was fraudulently paid into the wrong account instead of the SARS account. This amount was recognised as a receivable at the time, however, subsequent to the year end we realised that it was not appropriate to raise a debtor but a contingent asset since its recoverability is contingent upon the court sanctioning the repayment of the amount.

Furthermore, during the same year, expenses amounting to R 189 334 were not recorded in the accounting records (expenditure and accrual accounts) of the agency. This resulted to a suspense account with a debit balance as payments were made to suppliers that were not recorded as accruals.

39. Risk management

Interest rate risk

The economic entity's interest rate risk arises from long-term borrowings from DBSA.

At year end, financial instruments exposed to interest rate risk were as follows:

Loan from Development Bank of South Africa.

FNB Bank Call deposits.

FNB Bank, ABSA and Ithala Bank Notice deposits.

Liquidity risk

Liquidity risk is the risk that the economic entity will not be able to meet its financial obligations as they become due. The municipality ensures that adequate funds are available to meet its expected and unexpected financial commitments.

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

The following liabilities were due within 1 month:

Consumer deposits R2 074 608 (2016) R1 988 144 (2015)

Other current financial liabilities R5 356 952 (2016) R5 119 463 (2015)

Payables from exchange transactions R241 122 428 (2016) R192 885 029 (2015).

The following liabilities were due from 1 month to 12 months:

Unspent conditional grants and receipts R34 385 221 (2016) R39 698 335 (2015)

Current portion of defined benefit plan obligations R223 000 (2016) R108 000 (2015)

Borrowings R839 102 (2016) R1 499 973 (2015).

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Consolidated Annual Financial Statements for the year ended 30 June 2016

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

39. Risk management (continued)

Credit risk exposure

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. The investments are diversified among the reputable commercial banks.

The consumer debtors are settled on a monthly basis. Upon the new connections the consumers paid deposit in advance.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

40. Unauthorised expenditure

Opening balance	178 548 229	53 595 334	178 548 229	53 595 334
Add: Unauthorised expenditure - Current year	21 385 752	124 952 895	21 385 752	124 952 895
	199 933 981	178 548 229	199 933 981	178 548 229

Unauthorised expenditure in the current financial year was incurred as a result of expenditure exceeding the approved budget.

41. Fruitless and wasteful expenditure

Opening balance	8 329 553	2 761 311	8 329 553	2 649 882
Add: Fruitless and wasteful expenditure - Current year	642 008	5 811 817	515 583	5 679 671
Less: Amounts condoned	-	(243 575)	-	-
	8 971 561	8 329 553	8 845 136	8 329 553

Fruitless and wasteful expenditure comprised interest and penalties relating to SARS declarations and late payment of creditors.

42. Irregular expenditure

Opening balance	1 286 675 747	1 151 880 784	1 279 166 599	1 148 782 553
Add: Irregular Expenditure - current year	220 631 842	134 794 963	220 382 750	130 384 046
Less: Amounts condoned	(1 659 352)	-	-	-
	1 505 648 237	1 286 675 747	1 499 549 349	1 279 166 599

43. Additional disclosure in terms of Municipal Finance Management Act

SALGA Fees

Current year subscriptions paid	1 665 784	1 000 936	1 665 784	1 000 936
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Umkhanyakude District Municipality and its Municipal Entity

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

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

Audit fees

Opening balance	44 292	-	4 102	-
Current year fees raised	3 750 700	3 103 165	3 112 724	2 502 086
Amount paid - current year	(3 756 137)	(3 058 873)	(3 112 724)	(2 497 984)
Amount paid - previous years	(4 102)	-	(4 102)	-
	34 753	44 292	-	4 102

PAYE and UIF

Opening balance	1 040 137	1 055 958	923 319	807 060
Current year deductions	21 166 129	18 157 124	20 188 286	17 338 118
Amount paid - current year	(18 972 156)	(17 924 047)	(18 704 860)	(17 221 859)
Amount paid - previous years	(1 040 137)	(248 898)	(923 319)	-
	2 193 973	1 040 137	1 483 426	923 319

Pension and Medical Aid Deductions

Opening balance	4 010 328	1 805 102	4 010 328	1 805 102
Current year deductions and contributions	18 489 076	14 546 451	17 175 107	13 755 432
Amount paid - current year	(14 393 609)	(12 341 225)	(13 079 640)	(11 550 206)
Amount paid - previous years	(4 010 328)	-	(4 010 328)	-
	4 095 467	4 010 328	4 095 467	4 010 328

VAT

VAT receivable	47 080 711	16 437 162	46 541 889	16 160 353
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VAT output payables and VAT input receivables are shown in note . The Municipality did not submit VAT returns for the months of August and November 2015 on time.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor G Dlozi	-	10 513	10 513
Councillor Z Nyawo	-	16	16
Councillor Zungu	-	22 526	22 526
	-	33 055	33 055

30 June 2015

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor G Dlozi	-	10 513	10 513
Councillor Z Nyawo	-	16	16
Councillor Zungu	-	22 526	22 526
	-	33 055	33 055

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Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

44. Deviation from supply chain management regulations

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

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

Items of goods and services were procured during the current financial year which deviated from the provisions of paragraph 12(1)(d)(i) as reflected above. As at 30 June 2016, deviations from Municipal Supply Chain Management Regulations amounted to:

Goods and services procured	40 131 012	6 531 242	25 132 058	-
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45. Distribution losses

Electricity distribution losses	7 789 263	5 895 217	7 789 263	5 895 217
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Electricity distribution loss calculated as:

	2016 kWh units	2016 Rand	2015 kWh units	2015 Rand
Electricity purchases	11 286 643	12 684 318	11 120 564	11 352 139
Less: Electricity sales	(4 930 146)	(4 895 055)	(5 684 270)	(5 456 922)
	6 356 497	7 789 263	5 436 294	5 895 217

Water distribution loss

Water distribution loss	17 745 527	36 560 649	17 745 527	36 560 649
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46. Material losses

Opening balance	17 285 670	-	17 285 670	-
Add: Material losses - Current year	24 594 449	17 285 670	24 594 449	17 285 670
	41 880 119	17 285 670	41 880 119	17 285 670

The municipality recognised inventory losses for the current and comparative period. Inventory losses are included in general expenses.

47. Events after reporting date

The economic entity was not aware of any material events that may have occurred between 30 June 2016 and the date when the annual financial statements were authorised.

48. Going concern

We draw attention to the fact that at 30 June 2016, the economic entity had an accumulated surplus of R1 639 820 465 (2016) and R1 525 306 833 (2015 restated). Current liabilities exceeds current assets (i.e. excluding inventory) by R133 991 565 (2016) and R121 442 880 (2015 restated).

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

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