



UMZIMVUBU

— LOCAL MUNICIPALITY —

Umzimvubu Local Municipality
Annual financial statements
for the year ended 30 June 2018

Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

General Information

Legal form of entity Category B Municipality which operates in accordance with Chapter 7 of the Constitution of South Africa

Nature of business and principal activities Umzimvubu Municipality

The municipality is a local government institution in KwaBhaca, Eastern Cape Province, and is one of the local municipalities under the jurisdiction of the Alfred Nzo District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

Mayoral committee

Councillors

Ward

Proportional

| | |
|---------------------------|-------------------|
| 1 F.J Hem | P.B. Mabhengu |
| 2 M. Ntsevu | S.K. Mnukwa |
| 3 M.V. Nkqayi | N.G. Mdzinwa |
| 4 N.V. Nomaqaqa | H.M. Ngqasa |
| 5 S. Sifolo | M. Mataka |
| 6 N.C. Tshayisa | A.N. Garane |
| 7 S.S. Dangisa | U.G. Makanda |
| 8 T. Sokhanyile | N. Sonyabashi |
| 9 M. Mqulwane | T.A. Mambi |
| 10 P. Makhinzi | P.K. Thingathinga |
| 11 N. Gogela | L.S. Maqhashalala |
| 12 G.V. Lugongolo | N. Ntshayisa |
| 13 C.L. Noqhakala | L.L. Nqatsha |
| 14 T.V. Hlazo | N.N. Gcadinja |
| 15 C.N. Mnyaiza | H.N. Dandala |
| 16 B. Majalamba | S.A.N. Cekeshe |
| 17 S. Mankanku | S.P. Myingwa |
| 18 A. Mgangatho | X. Jona |
| 19 E.N. Ngalonkulu-Lebelo | N.A. Mantshongo |
| 20 T. Nomkuca | F.P. Sontsi |
| 21 F.N. Ngonyolo | M. Ramabina |
| 22 S.O. Madlanga | S.Sqiza |
| 23 N.H. Kolweni | T.Nstalaze |
| 24 M. Jolobe | M. Maliwa |
| 25 A.N. Zongwana | M.Hlankela |
| 26. M. Tuku | T. Ndara |
| 27 N.S. Soldat | - |

Grading of local authority Grade 3

Accounting Officer GPT Nota

Auditors Auditor-General of South Africa
Registered Auditors

Registration number EC 442

Jurisdiction Greater Umzimvubu area which includes:
Kwa-Bhaca, Ema-Xesibeni and various rural areas

Chief Finance Officer (CFO) XN Venn

Registered office ERF 813

Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

General Information

| | |
|------------------|---------------------------------|
| | MAIN STREET KWABHACA 5090 |
| Bankers | FIRST NATIONAL BANK |
| Attorneys | Various |

Umzimvubu Local Municipality

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| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| IFRS | International Financial Reporting Standards |
| IGRAP | Interpretations of the Standards of Generally Recognised Accounting Practise |

Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

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 annual financial statement and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statement fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statement and was given unrestricted access to all financial records and related data.

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

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

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the 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 municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Accounting Officer is primarily responsible for the financial affairs of the municipality.

The Accounting Officer certifies that the salaries, allowances and benefits of the councillors are disclosed in the notes to the financial statements are within the upper limits of the framework envisaged by section 219 of the Constitution read in conjunction with the Remuneration of Public Office Bearers and Minister of Provincial and Local Government determination in accordance with this Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statement.

I am responsible for the preparation of these annual financial statement set out on pages 5 to 93, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

GPT Nota
Accounting Officer

2018/08/31

Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

Report of the Chief Financial Officer

Financial Analysis Overview

It gives me great pleasure to present the Annual Financial Statements of Umzimvubu Local Municipality at 30 June 2018.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practise (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act no. 56 of 20013). The standards and pronouncements that form the GRAP Reporting Framework for the 2017/18 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

mSCOA Implementation

The Municipal Regulations on Standard Chart of Accounts promulgated in terms of Government Gazette 37577 dated 22 April 2014 apply to all municipalities and municipal entities and became effective from 1 July 2017.

The main objective of this regulation is to provide for a national standard in respect of uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which:

- a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard chart of accounts for national and provincial government; and
- b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

The impact of this mSCOA regulations definitely affected the municipality's current business processes; transacting and reporting requirements. The municipality successfully implemented mSCOA from 1 July 2017.

Key Financial Indicators

The following key financial indicators are self-explanatory. The analysis of these indicators suggest operational activities of the institution are well within acceptable norms and indicate good governance of the funds of the municipality.

Liquidity ratio:

Current assets : Current Liabilities = 3,47 (2017: 3,46)

Acid test ratio:

(Current assets - inventories) : Current Liabilities = 3,09 (2017: 3,07)

Expenditure Management:

Payables : Cash and cash equivalent = 45% (2017: 36%)

Declaration

I declare that, to the best of my knowledge, the information presented in these Annual Financial Statements present fairly in all material aspects the Financial Performance, Position and Cash Flows of Umzimvubu Local Municipality

Xoliswa Venn
Chief Financial Officer

Umzimvubu Local Municipality

(Registration number EC442)

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

| | Notes | 2018 | 2017 Restated* |
|--|-------|--------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 2 | 222 165 | 323 534 |
| Operating lease receivable | 3 | 5 971 779 | 2 427 165 |
| Receivables from non-exchange transactions | 4 | 17 096 648 | 12 376 663 |
| VAT receivable | 5 | 6 147 779 | 4 576 706 |
| Receivables from exchange transactions | 6 | 2 425 415 | 2 475 743 |
| Cash and cash equivalents | 7 | 47 668 725 | 45 932 159 |
| | | 79 532 511 | 68 111 970 |
| Non-Current Assets | | | |
| Investment property | 8 | 65 024 888 | 65 024 888 |
| Property, plant and equipment | 9 | 799 006 570 | 922 778 692 |
| Intangible assets | 10 | 1 932 640 | 2 288 560 |
| Heritage assets | 11 | 17 719 | 17 719 |
| | | 865 981 817 | 990 109 859 |
| Total Assets | | 945 514 328 | 1 058 221 829 |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables from exchange transactions | 12 | 20 224 925 | 14 104 981 |
| Payables from Non-exchange Transactions | 13 | 4 612 087 | 2 284 584 |
| Employee benefit obligation | 14 | 435 171 | 202 428 |
| Unspent conditional grants and receipts | 15 | 213 282 | 5 587 397 |
| | | 25 485 465 | 22 179 390 |
| Non-Current Liabilities | | | |
| Employee benefit obligation | 14 | 1 141 663 | 1 201 036 |
| Provisions | 16 | 3 677 096 | 3 357 542 |
| | | 4 818 759 | 4 558 578 |
| Total Liabilities | | 30 304 224 | 26 737 968 |
| Net Assets | | 915 210 104 | 1 031 483 861 |
| Accumulated surplus | 17 | 915 210 105 | 1 031 483 865 |

* See Note 53

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

| | Notes | 2018 | 2017 Restated* |
|---|-------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Sale of goods | 18 | 1 071 018 | 615 212 |
| Service charges | 19 | 1 159 426 | 700 628 |
| Rental of facilities and equipment | 20 | 6 427 326 | 3 270 215 |
| Interest on debtors | 21 | 2 926 497 | 2 308 724 |
| Income from Agency services | 22 | 2 051 565 | 1 702 919 |
| Licences and permits | 23 | 2 642 793 | 2 385 373 |
| Operating income | 24 | 1 318 332 | 1 544 751 |
| Interest earned - external investments | 25 | 6 298 181 | 5 387 136 |
| Actuarial gains | | - | 80 056 |
| Total revenue from exchange transactions | | 23 895 138 | 17 995 014 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 26 | 15 071 651 | 14 339 340 |
| Transfer revenue | | | |
| Government grants & subsidies | 27 | 277 335 151 | 239 883 865 |
| Public contributions and donations | 28 | 5 263 | - |
| Fines | 29 | 1 456 324 | 2 262 968 |
| Total revenue from non-exchange transactions | | 293 868 389 | 256 486 173 |
| Total revenue | | 317 763 527 | 274 481 187 |
| Expenditure | | | |
| Employee related costs | 30 | (65 263 191) | (59 746 327) |
| Remuneration of councillors | 31 | (17 644 239) | (15 563 284) |
| Depreciation and amortisation | 32 | (97 495 845) | (91 891 228) |
| Impairment losses | 33 | (11 640 133) | (3 603 778) |
| Finance costs | 34 | (427 034) | (396 988) |
| Lease rentals on operating lease | 35 | (709 986) | - |
| Material and stores | 36 | (2 210 348) | (381 969) |
| Contracted Services | 37 | (44 399 303) | (34 438 226) |
| Loss on disposal of assets and liabilities | 38 | (12 892 186) | (3 672 963) |
| Actuarial losses | 14 | (41 798) | - |
| Electricity transferred | | (129 909 988) | - |
| Operating costs | 39 | (51 403 236) | (52 916 106) |
| Total expenditure | | (434 037 287) | (262 610 869) |
| (Deficit) surplus for the year | | (116 273 760) | 11 870 319 |

* See Note 53

Umzimvubu Local Municipality

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Statement of Changes in Net Assets

| | Accumulated surplus | Total net assets |
|---|----------------------|----------------------|
| Opening balance as previously reported | 525 702 122 | 525 702 122 |
| Adjustments | | |
| Correction of errors - note 53 | 492 066 949 | 492 066 949 |
| Change in accounting policy | 1 844 470 | 1 844 470 |
| Restated balance at 30 June 2016 | 1 019 613 541 | 1 019 613 541 |
| Changes in net assets | | |
| Surplus (Deficit) for the year | 11 870 320 | 11 870 320 |
| Total changes | 11 870 320 | 11 870 320 |
| Restated balance at 01 July 2017 | 1 031 483 865 | 1 031 483 865 |
| Changes in net assets | | |
| Surplus (Deficit) for the year | (116 273 760) | (116 273 760) |
| Total changes | (116 273 760) | (116 273 760) |
| Balance at 30 June 2018 | 915 210 105 | 915 210 105 |

Details on the movement of the Funds and Reserves are set out in Note 17.

Details on the prior year correction of error are disclosed in note 53.

* See Note 53

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

| | Note(s) | 2018 | 2017 Restated* |
|---|---------|-----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Property Rates | | 5 817 276 | 9 907 357 |
| Government Grant and Subsidies | | 271 961 036 | 235 809 000 |
| Service Charges | | (258 637) | 690 021 |
| Interest income - investments | | 6 298 181 | 6 594 079 |
| Interest from debtors | | 2 926 497 | - |
| Other receipts | | 10 033 431 | 6 527 432 |
| Donations received | | 5 263 | - |
| | | <u>296 783 047</u> | <u>259 527 889</u> |
| Payments | | | |
| Employee Related Costs | | (65 131 619) | (56 358 416) |
| Remuneration of Councillors | | (17 644 239) | (15 563 284) |
| Finance costs | | (107 480) | (783 383) |
| Suppliers paid | | (93 786 144) | (83 732 232) |
| Grants and subsidies | | - | (4 288 592) |
| | | <u>(176 669 482)</u> | <u>(160 725 907)</u> |
| Net cash flows from operating activities | 40 | <u>120 113 565</u> | <u>98 801 982</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 9 | (118 086 499) | (107 141 080) |
| Proceeds from sale of property, plant and equipment | 9 | - | 135 597 |
| Purchase of other intangible assets | 10 | (290 500) | (1 216 899) |
| Other non cash item - Donation Library | | - | 9 132 683 |
| Net cash flows from investing activities | | <u>(118 376 999)</u> | <u>(99 089 699)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 1 736 566 | (287 717) |
| Cash and cash equivalents at the beginning of the year | | 45 932 158 | 46 219 874 |
| Cash and cash equivalents at the end of the year | 7 | <u>47 668 724</u> | <u>45 932 157</u> |

* See Note 53

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

| | Approved budget | Adjustments/ Virements & Transfers | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Note reference |
|---|--------------------|------------------------------------|---------------------|------------------------------------|--|----------------|
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Sale of goods | - | - | - | 1 071 018 | 1 071 018 | Note 52 |
| Service charges | 2 199 996 | - | 2 199 996 | 1 159 426 | (1 040 570) | Note 52 |
| Rental of facilities and equipment | 1 489 128 | - | 1 489 128 | 6 427 326 | 4 938 198 | Note 52 |
| Interest received (trading) | 1 640 676 | - | 1 640 676 | 2 926 497 | 1 285 821 | Note 52 |
| Agency services | - | - | - | 2 051 565 | 2 051 565 | Note 52 |
| Licences and permits | - | - | - | 2 642 793 | 2 642 793 | Note 52 |
| Other revenue | 2 749 868 | 117 998 | 2 867 866 | 1 318 332 | (1 549 534) | Note 52 |
| Interest received - investment | 26 840 004 | 1 800 000 | 28 640 004 | 6 298 181 | (22 341 823) | Note 52 |
| Total revenue from exchange transactions | 34 919 672 | 1 917 998 | 36 837 670 | 23 895 138 | (12 942 532) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 14 700 000 | - | 14 700 000 | 15 071 651 | 371 651 | Note 52 |
| Licences and Permits (Non-exchange) | 4 795 896 | - | 4 795 896 | - | (4 795 896) | Note 52 |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 251 074 560 | 96 751 000 | 347 825 560 | 179 679 586 | (168 145 974) | Note 52 |
| Public contributions and donations | - | - | - | 5 263 | 5 263 | |
| Fines, Penalties and Forfeits | 2 600 004 | (235 140) | 2 364 864 | 1 456 324 | (908 540) | Note 52 |
| Total revenue from non-exchange transactions | 273 170 460 | 96 515 860 | 369 686 320 | 196 212 824 | (173 473 496) | |
| Total revenue | 308 090 132 | 98 433 858 | 406 523 990 | 220 107 962 | (186 416 028) | |
| Expenditure | | | | | | |
| Personnel | (68 353 875) | (106 030) | (68 459 905) | (65 263 191) | 3 196 714 | Note 52 |

Umzimvubu Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments/ Virements & Transfers | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Note reference |
|--|----------------------|--|----------------------|--|---|----------------|
| Remuneration of councillors | (16 143 624) | - | (16 143 624) | (17 644 239) | (1 500 615) | Note 52 |
| Depreciation and amortisation | (50 999 856) | - | (50 999 856) | (97 495 845) | (46 495 989) | Note 52 |
| Impairment loss/ Reversal of impairments | - | - | - | (11 640 133) | (11 640 133) | Note 52 |
| Finance costs | - | - | - | (427 034) | (427 034) | Note 52 |
| Debt Impairment | (5 000 004) | - | (5 000 004) | (709 986) | 4 290 018 | Note 52 |
| Contracted Services | (45 093 360) | (3 509 739) | (48 603 099) | (44 399 303) | 4 203 796 | Note 52 |
| Transfers and Subsidies | (930 000) | - | (930 000) | - | 930 000 | Note 52 |
| Other materials | (7 765 121) | (256 423) | (8 021 544) | (2 210 348) | 5 811 196 | Note 52 |
| General Expenses | (54 976 596) | (97 944 497) | (152 921 093) | (194 205 410) | (41 284 317) | Note 52 |
| Total expenditure | (249 262 436) | (101 816 689) | (351 079 125) | (433 995 489) | (82 916 364) | |
| Operating deficit | 58 827 696 | (3 382 831) | 55 444 865 | (213 887 527) | (269 332 392) | |
| Actuarial gains/losses | - | - | - | (41 798) | (41 798) | Note 52 |
| Transfers and subsidies - capital (monetary allocations) (National / Provincial and District) | 80 190 000 | 17 787 000 | 97 977 000 | 97 655 565 | (321 435) | Note 52 |
| | 80 190 000 | 17 787 000 | 97 977 000 | 97 613 767 | (363 233) | |
| Deficit before taxation | 139 017 696 | 14 404 169 | 153 421 865 | (116 273 760) | (269 695 625) | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 139 017 696 | 14 404 169 | 153 421 865 | (116 273 760) | (269 695 625) | |

Actual Amount comparable on comparable basis as presented in the Budget and Actual Comparative Statement:

Financial Performance:

Explanation of Variances between Approved Budget and Actual:

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance are explained below:

Depreciation and amortisation

The material variance is made of the revaluation of assets.

Loss on disposal of PPE

The material variance is made of the revaluation of assets and the completed electrification projects were transferred to Eskom

Impairment of Assets

The material variance is made of the revaluation of assets.

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments/ Virements & Transfers | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Note reference |
|--|--------------------|------------------------------------|--------------------|------------------------------------|--|----------------|
| Statement of Financial Position | | | | | | |
| Assets | | | | | | |
| Current Assets | | | | | | |
| Inventories | - | - | - | 222 165 | 222 165 | Note 52 |
| Operating lease asset | - | - | - | 5 971 779 | 5 971 779 | Note 52 |
| Receivables from exchange transactions | - | - | - | 2 425 415 | 2 425 415 | Note 52 |
| Receivables from non-exchange transactions | - | - | - | 17 096 648 | 17 096 648 | Note 52 |
| VAT receivable | - | - | - | 6 147 778 | 6 147 778 | Note 52 |
| Cash and cash equivalents | 210 573 000 | - | 210 573 000 | 47 668 725 | (162 904 275) | Note 52 |
| | 210 573 000 | - | 210 573 000 | 79 532 510 | (131 040 490) | |
| Non-Current Assets | | | | | | |
| Investment property | - | 19 961 575 | 19 961 575 | 65 024 888 | 45 063 313 | Note 52 |
| Property, plant and equipment | 657 097 051 | 15 038 000 | 672 135 051 | 799 006 571 | 126 871 520 | Note 52 |
| Intangible assets | 2 100 000 | - | 2 100 000 | 1 932 640 | (167 360) | Note 52 |
| Heritage assets | - | - | - | 17 719 | 17 719 | Note 52 |
| | 659 197 051 | 34 999 575 | 694 196 626 | 865 981 818 | 171 785 192 | |
| Total Assets | 869 770 051 | 34 999 575 | 904 769 626 | 945 514 328 | 40 744 702 | |
| Liabilities | | | | | | |
| Current Liabilities | | | | | | |
| Payables from exchange transactions | - | - | - | 20 224 925 | 20 224 925 | Note 52 |
| Taxes and transfers payable (non-exchange) | - | - | - | 4 612 087 | 4 612 087 | Note 52 |
| Employee benefit obligation | - | - | - | 435 171 | 435 171 | Note 52 |
| Unspent conditional grants and receipts | - | - | - | 213 282 | 213 282 | Note 52 |
| | - | - | - | 25 485 465 | 25 485 465 | |

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments/ Virements & Transfers | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Note reference |
|--|--------------------|--|--------------------|--|---|----------------|
| Non-Current Liabilities | | | | | | |
| Employee benefit obligation | - | - | - | 1 141 663 | 1 141 663 | Note 52 |
| Provisions | - | - | - | 3 677 096 | 3 677 096 | Note 52 |
| | - | - | - | 4 818 759 | 4 818 759 | |
| Total Liabilities | - | - | - | 30 304 224 | 30 304 224 | |
| Net Assets | 869 770 051 | 34 999 575 | 904 769 626 | 915 210 104 | 10 440 478 | |
| Net Assets | | | | | | |
| Net Assets Attributable to Owners of Controlling Entity | | | | | | |
| Reserves | | | | | | |
| Reserve | 727 636 000 | 30 086 000 | 757 722 000 | - | (757 722 000) | Note 52 |
| Accumulated surplus | 142 134 096 | 4 913 725 | 147 047 821 | 915 210 104 | 768 162 283 | Note 52 |
| Total Net Assets | 869 770 096 | 34 999 725 | 904 769 821 | 915 210 104 | 10 440 283 | |
| Cash Flow Statement | | | | | | |
| Cash flows from operating activities | | | | | | |
| Receipts | | | | | | |
| Property rates | 14 700 000 | - | 14 700 000 | 7 028 030 | (7 671 970) | |
| Services charges | 2 199 996 | - | 2 199 996 | 153 062 | (2 046 934) | |
| Other revenue | 10 634 900 | - | 10 634 900 | 11 520 230 | 885 330 | |
| Interest income | 28 480 680 | - | 28 480 680 | 9 022 250 | (19 458 430) | |
| Government - operating | 251 074 560 | - | 251 074 560 | 271 926 481 | 20 851 921 | |
| Government - capital | 80 190 000 | 10 028 000 | 90 218 000 | - | (90 218 000) | |
| | 387 280 136 | 10 028 000 | 397 308 136 | 299 650 053 | (97 658 083) | |

Umzimvubu Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments/ Virements & Transfers | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Note reference |
|---|----------------------|------------------------------------|----------------------|------------------------------------|--|----------------|
| Payments | | | | | | |
| Suppliers and employees | (196 332 584) | (56 727 000) | (253 059 584) | (174 357 494) | 78 702 090 | |
| Finance costs | - | - | - | (224 606) | (224 606) | |
| Transfers and Grants | (930 000) | - | (930 000) | (4 780 529) | (3 850 529) | |
| | (197 262 584) | (56 727 000) | (253 989 584) | (179 362 629) | 74 626 955 | |
| Net cash flows from operating activities | 190 017 552 | (46 699 000) | 143 318 552 | 120 287 424 | (23 031 128) | |
| Cash flows from investing activities | | | | | | |
| Capital assets | (139 020 000) | (15 038 000) | (154 058 000) | (118 550 857) | 35 507 143 | |
| Net increase/(decrease) in cash and cash equivalents | 50 997 552 | (61 737 000) | (10 739 448) | 1 736 567 | 12 476 015 | |
| Cash and cash equivalents at the beginning of the year | 46 219 874 | - | 46 219 874 | 45 932 158 | (287 716) | |
| Cash and cash equivalents at the end of the year | 97 217 426 | (61 737 000) | 35 480 426 | 47 668 725 | 12 188 299 | |
| Reconciliation | | | | | | |

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Accounting Policies

1. Basis of Presentation

The Annual Financial Statements have been prepared on an Accrual Basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

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

1.1 Standards of General Recognised Accounting Practice (GRAP) and Interpretations (IGRAP) issued and effective:

GRAP 1 - Presentation of Financial Statements (as revised in 2010)
GRAP 2 - Cash Flow Statements (as revised in 2010)
GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
GRAP 4 - The Effects of Changes in Foreign Exchange Rates (as revised in 2010)
GRAP 5 - Borrowing Costs (as revised in 2013)
GRAP 6 - Consolidated and Separate Financial Statements
GRAP 7 - Investments in Associates
GRAP 8 - Interests in Joint Ventures
GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)
GRAP 11 - Construction Contracts (as revised in 2010)
GRAP 12 - Inventories (as revised in 2010)
GRAP 13 - Leases (as revised in 2010)
GRAP 14 - Events After the Reporting Date (as revised in 2010)
GRAP 16 - Investment Property (as revised in 2010)
GRAP 17 - Property, Plant and Equipment (as revised in 2010)
GRAP 18 - Segment Reporting (issued in 2011)
GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
GRAP 21 - Impairment of Non-cash-generating Assets
GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24 - Presentation of Budget Information in Financial Statements
GRAP 25 - Employee Benefits
GRAP 26 - Impairment of Cash-generating Assets
GRAP 27 - Agriculture
GRAP 31 - Intangible Assets
GRAP 100 - Discontinued Operations (as revised in 2013)
GRAP 103 - Heritage Assets
GRAP 104 - Financial Instruments
GRAP 105 - Transfer of Functions Between Entities Under Common Control
GRAP 106 - Transfer of Functions Between Entities Not Under Common Control
GRAP 107 - Mergers
IGRAP 1 - Applying the Probability Test on Initial Recognition of Revenue (As revised in 2012)
IGRAP 2 - Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3 - Determining whether an Arrangement Contains a Lease
IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6 - Loyalty Programmes
IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9 - Distributions of Non-cash Assets to Owners
IGRAP 10 - Assets Received from Customers
IGRAP 11 - Consolidation - Special Purpose Entities
IGRAP 12 - Jointly Controlled Entities - Non-Monetary Contributions
IGRAP 13 - Operating Leases – Incentives
IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15 - Revenue – Barter Transactions Involving Advertising Services
IGRAP 16 - Intangible Assets – Website Costs

1.2 Changes in Accounting Policy and Comparability

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Accounting Policies

Accounting Policies have been consistently applied, except where otherwise indicated below.

For the years ended 30 June 2017 and 30 June 2018 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

1.2.1 Municipal Standard Chart of Accounts (mSCOA) Implementation and Reclassification

The Municipal Regulations on Standard Chart of Accounts promulgated in terms of Government Gazette 37577 dated 22 April 2014 apply to all municipalities and municipal entities and became effective from 1 July 2017.

The main objective of this regulation is to provide for a national standard in respect of uniform recording and classification of municipal budget and financial information at a transaction level by prescribing a standard chart of accounts for municipalities and municipal entities which:

- a) are aligned to the budget formats and accounting standards prescribed for municipalities and municipal entities and with the standard chart of accounts for national and provincial government; and
- b) enable uniform information sets recorded in terms of national norms and standards across the whole of government for the purposes of national policy coordination and reporting, benchmarking and performance measurement in the local government sphere.

The impact of this mSCOA regulations definitely affected the municipality's current business processes; transacting and reporting requirements.

1.3 Critical Judgements, Estimations and Assumptions

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

The following are the critical judgements and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

1.3.1 Revenue Recognition

Accounting Policy 11.2 on Revenue from Exchange Transactions and Accounting Policy 11.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (*Revenue from Exchange Transactions*) and GRAP 23 (*Revenue from Non-exchange Transactions*). As far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. Management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

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Accounting Policies

1.3.2 Financial Assets and Liabilities

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 9.1 on Financial Assets Classification and Accounting Policy 9.2 on Financial Liabilities Classification describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of Financial Instruments as set out in GRAP 104 (*Financial Instruments*).

1.3.3 Impairment of Financial Assets

Accounting Policy 9.4 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of Financial Assets as set out in GRAP 104 (*Financial Instruments*) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

- Impairment of Trade Receivables:

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

The total increase in estimation of the impairment of Receivables from Exchange Transactions and that of Receivables from Non-exchange Transactions are disclosed in Notes 3 and 4 to the Annual Financial Statements.

1.3.4 Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 3.3, 4.2 and 5.2 the municipality depreciates its Property, Plant & Equipment and Investment Property, and amortises its Intangible Assets, over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

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

The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

The municipality has opted to early adopt the changes to GRAP 17 (*Property, Plant and Equipment*) as evident from Exposure Draft 126. Therefore, the useful lives and residual values of items of Property, Plant and Equipment, Intangible Assets and Investment Property shall only be amended if there have been any indicators that require such change to be made.

1.3.5 Impairment: Write-down of Property, Plant & Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventories

Accounting Policy 7 on Impairment of Assets, Accounting Policy 4.2 on Intangible Assets – Subsequent Measurement, Amortisation and Impairment and Accounting Policy 10.2 on Inventory – Subsequent Measurement describe the conditions under which nonfinancial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of Property, Plant and Equipment, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Value.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21 (*Impairment of Non-cash Generating Assets*) and GRAP 26 (*Impairment of Cash Generating Assets*). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

Estimated impairments during the year to Property, Plant and Equipment, Intangible Assets, Investment Property, Heritage Assets and Inventory are disclosed in Notes 9, 8, 10, 11 and 2 to the Annual Financial Statements, if applicable.

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Accounting Policies

1.3.6 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

1.3.7 Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the relevant Notes to the Annual Financial Statements.

1.3.8 Defined benefit plan liability

As described in accounting policy note 13 the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit plan obligation of the municipality that has been identified is a Long Service Awards Liability. The related estimated liability is accounted for in accordance with the requirements of GRAP 25 Employee Benefits.

The present value of the Long Service Awards Liability depends on a number of factors that are determined on an actuarial basis using a number of assumptions, such as discount rates, expected rates of return on plan assets, future salary increases, mortality rates and other factors. Any changes in these assumptions will impact on the carrying amount of post retirement obligations and due to the long term nature of Long Service Awards, such estimates are subject to significant uncertainty.

The net effective discount rate used for the purposes of the above-mentioned valuation is determined by the actuary based on various other rates and factors, as detailed in note 17 to the Annual Financial Statements. Such rates are estimated by the actuary and are also subject to significant uncertainty.

1.4 Presentation currency

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

1.5 Going concern assumption

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

1.6 Offsetting

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.7 Standards, Amendments to Standards and Interpretations issued but not yet Effective

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

- GRAP 20 Related Party Disclosures (Revised) (no effective date determined yet)
- GRAP 32 Service Concession Arrangement Grantor - issued August 2013 (no effective date determined yet)
- GRAP 34 Separate Financial Statements
- GRAP 35 Consolidated Financial Statements
- GRAP 36 Investments in Associates and Joint Ventures
- GRAP 37 Joint Arrangements
- GRAP 108 Statutory Receivables - issued September 2013. (no effective date determined yet)
- GRAP 109 Accounting by Principals and Agents - issued August 2013 (no effective date determined yet)
- GRAP 110 Living and Non-living resources
- IGRAP 17 Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset. issued August 2013 (no effective date determined yet).

The ASB Directive 5, paragraph 29, sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy as set out in the standard of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*.

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Accounting Policies

Standards, Amendments to Standards and Interpretations issued but not yet Effective (continued)

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued but is not yet in effect, the municipality may select to apply the principles established in that standard in developing an appropriate Accounting Policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Error.

The municipality applied the principles established in the following Standards of GRAP that have been issued but are not yet effective, in developing appropriate Accounting Policies

- GRAP 20 Related Party Disclosures (Revised)

Management has considered all of the above-mentioned GRAP Standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. Nett Assets

2.1 Accumulated Surplus

Included in the Accumulated Surplus of the municipality are the following Reserves that are maintained in terms of specific requirements:

2.1.1 Capital Replacement Reserve (CRR)

In order to finance the provision of Infrastructure and other items of Property, Plant and Equipment from internal sources, amounts are transferred from the Accumulated Surplus/(Deficit) to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the Investment Policy of the municipality.
- The CRR may only be utilised for the purpose of purchasing items of Property, Plant and Equipment and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the Accumulated Surplus/(Deficit) is credited by a corresponding amount.

3 Property, plant and equipment

3.1 Initial Recognition

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one

The cost of an item of Property, Plant and Equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, Plant and Equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grants or donations, deemed cost, being the fair value of the asset on initial recognition. 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

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

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Accounting Policies

Property, plant and equipment (continued)

The cost of an item of Property, Plant and Equipment acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

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

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

3.2 Subsequent Measurement

Subsequent expenditure relating to Property, Plant and Equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Property Plant and Equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of Property, Plant and Equipment that were impaired, lost or given up is included in the Statement of Financial Performance when the compensation becomes receivable.

3.3 Depreciation

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. 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.

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

| Item | Depreciation method | Useful life range |
|--------------------------------|---------------------|-------------------|
| Transport Assets | Straight line | 5-20 |
| Electrical Infrastructure | Straight line | 15-50 |
| Machinery and Equipment | Straight line | 2-15 |
| Furniture and Office Equipment | Straight line | 3-10 |
| Computer Equipment | Straight line | 3-5 |
| Roads Infrastructure | Straight line | 8-50 |
| Community Assets | Straight line | 5-80 |
| Other Assets | Straight line | 5-50 |
| Solid Waste Infrastructure | Straight line | 15-90 |

The assets' residual values, estimated useful lives and depreciation methods are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Assets, including assets not yet available for use, are annually tested for impairment as described in Accounting Policy 7, Impairment of Assets, whilst estimates in useful lives are reviewed in accordance with Accounting Policy 8, Estimation of Useful Lives.

3.4 Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

3.5 Infrastructure Assets

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Accounting Policies

Property, plant and equipment (continued)

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure Assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure Assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

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Accounting Policies

Property, plant and equipment (continued)

3.6 Incomplete Construction Work

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

3.7 Leased Assets

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

3.8 Derecognition

The carrying amount of an item of Property, Plant and Equipment is 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 item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

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Accounting Policies

4 Intangible Assets

The municipality changed its Accounting Policy from GRAP 102 to GRAP 31 with no effect on the financial information previously disclosed.

4.1 Initial Recognition

Identifiable non-monetary assets without physical substance are classified and recognised as Intangible Assets. The municipality recognises an Intangible Asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated Intangible Assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as it is incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as Intangible Assets when the following criteria are fulfilled:

- (a) It is technically feasible to complete the Intangible Asset so that it will be available for use;
- (b) Management intends to complete the Intangible Asset and use or sell it;
- (c) There is an ability to use or sell the Intangible Asset;
- (d) It can be demonstrated how the Intangible Asset will generate probable future economic benefits;
- (e) Adequate technical, financial and other resources to complete the development and to use or sell the Intangible Asset are available; and
- (f) The expenditure attributable to the Intangible Asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as Intangible Assets and amortised from the point at which the asset is available for use. Development assets are tested for impairment annually, in accordance with GRAP 21 or GRAP 26.

Intangible Assets are initially recognised at cost. The cost of an Intangible Asset is the purchase price and other costs attributable to bring the Intangible Asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an Intangible Asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

The cost of an Intangible Asset acquired in exchange for non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

4.2 Subsequent Measurement, Amortisation and Impairment

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an Intangible Asset at a later date.

In terms of GRAP 31, Intangible Assets are distinguished between internally generated Intangible Assets and other Intangible Assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a Straight-line Basis over the Intangible Assets' useful lives. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

Amortisation only commences when the intangible asset is available for use, unless stated otherwise. The amortisation rates are based on the following estimated useful lives:

| Item | Depreciation method | Average useful life |
|-------------------|---------------------|---------------------|
| Computer software | Straight line | 4 |

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Accounting Policies

(continued)

Website

Straight line

Infinite

The assets' residual values, estimated useful lives and amortisation methods are reviewed annually and adjusted prospectively, if appropriate, at each reporting date. Assets, including assets not yet available for use, are annually tested for impairment as described in Accounting Policy 7, Impairment of Assets, whilst estimates in useful lives are reviewed in accordance with Accounting Policy 8, Estimation of Useful Lives.

4.3 Derecognition

Intangible Assets 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 on the disposal or retirement of an Intangible Asset is determined as the difference between the proceeds of disposal and the carrying value and is recognised in the Statement of Financial Performance.

5. Investment property

5.1 Initial Recognition

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

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

The cost of self-constructed Investment Property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:

- (a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- (b) Land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation);
- (c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis (this will include the property portfolio rented out on a commercial basis on behalf of the municipality);
- (d) A property owned by the municipality and leased out at a below market rental; and
- (e) Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment or Inventory as appropriate:

- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- (b) Property being constructed or developed on behalf of third parties;
- (c) Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;

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Accounting Policies

Investment property (continued)

- (d) Property that is leased to another entity under a finance lease;
- (e) Property held to provide goods and services and also generates cash inflows; and
- (f) Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

Repairs and Maintenance are expenses incurred through servicing equipment or repairing of existing assets. These expenses are not recognised in the carrying value of the asset, but directly recognised in the Statement of Financial Performance and measured at cost against the attributing segments of the Municipal Standard Chart of Accounts (MSCoA).

5.2 Subsequent Measurement

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

5.3 Derecognition

An Investment Property shall be derecognised (eliminated from the Statement of Financial Position) on disposal or when the Investment Property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

6. Heritage assets

A Heritage Asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

Heritage Assets are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

6.1 Initial Recognition

The cost of an item of Heritage Assets is recognised as an asset if, and only if, it is probable that future economic benefits or service

potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

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Heritage assets (continued)

Heritage Assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of Heritage Assets 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

The cost of an item of Heritage Assets acquired in exchange for a non-monetary asset or monetary asset, or a combination of monetary and non-monetary assets, is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

6.2 Subsequent Measurement

Subsequent expenditure relating to Heritage Assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all Heritage Assets are measured at cost, less accumulated impairment losses.

6.3 Derecognition

The carrying amount of an item of Heritage Assets is 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 item of Heritage Assets is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of Heritage Assets.

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7. Impairment of cash and non-cash generating assets

The municipality classifies all assets held with the primary objective of generating a commercial return as Cash Generating Assets. All other assets are classified as Non-cash Generating Assets.

7.1 Impairment of Cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use. The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

7.2 Impairment of Non-cash Generating Assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined.

The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

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.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

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

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in the Statement of Financial Performance.

8. Estimation of useful lives

The municipality depreciates its assets over their estimated useful lives.

Useful life of an asset is defined as:

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

The municipality assesses at each reporting date whether there is any indication that the useful life of an asset has changed. If any such indication exists, the useful life is changed.

Any change in the useful life is accounted for as Change in Estimate in accordance with GRAP 3 (Accounting Policies, Change in Accounting Estimates and Errors).

Annually the municipality considers whether there is any indication that the initial useful lives of assets need to be revised. The municipality considers the following during the assessment of its assets' useful lives. Whether:

- (a) The composition of the asset has changed.
- (b) The use of the asset has changed because of the following:
 - (i) The municipality has changed the manner in which the asset is used;
 - (ii) The municipality has changed the utilisation rate of the asset;
 - (iii) The municipality has made the decision to dispose of the asset during a future reporting period which results in a change in the useful life of the asset;
 - (iv) Technological, environmental or commercial changes occurred during the reporting period that will change the use of the asset; and
 - (v) The asset was idle or retired during the current reporting period.
- (c) The asset is approaching its previously expected useful life.
- (d) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- (e) The asset is assessed as being impaired in accordance with the Accounting Policy and on Impairment of Assets.

A decrease in the estimated useful life of an asset is accounted for as an impairment in the Statement of Financial Performance.

The impairment of an asset is accounted for in accordance with Accounting policy and on Impairment of Assets. The estimation of the useful lives of the municipality's assets is a matter of judgement based on the experience of the municipality with similar assets. The municipality considers all facts and circumstances in estimating the useful lives of assets, which includes the consideration of financial, technical and other factors.

9. Financial instruments

The municipality has various types of Financial Instruments and these can be broadly categorised as *Financial Assets*, *Financial Liabilities* or *Residual Interests* in accordance with the substance of the contractual agreement. The municipality only recognises a Financial Instrument when it becomes a party to the contractual provisions of the instrument.

Initial Recognition

Financial Assets and Financial Liabilities are recognised on the municipality's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

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Accounting Policies

Financial instruments (continued)

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Fair Value Methods and Assumptions

The fair values of Financial Instruments are determined as follows:

- The fair values of quoted investments are based on current bid prices.
- If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Effective Interest Rate Method

The Effective Interest Method is a method of calculating the amortised cost of a Financial Asset or a Financial Liability 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.

Amortised Cost

Amortised Cost 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 Rate Method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

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Accounting Policies

Financial instruments (continued)

9.1 Financial Assets - Classification

A Financial Asset is any asset that is a cash, a contractual right to receive cash or another financial asset from another entity.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

- **Financial Assets measured at Amortised Cost** are non-derivative Financial Assets with fixed or determinable payments that are not quoted in an active market. They are included in Current Assets, except for maturities greater than 12 months, which are classified as Non-current Assets. Financial Assets at Amortised Cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. After initial recognition, Financial Assets are measured at amortised cost, using the *Effective Interest Rate Method* less a provision for impairment.
- **Financial Assets measured at Fair Value** are financial assets that meet either of the following conditions:
 - (i) Derivatives;
 - (ii) Combined instruments that are designated at fair value;
 - (iii) Instruments held for trading;
 - (iv) Non-derivative Financial Instruments with fixed or determinable payments that are designated at fair value at initial recognition; or
 - (v) Financial Instruments that do not meet the definition of Financial Instruments at Amortised Cost or Financial Instruments at Cost.
- **Financial Assets measured at Cost** are investments in residual Interest that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The municipality has the following types of Financial Assets as reflected on the face of the Statement of Financial Position or in the Notes thereto:

| Type of Financial Asset | Classification in terms of GRAP 104 |
|---|--|
| Receivables from Exchange Transactions | Financial asset measured at amortised cost |
| Receivables from Non-exchange Transactions | Financial asset measured at amortised cost |
| Bank: Cash and Cash Equivalents - Notice Deposits | Financial asset measured at amortised cost |
| Bank: Cash and Cash Equivalents - Call Deposits | Financial asset at Fair Value |
| Bank: Cash and Cash Equivalents - Bank | Financial asset at Fair Value |
| Bank: Cash and Cash Equivalents - Cash | Financial asset at Fair Value |

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Fair Value.

9.2 Financial Liabilities – Classification

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

There are three main categories of Financial Liabilities, the classification determining how they are measured. Financial Liabilities may be measured at:

- (i) Financial Liabilities measured at Fair Value;
- (ii) Financial Liabilities measured at Amortised Cost; or
- (iii) Financial Liabilities measured at Cost.

The municipality has the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

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Accounting Policies

Financial instruments (continued)

Type of Financial Liabilities

Long-term Liabilities
Payables from Exchange Transactions
Payables from Non-exchange Transactions
Current Portion of Long-term Liabilities

Classification in terms of GRAP 104

Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost
Financial liability measured at amortised cost

Financial Liabilities that are measured at Fair Value are Financial Liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of Financial Instruments where there is recent actual evidence of short-term profiteering or are derivatives).

9.3 Initial and Subsequent Measurement of financial assets and financial liabilities

9.3.1 Financial Assets:

Financial Assets measured at Amortised Cost

Financial Assets at Amortised Cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an Effective Yield Basis.

Trade and Other Receivables (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as Financial Assets at Amortised Cost.

Financial Assets measured at Fair Value

Financial Assets at Fair Value are initially measured at fair value, excluding directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in the Statement of Financial Performance.

9.3.2 Financial Liabilities:

Financial Liabilities measured at Fair Value

Financial Liabilities at Fair Value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

Financial Liabilities held at Amortised Cost

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Prepayments are carried at cost less any accumulated impairment losses.

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Accounting Policies

Financial instruments (continued)

Derecognition

9.4 Derecognition of Financial assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expires or it transfers the Financial Asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred Financial Asset, the municipality continues to recognise the Financial Asset and also recognises a collateralised borrowing for the proceeds received.

9.5 Derecognition of Financial liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

10. Inventories

10.1 Initial Recognition

Inventories comprise current assets held-for-sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where Inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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

Direct costs relating to properties that will be sold as Inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

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Accounting Policies

Inventories (continued)

10.2 Subsequent Measurement

10.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods

Consumable stores, raw materials, work-in-progress, inventories distributed at no charge or for a nominal charge and finished goods are valued at the lower of cost and net realisable value (net amount that the municipality expects to realise from the sale on Inventory in the ordinary course of business). The cost is determined using the weighted average cost of commodities.

10.2.2 Other Arrangements

Redundant and slow-moving Inventories identified are written down from cost to current replacement cost, if applicable.

Inventories identified to be sold by public auction are written down from cost to net realisable value with regard to their estimated economic or realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Differences arising on the measurement of such Inventory at the lower of cost and current replacement cost or net realisable value, are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any writedown of Inventories arising from an increase in current replacement cost or net realisable value is recognised as a reduction in the amount of Inventories recognised as an expense in the period in which the reversal occurs.

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

11. Revenue recognition

11.1 General

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service potential will flow to the municipality and when specific criteria have been met for each of the municipality's activities as described below, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue from Exchange Transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from Non-exchange Transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

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Accounting Policies

Revenue recognition (continued)

11.2 Revenue from Exchange Transactions

11.2.1 Service Charges

Service Charges are levied in terms of approved tariffs.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

11.2.2 Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

11.2.3 Finance Income

Interest earned on investments is recognised in the Statement of Financial Performance on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

11.2.4 Tariff Charges

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

11.2.5 Revenue from Agency Services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

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Accounting Policies

Revenue recognition (continued)

11.3 Revenue from Non-exchange Transactions

An inflow of resources from a Non-exchange Transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a Non-exchange Transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

11.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a *Time-proportionate Basis* with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

11.3.2 Fines

Fines are accounted for in accordance with GRAP 23 and from the current year the interpretation was done in accordance with IGRAP 1 as detailed below.

Fines constitute both spot fines and summonses. Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable.

Assessing and recognising impairment is an event that takes place subsequent to the initial recognition of revenue charged. The municipality assesses the probability of collecting revenue when accounts fall into arrears. Such an assessment is not be made at the time of initial recognition.

11.3.3 Public Contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with GRAP 23.

11.3.4 Government Grants and Receipts

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

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Accounting Policies

Revenue recognition (continued)

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

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

11.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

12. Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, 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 best estimate of the expenditure required to settle the present obligation is the amount that the municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

12.1 Provision for Environmental Rehabilitation

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

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Accounting Policies

13. Employee benefits liabilities

The municipality changed its Accounting Policy from IAS 19 to GRAP 25 with no effect on the financial information previously did.

13.1 Short-term employee benefits

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

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

13.2 Post-employment Benefits

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post-employment plans.

13.2.1 Defined Contribution Plans

A Defined Contribution Plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

13.2.2 Defined benefit plans

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

Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The *Projected Unit Credit Method* is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

14. Leases

14.1 Classification

Leases are classified as **Finance Leases** where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as **Operating Leases**.

Umzimvubu Local Municipality

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Accounting Policies

Leases (continued)

14.2 The Municipality as Lessee

14.2.1 Finance Leases

Where the municipality enters into a finance lease, property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset, plus any direct costs incurred. Lease payments are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the finance cost and the capital repayment using the *Effective Interest Rate Method*. Finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

14.2.2 Operating Leases

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a *Straight-line Basis* over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a *Straight-line Basis*, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

14.3 The Municipality as Lessor

Amounts due from lessees under **Finance Leases** or instalment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or instalment sale revenue is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Rental revenue from **Operating Leases** is recognised on a *Straight-line Basis* over the term of the relevant lease.

14.4 Determining whether an Arrangement contains a Lease

At inception of an arrangement, the municipality determines whether such an arrangement is, or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the municipality the right to control the use of the underlying asset. At inception, or upon reassessment of the arrangement, the municipality separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the municipality's incremental borrowing rate.

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.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

15. Borrowing costs

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

16. Grants in-aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- (a) Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- (b) Expect to be repaid in future; or
- (c) Expect a financial return, as would be expected from an investment.

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

17. Value added tax

The municipality accounts for Value Added Tax on the Payments Basis in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

18. Unauthorised expenditure

Unauthorised Expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state, and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to Unauthorised Expenditure is accounted for 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.

19. Irregular expenditure

Irregular Expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998), or is in contravention of the Municipality's or Municipal Entities' Supply Chain Management Policies. Irregular Expenditure excludes Unauthorised Expenditure. Irregular Expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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.

21. Change in accounting policies, estimates and errors

Changes in Accounting Policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Changes in Accounting Policies are disclosed in the Notes to the Annual Financial Statements where applicable.

Changes in Accounting Estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

Change in accounting policies, estimates and errors (continued)

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical. Details of Correction of Errors are disclosed in the Notes to the Annual Financial Statements where applicable.

22. Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

23. Contingent assets and contingent liabilities

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

Contingent Assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

24. Commitments

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

Commitments are disclosure for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements.
- Other commitments for contracts that are non-cancellable or only cancellable at significant cost, should relate to something other than the business of the municipality.

25. Related parties

The municipality changed its Accounting Policy from IPSAS 20 to GRAP 20 with no effect on the financial information previously disclosed.

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the Councillors, Mayor, Executive Committee Members, Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

26. Comparative figures

26.1 Current Year Comparatives

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Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

Comparative figures (continued)

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the Annual Financial Statements.

26.2 Prior Year Comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

26.3 Budget Information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of these Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the statement giving reasons for overall growth or decline in the budget and motivations for over- or under spending on line items. The annual budget figures included in the Annual Financial Statements are for the municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated Development Plan. The budget is approved on an accrual basis by nature classification.

The approved budget covers the period from 1 July 2017 to 30 June 2018.

27. Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

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Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

| | 2018 | 2017 |
|-----------------------------|----------------|----------------|
| 2. Inventories | | |
| Consumable stores | 217 565 | 323 534 |
| Other goods held for resale | 4 600 | - |
| | 222 165 | 323 534 |

Consumable Stores - Stationery

Stationery is held for own use and measured at lower of cost and current replacement cost. Inventories are expected to be utilised within 12 months after the reporting date.

No inventories have been pledged as collateral for liabilities of the municipality and no inventory is held for security.

The cost of inventories recognised as an expense during the period was R2 398 663 (2017: R193 654)

3. Operating lease receivable

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

| | | |
|--------------------------------------|------------------|------------------|
| Current assets | 5 971 779 | 2 427 165 |
| Balance at the beginning of the year | 2 427 165 | 85 727 |
| Operating lease revenue recorded | 3 544 614 | 2 356 196 |
| Operating lease revenue effected | - | (14 758) |
| Total | 5 971 779 | 2 427 165 |

3.1 Leasing Arrangements

The Municipality as Lessor:

Operating Leases relate to Property owned by the municipality with lease terms of between 2 to 50 years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

3.2 Amounts receivable under operating lease:

At the Reporting Date the following minimum lease payments were receivable under Non-cancelable Operating Leases for Property, Plant and Equipment, which are receivable as follows.

| | | |
|-------------------|--------------------|--------------------|
| Up to 1 year | 3 602 333 | 2 638 634 |
| 2 to 5 years | 13 048 282 | 9 860 381 |
| More than 5 years | 107 814 690 | 110 265 023 |
| | 124 465 305 | 122 764 038 |

The impact of charging the escalations in operating leases on a straight-line basis over the term of the lease has been an increase of R 3,544,614 in current year's income, disclosed under Rental of facilities and equipment in the Statement of Financial Performance.

No Operating leases have been pledged as collateral for liabilities of the municipality and is not held for security.

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018 2017

4. Receivables from non-exchange transactions

| | | |
|---|-------------------|-------------------|
| Fines | 12 000 111 | 11 709 083 |
| Sundry debtors | 14 055 | 63 872 |
| Levies to Assessment rates | 31 427 885 | 22 173 510 |
| Other taxes to Interest/penalty charges | 8 700 491 | 5 673 878 |
| Provision for impairment - Consumer debtors | (21 192 687) | (15 119 666) |
| Provision for impairment - Traffic fines | (7 938 006) | (8 170 981) |
| Provision for impairment - Interest/penalty charges | (5 915 201) | (3 953 032) |
| | 17 096 648 | 12 376 664 |

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

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

Ageing of Receivables from Non-exchange Transactions

Receivables from non-exchange transactions which are less than 1 month past due are not considered to be impaired. At 30 June 2018, R 15 002 721 (2017: R 11 008 110) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|-------------------|------------|------------|
| 1 month past due | 282 550 | 207 026 |
| 2 months past due | 259 194 | 89 456 |
| 3 months past due | 16 119 194 | 10 711 628 |

| 30 June 2018 | Current | 31 - 60 days | 61 - 90 days | 90 days + | Total |
|--------------------------|----------------|----------------|----------------|-------------------|-------------------|
| Assessment rates debtors | 1 024 054 | 839 945 | 817 539 | 28 746 347 | 31 427 885 |
| Sundry debtors | - | - | - | 14 055 | 14 055 |
| Traffic fines | 13 712 | 15 605 | 11 283 | 11 959 511 | 12 000 111 |
| Interest/Penalty charges | 262 097 | 267 603 | 261 384 | 7 909 407 | 8 700 491 |
| Subtotal | 1 299 863 | 1 123 153 | 1 090 206 | 48 629 320 | 52 142 542 |
| Less: impairment | (864 152) | (840 604) | (831 012) | (32 510 126) | (35 045 894) |
| | 435 711 | 282 549 | 259 194 | 16 119 194 | 17 096 648 |

| 30 June 2017 | Current | 31 - 60 days | 61-90 days | 90 days + | Total |
|--------------------------|------------------|----------------|---------------|-------------------|-------------------|
| Assessment rates debtors | 832 066 | 427 969 | 357 220 | 20 556 255 | 22 173 510 |
| Sundry Debtors | 13 023 | 41 793 | - | 9 055 | 63 871 |
| Traffic Fines | 3 048 462 | 71 700 | 52 200 | 8 536 721 | 11 709 083 |
| Interest/Penalty charges | 201 822 | 187 451 | 184 623 | 5 099 982 | 5 673 878 |
| Subtotal | 4 095 373 | 728 913 | 594 043 | 34 202 013 | 39 620 342 |
| Less: Impairment | (2 726 820) | (521 888) | (504 587) | (23 490 385) | (27 243 679) |
| | 1 368 553 | 207 025 | 89 456 | 10 711 628 | 12 376 662 |

Reconciliation of provision for impairment of receivables from non-exchange transactions

| | | |
|------------------------------|-------------------|-------------------|
| Opening balance | 27 243 679 | 23 469 693 |
| Impairment Losses recognised | 7 802 215 | 3 773 986 |
| | 35 045 894 | 27 243 679 |

The Provision for impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually are grouped together at the Statements of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

| | 2018 | 2017 |
|---|--------------------|--------------------|
| 5. VAT receivable | | |
| VAT | 6 147 779 | 4 576 706 |
| <p>VAT is accounted for on the cash basis. Only once payment is received from debtors, is VAT paid over to SARS and similarly only once cash is paid out to a creditor, will input be claimed from SARS.</p> <p>No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.</p> <p>VAT is not pledged as security for any of the municipality's financial liabilities</p> | | |
| 6. Receivables from Exchange transactions | | |
| Gross balances | | |
| Refuse | 5 287 496 | 3 869 433 |
| Land sales | 290 763 | 290 763 |
| Other | 1 522 775 | 1 684 299 |
| Less: Allowance for impairment | | |
| Refuse | (3 207 549) | (3 136 154) |
| Land sales | (232 596) | (232 596) |
| Other (specify) | (1 235 474) | - |
| | (4 675 619) | (3 368 750) |
| Net balance | | |
| Refuse | 2 079 947 | 733 279 |
| Other Debtors | 287 301 | 1 684 298 |
| Land Sales | 58 167 | 58 167 |
| | 2 425 415 | 2 475 744 |

Receivables from Exchange Transactions are billed monthly, latest end of the month. No interest is charges on Receivables until the end of the following month. Thereafter interest is charged at 10% per annum as determined by the council on the outstanding balance.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair value.

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Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018 2017

6. Receivables from Exchange transactions (continued)

Impairment

| | | |
|---|------------------|------------------|
| Balance at the beginning of the year | 3 368 750 | 4 263 008 |
| Impairment Losses recognised (reversed) | 1 306 869 | (894 258) |
| | 4 675 619 | 3 368 750 |

30 June 2018

| | Current | 31-60 days | 61-90 days | 91-120 days | Total |
|------------------|----------------|---------------|---------------|------------------|------------------|
| Refuse | 157 168 | 103 856 | 100 717 | 4 925 755 | 5 287 496 |
| Other | 27 585 | 29 935 | 25 364 | 1 439 887 | 1 522 771 |
| Land sales | - | - | - | 290 763 | 290 763 |
| Subtotal | 184 753 | 133 791 | 126 081 | 6 656 405 | 7 101 030 |
| Less: Impairment | (81 966) | (95 022) | (94 202) | (4 404 429) | (4 675 619) |
| | 102 787 | 38 769 | 31 879 | 2 251 976 | 2 425 411 |

30 June 2017

| | Current | 31-60 days | 61-90 days | 91-120 days | Total |
|------------------|----------------|----------------|---------------|------------------|------------------|
| Refuse | 125 939 | 111 731 | 104 244 | 3 527 520 | 3 869 434 |
| Other | 154 579 | 909 049 | - | (60 906) | 1 002 722 |
| Rental | 35 019 | 2 000 | - | 644 558 | 681 577 |
| Land sales | - | - | - | 290 763 | 290 763 |
| Subtotal | 315 537 | 1 022 780 | 104 244 | 4 401 935 | 5 844 496 |
| Less: Impairment | (92 011) | (90 670) | (89 449) | (3 096 622) | (3 368 752) |
| | 223 526 | 932 110 | 14 795 | 1 305 313 | 2 475 744 |

Past due but not impaired

Receivables from exchange transactions which are less than 1 month past due are not considered to be impaired. At 30 June 2018, R 3 437 265 (2017: R 2 896 152) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

| | | |
|------------------|-----------|-----------|
| 1 month past due | 54 448 | 948 147 |
| 2 month past due | 47 110 | 30 155 |
| 3 month past due | 3 060 618 | 1 917 850 |

7. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|------------------------------|-------------------|-------------------|
| Cashbook (Operating Account) | 1 878 479 | 846 200 |
| Current Investments | 45 790 246 | 45 085 959 |
| | 47 668 725 | 45 932 159 |

For the purposes of the Statements of Financial Position and the Cash Flow Statement, Cash and Cash equivalents include Investments in Money Market Instruments.

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Notes to the Annual Financial Statements

2018 2017

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | Cash book balances | |
|---|-------------------------|-------------------|--------------------|-------------------|
| | 30 June 2018 | 30 June 2017 | 30 June 2018 | 30 June 2017 |
| Primary Account FNB a/c No: 620 2218 3727 | 1 623 831 | 807 630 | 1 658 339 | 846 200 |
| FNB - Service Delivery Reserve- 620-3325-4723 | 15 278 886 | 5 014 444 | 15 278 886 | 5 014 444 |
| FNB - Operational Investment - 620-2945-0715 | 3 815 340 | 9 697 399 | 3 815 340 | 9 697 399 |
| FNB - Municipal Infrastructure Grant (MIG) - 620-8603-6714 | 267 387 | 5 714 519 | 267 387 | 5 714 519 |
| FNB - Guarantee Investment - 620-6874-2157 | 282 599 | 272 593 | 282 599 | 272 593 |
| FNB - Financial Management Grant (FMG) - 622-7618-7294 | 55 668 | 186 543 | 55 668 | 186 543 |
| FNB - Electrification Programme - 622-8856-0925 | 73 449 | 13 964 | 73 449 | 13 964 |
| Nedbank - Capital Replacement Reserve Account - 788-111-786 | 26 016 917 | 24 186 495 | 26 016 917 | 24 186 495 |
| Traffic fine bank account | 220 473 | - | 220 140 | - |
| Total | 47 634 550 | 45 893 587 | 47 668 725 | 45 932 157 |

Call Deposits are investments with a maturity period of 3 months or less and earn interest rates varying from 3.9% to 7.0% (2017: 4.82% to 6.5%) per annum.

Notice Deposits are investments with a maturity period of less than 12 months and earn interest rates varying from 5.075% to 5.68% (2017 (5.075% to 5.68%) per annum.

The municipality does not have any overdraft facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

The municipality did not pledge any of its Cash and Cash Equivalents as a collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents except for electricity guarantee investment.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Interim Financial Statements approximate their fair values.

The fair value of current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

8. Investment property

| | 2018 | | | 2017 | | |
|---------------------|---------------------|---|----------------|---------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 65 024 888 | - | 65 024 888 | 65 024 888 | - | 65 024 888 |

Reconciliation of investment property - 2018

| | Opening balance | Total |
|---------------------|--------------------|------------|
| Investment property | 65 024 888 | 65 024 888 |

Reconciliation of investment property - 2017

| | Opening balance | Total |
|---------------------|--------------------|------------|
| Investment property | 65 024 888 | 65 024 888 |

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as a security for any liabilities of the municipality. Refer to Appendix "B" for more detail on Investment Property.

8.1 Investment Property carried at Fair value

During the 2018 financial year the municipality decided to change its accounting policy on investment property from cost model to fair value model as it was deemed that this would provide more reliable and relevant information regarding investment property.

The following factors were considered and resulted in the change in accounting policy:

Umzimvubu Local Municipality

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Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

2018

2017

8. Investment property (continued)

i. The cost prices of Investment Property reflect, in most cases, the price paid several years ago for properties but would not be considered a reasonable current value of these assets should they be sold in an arm's length transaction. That is to say, the cost price differs materially from the current market value of the properties;

ii. The majority of the municipal investment property relates to vacant stands;

iii. Umzimvubu Local Municipality experiences highly unstable market related conditions due to various social, political and economic factors and it is considered that the fair value model will more accurately reflect these conditions;

iv. A further challenge experienced by the Municipality is illegal property invasions which occur. The fair value model will also more accurately account for the financial impact on investment properties arising from such cases.

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Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

9. Property, plant and equipment

| | 2018 | | | 2017 | | |
|--------------------------------|----------------------|---|--------------------|----------------------|---|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 13 375 976 | - | 13 375 976 | 13 375 976 | - | 13 375 976 |
| Buildings | 234 136 283 | (94 813 005) | 139 323 278 | 224 892 771 | (88 590 657) | 136 302 114 |
| Machinery and Equipment | 7 478 987 | (5 986 883) | 1 492 104 | 8 633 696 | (6 332 323) | 2 301 373 |
| Furniture and Office Equipment | 10 160 894 | (6 270 142) | 3 890 752 | 9 822 781 | (5 666 171) | 4 156 610 |
| Transport Assets | 11 086 869 | (4 262 423) | 6 824 446 | 10 289 283 | (3 460 848) | 6 828 435 |
| Computer equipment | 9 109 714 | (5 989 609) | 3 120 105 | 9 288 845 | (5 075 961) | 4 212 884 |
| Infrastructure | 1 281 401 219 | (727 305 742) | 554 095 477 | 1 240 183 346 | (640 911 096) | 599 272 250 |
| Work in Progress | 76 884 432 | - | 76 884 432 | 156 329 050 | - | 156 329 050 |
| Total | 1 643 634 374 | (844 627 804) | 799 006 570 | 1 672 815 748 | (750 037 056) | 922 778 692 |

Reconciliation of property, plant and equipment - 2018

| | Opening balance | Additions | Transfers received | Transfers | Depreciation | Impairment loss | Total |
|--------------------------------|--------------------|--------------------|--------------------|----------------------|---------------------|--------------------|--------------------|
| Land | 13 375 976 | - | - | - | - | - | 13 375 976 |
| Buildings | 136 302 114 | - | 9 243 511 | - | (6 222 347) | - | 139 323 278 |
| Machinery and Equipment | 2 301 373 | 242 147 | - | - | (717 035) | (334 381) | 1 492 104 |
| Furniture and Office Equipment | 4 156 610 | 651 907 | - | - | (854 282) | (63 483) | 3 890 752 |
| Transport Assets | 6 828 435 | 2 687 585 | - | - | (1 444 057) | (1 247 517) | 6 824 446 |
| Computer equipment | 4 212 884 | 685 917 | - | - | (1 665 755) | (112 941) | 3 120 105 |
| Infrastructure | 599 272 250 | - | 41 217 873 | - | (85 945 946) | (448 700) | 554 095 477 |
| Work in Progress | 156 329 050 | 113 818 943 | - | (193 263 561) | - | - | 76 884 432 |
| | 922 778 692 | 118 086 499 | 50 461 386 | (193 263 561) | (96 849 424) | (2 207 022) | 799 006 570 |

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

| | Opening balance | Additions | Disposals | Transfers received | Transfers | Depreciation | Total |
|--------------------------------|--------------------|--------------------|------------------|-----------------------|---------------------|---------------------|--------------------|
| Land | 13 375 976 | - | - | - | - | - | 13 375 976 |
| Buildings | 118 138 901 | - | - | 24 119 613 | - | (5 956 400) | 136 302 114 |
| Machinery and Equipment | 3 372 784 | 644 959 | (150 554) | - | - | (1 565 816) | 2 301 373 |
| Furniture and Office Equipment | 4 210 941 | 1 096 218 | (953) | - | - | (1 149 596) | 4 156 610 |
| Transport Assets | 5 314 116 | 3 047 179 | (163 632) | - | - | (1 369 228) | 6 828 435 |
| Computer equipment | 3 424 705 | 2 590 775 | (183 093) | - | - | (1 619 503) | 4 212 884 |
| Infrastructure | 609 817 991 | - | - | 69 326 123 | - | (79 871 864) | 599 272 250 |
| Work in Progress | 153 415 219 | 99 761 949 | - | - | (96 848 119) | - | 156 329 049 |
| | 911 070 633 | 107 141 080 | (498 232) | 93 445 736 | (96 848 119) | (91 532 407) | 922 778 691 |

9. PROPERTY, PLANT AND EQUIPMENT (Continued)

The remaining useful life of property plant and equipment were considered and adjusted in accordance with its condition. For detail of this exercise please see Note 8.5 to the Financial Statements.

Refer to Appendices "B, C and E (4)" for more detail on Property, Plant and Equipment, including those in the course of construction.

9.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use

There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.

9.2 Carrying Amount of Property, Plant and Equipment retired from active use and held for disposal

No Property, Plant and Equipment were retired from active use and held for disposal at the end of the financial year. Investment assets shall not be depreciated, but shall be annually valued at balance sheet date to determine their firm market values.

9.3 Assets pledged as security

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9. Property, plant and equipment (continued)

The municipality did not pledge any of its assets as security.

9.4 Impairment of Property, Plant and Equipment

No impairment losses have been recognised on Property, Plant and Equipment of the municipality at the reporting date for the current year.

9.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed

A change in the remaining estimated useful life of various assets of the municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year:

Total Change in Remaining Estimated for Useful Life of Property, Plant and Equipment

| | | |
|--------------------------------|----------------|------------------|
| Computer Equipment | 335 218 | 100 556 |
| Furniture and Office equipment | 297 203 | 94 592 |
| Transport assets | 151 402 | - |
| Plant & equipment | 187 277 | 135 600 |
| Machinery and equipment | 1 559 | 2 107 |
| Road Infrastructure | - | 923 857 |
| Security measures | - | 33 266 |
| | 972 659 | 1 289 978 |

9.6 Work-in-Progress

The municipality has incurred expenditure on capital projects which were not completed at year end.

Total Carrying amount of Work-in-progress

| | | |
|-----------------------------|-------------------|--------------------|
| Buildings | 44 003 290 | 32 368 919 |
| Infrastructure: Electricity | 5 890 278 | 96 400 714 |
| Infrastructure: Roads | 23 261 762 | 27 036 166 |
| Infrastructure: Sanitation | 3 729 103 | 523 250 |
| | 76 884 433 | 156 329 049 |

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9. 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.

10. Intangible assets

The movement in Intangible Assets is reconciled as follows:

| | 2018 | | | 2017 | | |
|--------------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 4 907 308 | (2 974 668) | 1 932 640 | 4 954 948 | (2 666 388) | 2 288 560 |

Reconciliation of intangible assets - 2018

| | Opening balance | Additions | Amortisation | Total |
|--------------------------|-----------------|-----------|--------------|-----------|
| Computer software, other | 2 288 560 | 290 500 | (646 420) | 1 932 640 |

Reconciliation of intangible assets - 2017

| | Opening balance | Additions | Disposals | Amortisation | Total |
|--------------------------|-----------------|-----------|-----------|--------------|-----------|
| Computer software, other | 1 723 895 | 1 216 899 | (27 614) | (624 620) | 2 288 560 |

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 30).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

Computer Software are issued under license and are restricted to the conditions under which each license are issued.

Refer to Appendix "B" for more detail on Intangible Assets.

10.1 Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets except for the Website, which has indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

10.2 Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

11. Heritage assets

| | 2018 | | | 2017 | | |
|---------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Mayoral chain | 17 719 | - | 17 719 | 17 719 | - | 17 719 |

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11. Heritage assets (continued)

All of the municipality's Heritage Assets are held under freehold interests and no Heritage Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Heritage Assets of the municipality.

Refer to Appendix "B" for more detail on Heritage Assets.

11.1 Impairment of Heritage Assets

No impairment losses have been recognised on Heritage Assets of the municipality at the reporting.

11.2 Heritage Assets measured after recognition using the Revaluation Model

The municipality's Heritage Assets are accounted for according to the cost model and therefore no fair value has been determined.

Reconciliation of heritage assets 2018

| | Opening balance | Total |
|---|-----------------|--------|
| Art Collections, antiquities and exhibits | 17 719 | 17 719 |

Reconciliation of heritage assets 2017

| | Opening balance | Total |
|---|-----------------|--------|
| Art Collections, antiquities and exhibits | 17 719 | 17 719 |

12. Payables from exchange transactions

| | | |
|-------------------------------|-------------------|-------------------|
| Trade payables | 9 189 831 | 4 934 279 |
| Payments received in advanced | 73 787 | 53 635 |
| Retentions | 1 698 755 | 1 408 305 |
| Staff leave | 6 220 283 | 5 001 128 |
| Bonus accrual | 3 042 269 | 2 706 925 |
| | 20 224 925 | 14 104 981 |

The municipality did not default on any payment of its Creditors. No terms for payment have been negotiated by the municipality.

The management of the municipality is of the opinion that carrying value of Creditors approximates their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

13. Payables from Non-Exchange Transactions

| | | |
|------------------------------|------------------|------------------|
| Payments received in advance | 4 535 292 | 2 235 827 |
| Hall Deposits | 76 795 | 48 757 |
| | 4 612 087 | 2 284 584 |

No credit period exists for Payables from Non-Exchange Transactions, neither has any credit period been arranged. No interest is charges on outstanding amounts.

The management of the municipality is of the opinion that carrying value of Creditors approximates their fair values.

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| | 2018 | 2017 |
|--|------|------|
|--|------|------|

13. Payables from Non-Exchange Transactions (continued)

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

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| | 2018 | 2017 |
|---|------------------|------------------|
| 14. Employee benefit obligations | | |
| Long Service Awards Liability | | |
| Total | 1 093 045 | 1 201 036 |
| Long Service Awards Liability | | |
| Balance at Beginning of year | 1 201 036 | 1 221 552 |
| Increase in provision due to change in estimate | 375 798 | 181 912 |
| Balance at year end | 1 576 834 | 1 403 464 |
| Transfer to Current Provision | (435 171) | (202 428) |
| | 1 141 663 | 1 201 036 |

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 5 years of continuous service, and every 5 years of continuous service thereafter to 45 years of service inclusive, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2018 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 145 (2017: 143) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2018 is estimated to be R226,520, whereas the cost for the ensuing year is estimated to be R230 823.

| The principal assumptions used for the purposes of the actuarial valuations were as follows: | 2018 | 2017 |
|--|-------------|-------------|
| Discount Rate | 8.34% | 8.24% |
| Cost Inflation Rate | 6.00% | 6.06% |
| Net Effective Discount Rate | 2.21% | 2.06% |
| Expected Retirement Age | 58 | 58 |

Movements in the present value of the Defined Benefit Obligation were as follows:

| | | |
|--------------------------------------|------------------|------------------|
| Balance at the beginning of the year | 1 403 464 | 1 352 536 |
| Current service costs | 226 520 | 230 935 |
| Interest cost | 107 480 | 105 204 |
| Benefits paid | (202 428) | (205 155) |
| Actuarial losses / (gains) | 41 798 | (80 056) |
| | 1 576 834 | 1 403 464 |
| Non-current liabilities | 1 141 663 | 1 201 036 |
| Current liabilities | 435 171 | 202 428 |
| | 1 576 834 | 1 403 464 |

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14. Employee benefit obligations (continued)

The fair value of plan assets includes:

The amounts recognised in the Statement of Financial Performance are as follows (Note)

| | | |
|---------------------------|----------------|----------------|
| Current service cost | 226 520 | 230 935 |
| Interest cost | 107 480 | 105 204 |
| Actuarial losses / (gain) | (41 798) | (80 056) |
| | 292 202 | 256 083 |

The history of experienced adjustment is as follows:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-----------|-----------|-----------|-----------|---------|
| Present Value of Defined Benefit Obligation | 1 576 834 | 1 403 464 | 1 352 536 | 1 171 810 | 977 565 |

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|--|----------------|------------------|
| Municipal Infrastructure Grant | 104 | 5 465 679 |
| Financial Management Grant | - | 389 |
| Department of Cooperative Government & Traditional Affairs (COGTA) | 213 178 | 121 330 |
| | 213 282 | 5 587 397 |

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

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

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

These amounts are invested in a ring-fenced investment until utilised.

16. Provisions

Reconciliation of provisions - 2018

| | Opening Balance | Additions | Total |
|---|-----------------|-----------|-----------|
| Provision for rehabilitation of Land-fill sites | 3 357 542 | 319 554 | 3 677 096 |

Reconciliation of provisions - 2017

| | Opening Balance | Additions | Total |
|--|-----------------|-----------|-----------|
| Provision for rehabilitation of Land-sites | 3 065 758 | 291 784 | 3 357 542 |

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16. Provisions (continued)

The movement in the Provision for Rehabilitation of Land-fill Sites is reconciled as follows:

| | | |
|--|------------------|------------------|
| Balance at beginning of year | 3 357 542 | 3 065 758 |
| Increase in provision due to discounting of interest | 319 554 | 291 784 |
| | 3 677 096 | 3 357 542 |

16.1 Rehabilitation of Land-fill Sites

In terms of the licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R3,677,096 (2017: R3,357,542) to restore the sites at the end of their useful lives. Provision has been made for the net present value of the future cost, using the average cost of borrowing interest rate.

Assumptions and estimates are based on a operational life expectancy of 25 years.

Actual data from the recent closures and rehabilitation of landfill sites in the Eastern Cape were used to extrapolate expected cost for the Umzimvubu landfill sites.

The valuation was done by A. Bowers (PrEng) and M. Koch from EMS Advisory (Pty) based in Cape Town, Bloemfontein and Pretoria, (2017: Z.S. Godlimpi and H.A Roets from Scientific Roets Engineering Services based in Kokstad.)

The municipality will incur rehabilitation cost on its two dumping/landfill sites in the 2017/18. Provision has been made for the net present value.

17. Accumulated surplus

| | | |
|--|--------------------|----------------------|
| Capital Replacement Reserve (CRR) | 26 016 917 | 24 186 495 |
| Accumulated Surplus due to the results of operations | 955 529 850 | 1 070 725 410 |
| Total Accumulated Surplus | 981 546 767 | 1 094 911 905 |

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

18. Sale of goods

Sale of goods and rendering of services

| | | |
|-----------------------|------------------|----------------|
| Sundry income | 1 825 | 31 |
| Advertising | 263 445 | 109 701 |
| Entrance fees | 126 337 | 2 193 |
| Rezoning Application | 1 681 | 17 105 |
| Building Plan Fees | 129 383 | 193 512 |
| Funeral Plot Fees | 29 064 | 21 884 |
| Clearance Certificate | 3 853 | 4 895 |
| Rezoning Certificate | 3 146 | 628 |
| Tender Fees | 498 414 | 239 607 |
| Subdivision | 13 840 | 14 331 |
| Street Trading | 29 | 11 325 |
| | 1 071 017 | 615 212 |

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| | 2018 | 2017 |
|----------------------------|-----------|---------|
| 19. Service charges | | |
| Removal of refuse | 1 159 426 | 700 628 |

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

20. Rental of facilities and equipment

Facilities and equipment

| | | |
|---------------------------------|------------------|------------------|
| Rental for Municipal Properties | 2 654 027 | 702 547 |
| Rental of equipment | 8 971 | 13 381 |
| Rental revenue halls | 109 068 | 86 282 |
| Rental of Amenities | 110 645 | 111 809 |
| Rental income - Straight lining | 3 544 615 | 2 356 196 |
| | 6 427 326 | 3 270 215 |

Rental revenue earned on Facilities and Equipment is in respect of Non-Financial Assets rented out.

21. Interest on debtors

| | | |
|-----------------------------|-----------|-----------|
| Outstanding billing debtors | 2 926 497 | 2 308 724 |
|-----------------------------|-----------|-----------|

22. Income from Agency Services

| | | |
|----------------------|-----------|-----------|
| Vehicle Registration | 2 051 565 | 1 702 919 |
|----------------------|-----------|-----------|

23. Licences and Permits

| | | |
|-------------------------------|------------------|------------------|
| Drivers and learners licenses | 2 408 697 | 2 086 314 |
| Trading licences | 234 096 | 299 059 |
| | 2 642 793 | 2 385 373 |

24. Operating Income

| | | |
|---|------------------|------------------|
| Transfers and Subsidies (LG SETA) | 115 850 | 146 260 |
| Fines Penalties and Forfeits (Pound Fees) | 801 126 | 548 758 |
| Sundry Income | - | 44 677 |
| Operating revenue | 401 356 | 805 057 |
| | 1 318 332 | 1 544 752 |

The amounts disclosed above for Other Revenue are in respect of services, other than described in Note 18 to 23, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

25. Interest earned- External Investments

Interest revenue

| | | |
|-------------------------|------------------|------------------|
| Bank | 621 791 | 364 574 |
| Interest on investments | 5 676 390 | 5 022 562 |
| | 6 298 181 | 5 387 136 |

Municipal investments are held at FNB and Nedbank earning interest rates varying from 7.3 % to 8.1%.

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26. Property rates

Rates received

| | | |
|-------------|-------------------|-------------------|
| Residential | 3 651 532 | 3 120 343 |
| Commercial | 9 561 273 | 4 200 881 |
| State | 1 858 846 | 7 018 116 |
| | 15 071 651 | 14 339 340 |

Valuations

| | | |
|-------------|----------------------|----------------------|
| Residential | 398 639 447 | 277 856 211 |
| Commercial | 299 499 975 | 258 012 967 |
| State | 476 627 254 | 468 535 213 |
| | 1 174 766 676 | 1 004 404 391 |

Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R -0.0157 (2017: R -0.0148) is applied to residential properties, 0.0315 for commercial properties, 0.0039 for government and 0.0190 is applied to property valuations to determine assessment rates. Rebates of 15 000 (2017: 15 000) are granted to residential property owners.

Rates are levied monthly on property owners and are payable the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate determined by council on outstanding rates amounts.

In accordance with Section 17(h) of the Municipal Properties Rates Act the first R15 000 of the market value of residential properties are exempted from assessment rates. The General valuation Roll that is being implemented was compiled in 2012 and implemented on 01 July 2013 with subsequent annual supplementary valuation rolls done every year. There are four supplementary valuation rolls that were conducted in the cycle of this valuation Roll. Supplementary valuation roll had saw reductions in residential property values.

27. Government grants and subsidies

Operating grants

| | | |
|---|--------------------|--------------------|
| Equitable share | 175 184 000 | 162 712 000 |
| Provincial Department of Arts and Culture | - | 9 132 688 |
| Total Operating grants | 175 184 000 | 171 844 688 |

Conditional grants

| | | |
|--|--------------------|--------------------|
| Municipal infrastructure grant | 52 655 575 | 46 559 537 |
| Integrated national electrification grant | 44 999 990 | 17 500 000 |
| Expanded Public Works Program | 2 537 000 | 1 626 000 |
| Financial Management Grant | 1 700 434 | 1 624 685 |
| National MSIG | - | 352 |
| Department Economic Affairs and Trade (DEAT) | - | 389 025 |
| Provincial: Department of Cooperative Government & Traditional Affairs (COGTA) | 258 152 | 339 578 |
| | 102 151 151 | 68 039 177 |
| Total Capital grants and Operating grants | 277 335 151 | 239 883 865 |

Summary of transfers:

| | | |
|---|-------------|-------------|
| Conditional met - transferred to Revenue: Capital Expenditure | 97 655 565 | 68 039 177 |
| Conditions met - transferred to Revenue: Operational Expenses | 179 679 586 | 171 844 688 |

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27. Government grants and subsidies (continued)

277 335 151 239 883 865

Equitable Share

In terms of the Constitution, part of this grant is used to subsidise the provision of basic services to indigent community members on application. Households where the total gross monthly income of all occupants over 18 years of age does not exceed the earning of a combined gross income equivalent to less than two times the Government pension grant as prescribed by the National Government of Social Development, qualify for a subsidy of the essential services package.

Municipal Infrastructure Grant

| | | |
|---|--------------|------------------|
| Balance unspent at beginning of year | 5 465 679 | 29 216 |
| Current-year receipts | 47 190 000 | 51 996 000 |
| Conditions met - transferred to revenue | (52 655 575) | (46 559 537) |
| | 104 | 5 465 679 |

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

The MIG grant was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading poor households micro-enterprises and social institutions, to provide for new rehabilitation and upgrading of municipal infrastructure.

Financial Management Grant

| | | |
|---|-------------|-------------|
| Balance unspent at beginning of year | 389 | 73 |
| Current-year receipts | 1 700 000 | 1 625 000 |
| Conditions met - transferred to revenue | (1 700 434) | (1 624 684) |
| Transfer to internal fund | 45 | - |
| | - | 389 |

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

The FMG grant is paid to help the Municipality in implementing the financial management reforms required by MFMA.

Expanded Public Works Programme Grant

| | | |
|---|-------------|-------------|
| Current-year receipts | 2 537 000 | 1 626 000 |
| Conditions met - transferred to revenue | (2 537 000) | (1 626 000) |
| | - | - |

The grant is utilised of creating job opportunities in environmental and cultural, infrastructure and the social eradication of poverty and capacity building programs.

Intergrated National Electrification Programme

| | | |
|---|--------------|--------------|
| Current-year receipts | 44 999 990 | 17 500 000 |
| Conditions met - transferred to revenue | (44 999 990) | (17 500 000) |
| | - | - |

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

The grant is utilised for upgrading of substations and electrical installations within the greater municipal area.

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| | 2018 | 2017 |
|--|-------------------|-------------------|
| 27. Government grants and subsidies (continued) | | |
| Municipal Systems Improvement Grant | | |
| Balance unspent at beginning of year | - | 352 |
| Conditions met - transferred to revenue | - | (352) |
| | - | - |
| Department of Economic Affairs and Trade (DEAT) | | |
| Balance unspent at beginning of year | - | 389 025 |
| Conditions met - transferred to revenue | - | (389 025) |
| | - | - |
| Department of Cooperative Government & Traditional Affairs (COGTA) | | |
| Balance unspent at beginning of year | 121 330 | 110 908 |
| Current-year receipts | 350 000 | 350 000 |
| Conditions met - transferred to revenue | (258 152) | (339 578) |
| | 213 178 | 121 330 |
| Conditions still to be met - remain liabilities (see note 15). | | |
| The grant is utilised for funding the library activities of the municipality. | | |
| Provincial Department of Arts & Culture | | |
| Ema-Xesibeni Library | - | 9 132 688 |
| The Department of Arts and Culture built a Library in Ema-Xesibeni and donated it to the municipality. | | |
| 28. Public contributions and donations | | |
| Unconditional contributions | 5 263 | - |
| 29. Fines | | |
| Traffic fines | 1 456 324 | 2 262 968 |
| 30. Employee related costs | | |
| Basic | 43 686 662 | 39 683 501 |
| Bonus | 3 042 269 | 3 851 119 |
| Medical aid - company contributions | 3 241 928 | 3 054 321 |
| UIF | 454 147 | 282 126 |
| WCA | 711 226 | 550 000 |
| SDL | 677 666 | 481 245 |
| Leave pay provision charge | 2 007 482 | 973 356 |
| Contribution to pension funds | 5 459 304 | 4 983 267 |
| Travel, motor car, accommodation, subsistence and other allowances | 3 909 693 | 3 759 660 |
| Housing benefits and allowances | 1 916 907 | 1 783 610 |
| Bargaining Council Levy | 17 260 | 16 075 |
| Standby Allowance | 138 647 | 328 046 |
| | 65 263 191 | 59 746 326 |

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| | 2018 | 2017 |
|--|------------------|------------------|
| 30. Employee related costs (continued) | | |
| Remuneration of municipal manager - GPT Nota | | |
| Annual Remuneration | 783 416 | 1 090 700 |
| Allowances | 456 993 | 310 888 |
| Bonuses | 65 285 | - |
| Contributions to pension funds | 11 798 | 159 116 |
| Termination benefits | 72 648 | - |
| | 1 390 140 | 1 560 704 |
| <p>The Municipal Manager was engaged as the 01 July 2017. The previous term ended on 30th April 2017. A month to month contract was agreed upon between the Municipality and the outgoing Municipal Manager for the period in - between.</p> | | |
| Remuneration of Chief Financial Officer - X Venn | | |
| Annual Remuneration | 663 415 | 769 663 |
| Allowance | 386 992 | 300 957 |
| Bonuses | 55 285 | - |
| Contributions to pension funds | 12 049 | 53 745 |
| | 1 117 741 | 1 124 365 |
| Remuneration of Manager Community Service - M Sineke | | |
| Annual Remuneration | 663 415 | 765 689 |
| Allowance | 386 992 | 352 917 |
| Bonuses | 55 285 | - |
| Contributions to pension funds | 12 008 | 1 785 |
| | 1 117 700 | 1 120 391 |
| Remuneration of Corporative Service - N Kubone | | |
| Annual Remuneration | 663 415 | 769 663 |
| Allowance | 386 992 | 316 678 |
| Bonuses | 55 285 | - |
| Contributions to pension funds | 12 047 | 38 024 |
| | 1 117 739 | 1 124 365 |
| Local Economic Development - SL Batyi | | |
| Annual Remuneration | 663 415 | 765 689 |
| Allowance | 386 992 | 301 106 |
| Performance Bonuses | 55 285 | 53 726 |
| Contributions to pension funds | 12 049 | - |
| Acting allowance | - | 126 365 |
| | 1 117 741 | 1 246 886 |

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30. Employee related costs (continued)

Infrastructure and Planning - SP Ntonga

| | | |
|--------------------------------|------------------|------------------|
| Annual Remuneration | 663 415 | 759 728 |
| Allowance | 386 992 | 352 917 |
| Bonuses | 55 285 | - |
| Contributions to pension funds | 12 104 | 1 785 |
| | 1 117 796 | 1 114 430 |

Chief Operations Officer - Mr S Kulu

| | | |
|--------------------------------|---|----------------|
| Annual Remuneration | - | 204 647 |
| Allowance | - | 49 688 |
| Contributions to pension funds | - | 8 833 |
| Termination benefits | - | 111 265 |
| | - | 374 433 |

Chief Operations Officer - N Zembe

| | | |
|--------------------------------|------------------|---|
| Annual Remuneration | 643 225 | - |
| Allowance | 375 215 | - |
| Bonuses | 53 602 | - |
| Contributions to pension funds | 10 698 | - |
| | 1 082 740 | - |

Mrs N Zembe was appointed to the post of Manager Special Programmes (SPU) and Communications as of 1 July 2017. Mr S Kulu was the Manager SPU at the commencement of the previous financial year and vacated the post during August 2016. At a later stage during that financial year the Manager Local Economic Development acted in this post.

Local Economics Development: P Vitshima

| | | |
|----------------------|---------|---|
| Termination Benefits | 338 875 | - |
|----------------------|---------|---|

The termination benefits as per the above refers to settlement of lawsuit which has been provided for in prior years as a result of litigation that is related to employment for section 56 managers.

31. Remuneration of councillors

| | | |
|---|-------------------|-------------------|
| Executive Mayor | 409 011 | 380 780 |
| Speaker | 327 209 | 323 132 |
| Chief whip | 306 759 | 285 586 |
| Executive members | 1 985 228 | 1 975 067 |
| Councillors | 5 575 401 | 4 956 808 |
| Councillors UIF, medical and pension funds | 1 754 992 | 1 319 300 |
| Other allowances (cellular phones, housing, transport, etc) | 7 285 639 | 6 322 611 |
| | 17 644 239 | 15 563 284 |

Remuneration of Councillors:

Councillors were compensated within the limits set by the Remuneration of Public Office Bearers Act No 20 of 1998. For details per Councillor see Appendix G

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31. Remuneration of councillors (continued)

In-kind benefits

Councillors may utilise official Council transportation when engaged in official duties. The Mayor had an official office and car.

32. Depreciation and amortisation

| | | |
|--|-------------------|-------------------|
| Property, plant and equipment | 96 849 425 | 91 532 407 |
| Intangible assets | 646 420 | 624 620 |
| Total Depreciation and Amortisation | 97 495 845 | 92 157 027 |

33. Impairment losses

33.1 Impairment Losses on Assets

| | | |
|-------------------------------|-----------|---|
| Property, plant and equipment | 2 897 882 | - |
|-------------------------------|-----------|---|

33.2 Impairment Losses on Financial Assets

| | | |
|--|-----------|-----------|
| Receivables from Non-exchange Transactions | 8 144 316 | 3 773 986 |
| Minus impairment of VAT Debtors (Not an expense to entity) | - | 166 553 |
| Receivables from Exchange Transactions | 597 935 | (336 761) |

8 742 251 **3 603 778**

Total impairment losses (recognised) reversed

11 640 133 **3 603 778**

34. Finance costs

| | | |
|-------------------------------|----------------|----------------|
| Interest on provision | 319 554 | 291 784 |
| Interest on employee benefits | 107 480 | 105 204 |
| | 427 034 | 396 988 |

35. Lease rentals on operating lease

| | | |
|------------------------|---------|---|
| Printers and equipment | 709 986 | - |
|------------------------|---------|---|

The expenditure incurred for Operating lease relates to Xerox machines leased by the Municipality for the purposes of photocopying machines for a period of 2 years.

The expenses recognised as an expense in the Statement of Financial Performance.

The minimum lease payments due:

| | |
|-------------------|---------|
| - within 1 year | 221 210 |
| - in 2 to 5 years | - |

36. Material and stores

| | | |
|-------------|-----------|---------|
| Consumables | 2 210 348 | 381 969 |
|-------------|-----------|---------|

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| | 2018 | 2017 |
|--|-------------------|-------------------|
| 37. Contracted Services | | |
| Consultants and professional fees | | |
| Legal Fees | 3 394 428 | 1 599 578 |
| Audit Committee | 729 892 | 468 700 |
| Professional fees | 12 470 438 | 9 472 794 |
| Contractors | | |
| Event promoters | 1 599 246 | 2 806 815 |
| Safe gaurding security | 73 600 | - |
| Repairs and Maintenance - Buildings | 2 930 910 | 1 187 973 |
| Repairs and Maintenance - Equipment | 425 917 | 11 198 |
| Repairs and Maintenance - Unspecified Assets | 3 350 376 | 3 309 756 |
| Debt Collection Agents | 254 286 | 351 142 |
| Employee Wellness | 130 171 | 897 679 |
| Entertainment services | 1 165 914 | 1 261 964 |
| Outsourced | | |
| Catering | 2 649 556 | 599 770 |
| Traffic Fines Management | 330 380 | - |
| Security Services | 7 424 432 | 5 746 413 |
| Internal Auditors | 493 486 | 633 639 |
| Grants and subsidies paid | 6 976 271 | 6 090 805 |
| | 44 399 303 | 34 438 226 |

38. Loss on disposal of assets

Management has taken a decision to dispose of a significant asset /or a group of assets and liabilities /or a component of the entity.

| | | |
|--|---------------------|--------------------|
| Proceeds on Disposal of Property, Plant and Equipment | - | 135 596 |
| Property, Plant and Equipment Disposed at Carrying Value | (12 892 186) | (3 780 945) |
| Total Losses on Disposal of Property, Plant and Equipment | (12 892 186) | (3 645 349) |
| Intangible Assets Disposal at Carrying Value | - | (27 614) |
| Net Losses on Disposal of Assets | (12 892 186) | (3 672 963) |
| Proceeds on Sale of Assets | - | 135 596 |
| Assets Disposed at Carrying value | (12 892 186) | (3 808 559) |
| Total Losses on Disposal of Capital Assets | (12 892 186) | (3 672 963) |

Redundant furniture and equipment were sold per public auction during the year. The Municipal Demarcation Board re-determined the municipal boundaries of uMzimvubu Municipality by excluding a portion of the municipal area resulting in some of the municipal infrastructure falling outside the municipal boundaries. The changes in the boundaries resulted in infrastructure assets to the value R12 892 186 (2017: R3 282 712) being transferred as the municipality lost control of the assets. The impact of the changes in the boundaries will be reported to the next council meeting before tabling of the annual report.

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| | 2018 | 2017 |
|---|-----------|-----------|
| 39. Operating costs | | |
| Administrative expenses | 168 425 | 105 252 |
| Advertising fees | 618 070 | 762 522 |
| Agrarian reform | 7 379 207 | 3 933 476 |
| Auditors fees | 4 506 041 | 2 475 615 |
| Awards Ceremony | 310 237 | 300 630 |
| Bank charges | 344 407 | 374 967 |
| Batho Pele Programmes | - | 41 020 |
| Books and publications | 6 557 | 35 400 |
| Bursaries - External | 591 267 | 734 168 |
| Bursaries - Internal | 896 358 | 178 309 |
| Career exhibition | 366 432 | 715 723 |
| Cleaning | 1 028 261 | 138 638 |
| Communication strategy | - | 119 123 |
| Community radio support | 222 166 | 209 660 |
| Conference fees | - | 186 927 |
| Consumables and beverages | 617 131 | 59 906 |
| Development programmes | - | 32 300 |
| Disaster management plan | - | 138 166 |
| Donations | 114 809 | - |
| Drivers license cards | 241 661 | 103 808 |
| Electricity and water purchases | 1 131 280 | 1 239 150 |
| Employee relations programmes | - | 105 862 |
| Entertainment | 858 | 61 662 |
| Environmental management | - | 189 000 |
| Equipment rental | (4 698) | 418 757 |
| Events and Programs | - | 1 141 903 |
| Fleet rental services | 852 614 | 494 755 |
| Food for waste | - | 2 445 987 |
| Fuel and oil | 2 280 061 | 1 529 277 |
| Free basic services/Low income subsidy | 4 571 825 | 3 731 720 |
| HIV/AIDS | - | 98 140 |
| IDT outreach | 223 899 | 216 910 |
| IT expenses | 760 798 | 3 303 836 |
| Induction program | - | 2 040 |
| Insurance - external | 1 657 319 | 1 617 972 |
| Intergovernmental relations | - | 166 684 |
| Internships | - | 376 502 |
| Investment Promotion | - | 641 109 |
| Marketing | 806 822 | 1 148 739 |
| Transport costs | 1 618 084 | - |
| Performance management system | - | 49 341 |
| Postage and courier | 5 345 | 4 366 |
| Pound fees | - | 28 565 |
| Printing and stationery | 444 804 | 1 231 164 |
| Promotional material | - | 248 266 |
| Protective clothing | 998 546 | 613 010 |
| Ratepayers incentive | - | 323 487 |
| ICT Schools Development Programmes | 208 704 | 265 848 |
| Refuse | - | 494 753 |
| Strategic planning | 1 622 707 | 2 055 913 |
| Strategic support and Induction | - | 105 300 |
| Subscriptions and membership fees | 1 117 368 | 40 956 |
| Subsistence and travelling | 6 759 271 | 6 505 476 |
| Sundry expenses | 5 000 | 389 758 |
| Telephone and fax | 4 045 360 | 4 207 782 |
| Tourism | 57 700 | 489 970 |
| Training | 1 589 818 | 2 484 446 |
| Refuse bins donated and work exposure program | - | 291 020 |

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| | 2018 | 2017 |
|--|-------------------|-------------------|
| 39. Operating costs (continued) | | |
| Vehicle licensing | 41 827 | 43 520 |
| Ward committees | 3 196 895 | 3 467 550 |
| | 51 403 236 | 52 916 106 |

The amounts disclosed above for Other Operational Costs are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense.

No other extra-ordinary expenses were incurred.

40. Cash generated from operations

| | | |
|--|--------------------|-------------------|
| Surplus for the year | (116 273 760) | 11 870 320 |
| Adjustments for: | | |
| Depreciation and amortisation | 97 495 845 | 91 891 228 |
| Losses on Disposal of Property, Plant and Equipment | 12 892 186 | 3 672 963 |
| Surplus on distribution of non-cash assets to owners | 129 909 988 | - |
| Impairment deficit - PPE | 2 207 022 | 3 603 779 |
| Debt impairment - receivables from non-exchange transactions | 7 802 215 | - |
| Debt impairment - receivables from exchange transactions | 1 306 869 | - |
| Movements in operating lease assets and accruals | (3 544 614) | - |
| Contribution to Employee Benefits | 173 370 | (20 516) |
| Contribution to Provisions - Current | 319 554 | 276 599 |
| Contribution to Provisions - Non - current | - | 678 149 |
| Contribution to impairment provision | - | (723 576) |
| Other non-cash items | - | 456 888 |
| PPE donations (Non-cash) | - | (9 132 688) |
| Expenditure incurred from Long service awards liability | - | (205 155) |
| Changes in working capital: | | |
| Inventories | 101 369 | (212 908) |
| Receivables from exchange transactions | (1 256 539) | (1 029 736) |
| (Increase) in receivables from non-exchange transactions | (12 522 199) | (7 427 200) |
| VAT receivable | (1 571 073) | 2 033 492 |
| Operating lease assets | - | (2 341 438) |
| Payables from non-exchange transactions | - | 1 201 347 |
| Payables from exchange transactions | 6 119 944 | (836 901) |
| Taxes and transfers payable (non exchange) | 2 327 503 | - |
| Unspent conditional grants and receipts | (5 374 115) | 5 057 823 |
| Increase in Operating lease liability | - | (10 488) |
| | 120 113 565 | 98 801 982 |

41. Financial instruments

Categories of financial instruments

2018

Financial assets

| | At fair value | At amortised cost | Total |
|--|-------------------|-------------------|-------------------|
| Trade and other receivables from exchange transactions | - | 2 425 415 | 2 425 415 |
| Other receivables from non-exchange transactions | - | 17 096 648 | 17 096 648 |
| Cash and cash equivalents | 47 668 725 | - | 47 668 725 |
| | 47 668 725 | 19 522 063 | 67 190 788 |

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2018 2017

41. Financial instruments (continued)

Financial liabilities

| | At amortised cost | Total |
|---|----------------------|-------------------|
| Trade and other payables from exchange transactions | 20 224 925 | 20 224 925 |
| Taxes and transfers payable (non-exchange) | 4 612 087 | 4 612 087 |
| | 24 837 012 | 24 837 012 |

2017

Financial assets

| | At fair value | At amortised cost | Total |
|--|-------------------|----------------------|-------------------|
| Trade and other receivables from exchange transactions | - | 2 475 743 | 2 475 743 |
| Other receivables from non-exchange transactions | - | 12 376 663 | 12 376 663 |
| Cash and cash equivalents | 45 932 159 | - | 45 932 159 |
| | 45 932 159 | 14 852 406 | 60 784 565 |

Financial liabilities

| | At amortised cost | Total |
|---|----------------------|-------------------|
| Trade and other payables from exchange transactions | 14 104 981 | 14 104 981 |
| Taxes and transfers payable (non-exchange) | 2 284 584 | 2 284 584 |
| | 16 389 565 | 16 389 565 |

41.1 Classification

FINANCIAL ASSETS:

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

| Receivables from Exchange Transactions | Classification | | |
|--|----------------|------------|------------|
| Refuse | Amortised cost | 2,079,947 | 733,279 |
| Other Receivables | Amortised cost | 345,468 | 1,742,465 |
| Receivables from Non-exchange Transactions | | | |
| Assessment Rates Debtors | Amortised cost | 10,235,198 | 7,053,844 |
| Sundry Debtors | Amortised cost | 14,055 | 63,872 |
| Traffic Fines | Amortised cost | 4,062,105 | 3,538,102 |
| Interest on Outstanding Debtors | Amortised cost | 2,785,290 | 1,720,846 |
| Call Deposits | Fair value | 45,790,246 | 45,085,958 |
| Bank Balances | Fair value | 1,878,479 | 846,200 |

SUMMARY OF FINANCIAL ASSETS

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Notes to the Annual Financial Statements

| | | 2018 | 2017 |
|--|--------------------------|------------|-----------|
| 41. Financial instruments (continued) | | | |
| Financial Assets at Amortised Cost: | | | |
| Receivables from Exchange Transactions | Refuse | 2,079,947 | 733,279 |
| Receivables from Exchange Transactions | Other Debtors | 345,468 | 1,742,465 |
| Receivables from Non-exchange Transactions | Rates Debtors | 10,235,198 | 7,053,844 |
| Receivables from Non-exchange Transactions | Sundry Debtors | 14,055 | 63,872 |
| Receivables from Non-exchange Transactions | Traffic Fines | 4,062,105 | 3,538,102 |
| Receivables from Non-exchange Transactions | Interest/Penalty Charges | 2,785,290 | 1,720,846 |

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| | 2018 | 2017 |
|--|-------------------|-------------------|
| 41. Financial instruments (continued) | | |
| | <u>19 522 063</u> | <u>14 852 408</u> |
| Financial Assets at Fair Value: | | |
| Cash and Cash Equivalents | 45,790,246 | 45,085,958 |
| Cash and Cash Equivalents | | |
| Cash and Cash Equivalents | 1,878,479 | 846,200 |
| | <u>47 668 725</u> | <u>45 932 159</u> |
| Total Financial Assets | <u>67 190 788</u> | <u>60 784 567</u> |

FINANCIAL LIABILITIES:

In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:

| Financial Liabilities | Classification | | |
|--|-----------------------|-----------|-----------|
| Payables from Exchange Transactions | | | |
| Trade Creditors | Amortised cost | 9,189,831 | 4,934,279 |
| Staff Leave Accrued | Amortised cost | 6,220,283 | 5,001,128 |
| Retentions | Amortised cost | 1,698,755 | 1,408,305 |
| Payments Received In Advance | Amortised cost | 73,787 | 53,635 |
| Bonus Accrual | Amortised cost | 3,042,269 | 2,706,925 |
| Payables from Non-exchange Transactions | | | |
| Payments Received In Advance | Amortised cost | 4,535,292 | 2,235,827 |
| Sundry Deposits | Amortised cost | 76,795 | 48,757 |

SUMMARY OF FINANCIAL LIABILITIES

Financial Liabilities at Amortised Cost:

| | | | |
|---|------------------|-----------|-----------|
| Payables from Exchange Transactions | Trade Creditors | 9,189,831 | 4,934,279 |
| Payables from Exchange Transactions | Projects | 6,220,283 | 5,001,128 |
| Payables from Exchange Transactions | Retentions | 1,698,755 | 1,408,305 |
| Payables from Exchange Transactions | Advance payments | 73,787 | 53,635 |
| Payables from Exchange Transactions | Bonus accrual | 3,042,269 | 2,706,925 |
| Payables from Non-exchange Transactions | Staff Salaries | 4,535,292 | 2,235,827 |
| Payables from Non-exchange Transactions | Sundry Deposits | 76,795 | 48,757 |

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41. Financial instruments (continued)

| | | | |
|--|---------------|------------|------------|
| Current Portion of Long-term Liabilities | Annuity Loans | | |
| Total Financial Liabilities | | 24 837 012 | 16 389 565 |

41.2 Fair Value

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such value:

Cash

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

Trade and Other Receivables/Payables

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

Other Financial Assets and Liabilities

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Long-term Liabilities

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

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

The Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

| | 30 June 2018 | | 30 June 2017 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Trade Receivables from Exchange Transactions | 2 425 415 | 2 425 415 | 2 475 743 | 2 475 743 |
| Trade Receivables from Non-Exchange Transactions | 17 096 648 | 17 096 648 | 12 376 664 | 12 376 664 |
| Subtotal | 19 522 063 | 19 522 063 | 14 852 407 | 14 852 407 |
| Cash and Cash Equivalents | 47 668 725 | 47 668 725 | 45 932 159 | 45 932 159 |
| | 67 190 788 | 67 190 788 | 60 784 566 | 60 784 566 |

| | 30 June 2018 | | 30 June 2017 | |
|--|-----------------|------------|-----------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | | | | |

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| | 2018 | | 2017 | |
|--|-------------------|-------------------|-------------------|-------------------|
| 41. Financial instruments (continued) | | | | |
| Payables from Exchange Transactions | 20 224 925 | 20 224 925 | 14 104 981 | 14 104 981 |
| Payables from Non-Exchange Transactions | 4 612 087 | 4 612 087 | 2 284 584 | 2 284 584 |
| Subtotal | 24 837 012 | 24 837 012 | 16 389 565 | 16 389 565 |
| | 24 837 012 | 24 837 012 | 16 389 565 | 16 389 565 |

No Financial Instruments of the municipality have been reclassified during the year.

Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities

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

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

FINANCIAL ASSETS

Financial instruments at Fair Value:

| | | |
|------------------------|-------------------|-------------------|
| Call Deposits | 45 790 246 | 45 085 959 |
| Bank Balances and Cash | 1 878 479 | 846 200 |
| | 47 668 725 | 45 932 159 |

41.3 Capital Risk Management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2016.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 19 and the Statement of Changes in Net Assets.

41.4 Financial Risk Management Objectives

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

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

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

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

41.5 Significant Risks

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41. Financial instruments (continued)

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments: - Credit Risk;

- Liquidity Risk; and

- Market Risk.

Risks and exposures are disclosed as follows:

Market Risk

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

Credit Risk

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

Liquidity Risk

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

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

41.6 Market Risk

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

41.6.1 Foreign Currency Risk Management

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

41.6.2 Interest Rate Risk Management

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

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

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41. Financial instruments (continued)

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

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The municipality had no floating rate long-term financial instruments at year-end requiring an Interest Rate Sensitivity Analysis.

41.7 Credit Risk Management

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

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with First National Bank and Nedbank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

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

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41. Financial instruments (continued)

| | | |
|--|--------------------|-------------------|
| Receivables from Exchange Transactions | 7 101 030 | 5 844 496 |
| Receivables from Non-Exchange Transactions | 47 216 807 | 39 620 342 |
| Bank, Cash and Cash Equivalents | 47 668 725 | 45 932 159 |
| Maximum Credit and Interest Risk Exposure | 101 986 562 | 91 396 997 |

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

Consumer Debtors

| | | |
|-------------------------|----|----|
| Total Credit Risk per % | 37 | 37 |
|-------------------------|----|----|

Bank and Cash Balances

| | | |
|--|-------------------|-------------------|
| Short Term Investments - First National Bank | 19 993 469 | 20 899 463 |
| Short Term Investment - Nedbank | 26 016 917 | 24 186 495 |
| Current Account - First National Bank | 1 658 339 | 846 200 |
| Total Bank and Cash Balances | 47 668 725 | 45 932 158 |

41.8 Liquidity risk Management

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

Liquidity and Interest Risk Tables

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

| 30 June 2018 | Note ref in AFS | Average effective Interest Rate % | Total R | 6 Months or less R | 6 - 12 Months R | 1 - 2 years R |
|--|--------------------|--|-------------------|-----------------------|--------------------|---------------|
| Payables from Exchange transactions | 13 | - | 20 224 925 | 20 224 925 | - | - |
| Payables from Non-exchange transaction | 14 | - | 4 612 087 | 4 612 087 | - | - |
| Non-interest Bearing | - | - | 24 837 012 | 24 837 012 | - | - |
| | - | - | 24 837 012 | 24 837 012 | - | - |

| 30 June 2017 | Note ref in AFS | Average effective Interest Rate % | Total R | 6 Months or less R | 6 - 12 Months less R |
|-------------------------------------|--------------------|--|-------------------|-----------------------|-------------------------|
| Payables from Exchange transaction | 13 | - | 14 104 981 | 14 104 981 | - |
| Payables from Exchange transactions | 14 | - | 2 284 584 | 2 284 584 | - |
| | - | - | 16 389 565 | 16 389 565 | - |

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41. Financial instruments (continued)

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

| 30 June 2018 | Note ref in AFS # | Average effective Interest Rate % | Total R | 6 Months or less R | 6-12 Months R |
|---|-------------------|-----------------------------------|-------------------|--------------------|---------------|
| Non-interest Bearing | | | | | |
| -Trade Receivables from Exchange Transactions | 6 | - | 2 425 415 | 2 425 415 | - |
| Trade Receivables from Non-Exchange | 4 | - | 17 096 648 | 17 096 648 | - |
| Variable Interest Rate Instruments | | | | | |
| Call Deposits | 7 | - | 45 790 246 | 45 790 246 | - |
| Bank Account | 7 | - | 1 878 479 | 1 878 479 | - |
| | - | - | 67 190 788 | 67 190 788 | - |

| 30 June 2017 | Note ref in AFS # | Average effective Interest Rate % | Total R | 6 Months or less R | 6-12 Months R |
|--|-------------------|-----------------------------------|-------------------|--------------------|---------------|
| Non-interest Bearing | | | | | |
| - Trade Receivables from Exchange Transactions | 6 | - | 2 475 743 | 2 475 743 | - |
| Trade Receivables from Non-Exchange | 4 | - | 12 376 664 | 12 376 664 | - |
| Variable Interest Rate Instruments | | | | | |
| Call Deposits | 7 | - | 45 085 958 | 45 085 958 | - |
| Bank Account | 7 | - | 846 200 | 846 200 | - |
| | - | - | 60 784 565 | 60 784 565 | - |

41.9 Effective Interest Rates and Repricing Analysis

In accordance with IAS 32.67(a) and (b) the following tables indicate the average effective interest rates of Income-earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

| 30 June 2018 | Note ref in AFS # | Average effective Interest Rate % | Total R | 6 Months or less | 6 - 12 Months R |
|-------------------------------------|-------------------|-----------------------------------|-------------------|-------------------|-----------------|
| FIXED RATE INSTRUMENTS | | | | | |
| VARIABLE RATE INSTRUMENTS | | | | | |
| Short-term Investments Deposits | 7 | - | 45 790 246 | 45 790 246 | - |
| Bank Balances and Cash | 7 | - | 1 878 479 | 1 878 479 | - |
| Total Fixed Rate Instruments | - | - | 47 668 725 | 47 668 725 | - |

| 30 June 2017 | Note ref in AFS # | Average effective Interest Rate % | Total R | 6 Months or less R | 6 - 12 Months R |
|----------------------------------|-------------------|-----------------------------------|-------------------|--------------------|-----------------|
| FIXED RATE INSTRUMENTS | | | | | |
| VARIABLE RATE INSTRUMENTS | | | | | |
| Short-term Investments Deposits | 7 | - | 45 085 958 | 45 085 958 | - |
| Bank Balances and Cash | 7 | - | 846 200 | 846 200 | - |
| | - | - | 45 932 158 | 45 932 158 | - |

41.10 Other Price Risks

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41. Financial instruments (continued)

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

42. Multi-Employer Retirement Benefit Information

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes. All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and are defined contribution schemes.

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

The total expense recognised in the Statement of Financial Performance of represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

DEFINED CONTRIBUTION SCHEMES Municipal Employees Pension Fund:

Total members to the fund during the year were 86.

Employees contribute 1.5% of their salary to the fund and the Council 18%.

Councillors Cape Joint Pension Fund:

Total members to the fund during the year were 32.

Councillors contributes 12% of their allowance to the fund and the Council 15%.

Cape Joint Retirement Fund:

Total members to the fund during the year were 35.

Employees contribute 7.5% & 9% of their salary to the fund and the Council 18%.

Municipal Councillors Pension Fund:

Total members to the fund during the year were 12.

Councillors contributes 13.75% of their allowance to the fund and the Council 15%.

National Fund for Municipal Workers - Provident Fund: Total members to the fund during the year were 78

Employees contribute 7.5% of their salary to the fund and the Council 18%.

None of the above mentioned plans are State Plans.

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| | 2018 | 2017 |
|--|-------------------|-------------------|
| 43. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for | | |
| • Land and Buildings | - | 542 443 |
| • Infrastructure | 51 344 921 | 60 716 961 |
| • Community | 618 284 | 4 971 445 |
| • Other | 375 006 | 2 162 812 |
| | 52 338 211 | 68 393 661 |
| This expenditure will be financed from: | | |
| Government Grants | 52 338 211 | 68 393 661 |

This committed expenditure relates to projects under Work in progress and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

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44. Contingencies

1. Andile Menyo (Case No .2016/2011) R Nil (2017: R 420,000)

The matter concerns the illegal invasion of the municipal land by Mr Menyo. We have applied for the trial date from the Registrar of the High Court. The municipality is seeking an order evicting the Defendant from its land.

2. Umzimvubu Local Municipality vs Norman Liliza Nqetho and Others (Case No. 2144/13) R 400,000 (2017: Nil)

The matter has since been finalised but there are people who broke into the RDP houses and took occupation. The Municipality is in the process of evicting those illegal occupants from RDP houses and hand the houses over to owners. The sheriff is awaiting instructions from the municipality. The estimated costs including sheriff's costs are R 400,000.

3. Prince Madikizela - General (Case No. 4258/2016) R 800,000 (2017: R 600,000)

In this matter the plaintiff is suing the Municipality, claiming a sum of R 600,000 arising out of malicious and unlawful arrest contumelia. The matter was before the High Court on 27 June 2018. The plaintiff asked for postponement and tendered the wasted costs. We shall apply for a trial date immediately after we receive the Plaintiff's response. The estimated legal fees are in the sum of R 200,000.

4. Lindelwa Nyokana vs Umzimvubu Local Municipality (Case No. 40/18) R 57,484 (2017: Nil)

In this matter the Plaintiff suing the Municipality for negligence. She is claiming a sum of R 37,484.55. The estimated legal fees are in the sum of R 20,000.00. The matter is still new, legal processes are still exchanged between parties.

5. Mr Memela and all other unlawful occupiers. (Case No. 34/2017) R 40,000 (2017: R 40,000) ERF No. 247 Kwa-Bhaca

The matter has been finalised but still awaiting court judgement.

6. Ayanda Siga vs Umzimvubu Local Municipality.

Claim against the Municipality for his pension. The pleadings on the case are closed and are now awaiting to file head of arguments.

7. Madodana Mayekiso vs Umzimvubu Local Municipality R 15,000 (2017: R 15,000)

The plaintiff is claiming the value of his goats which were sold on Auction by the Municipality after they impounded. The estimated value of the goats is R 15,000 as per the letter sent to us by the Plaintiff's attorneys. There no summons issued as yet, hence there is no court case number.

8. Chrisborne Moodley and Other vs Umzimvubu Local Municipality (Case No. EC/MTHA/RC611/2015) R 400,000 (2017: R 400,000)

The Plaintiff is claiming a sum of R 400,000. Claiming that they have been assaulted by a traffic officer employed by the Municipality. Pleadings are closed and the matter is ready for trial in Mthatha.

9. Ngangelizwe Jama vs Umzimvubu Local Municipality (Case No. 1034/2011) R 590,000 (2017: R 490,000)

High Court claim a sum of R 500,000 plus interest, being damages allegedly suffered by the Plaintiff due to his wrongful arrest and detention by the traffic officer acting within the lawful course and scope of his employ by the Municipality. Defendant (ULM) have applied for the Minister of Police to be joined. The matter is still pending.

10. Sunset Beach Trading 299CC JV Nyamezela Consulting Engineers (Pty) LTD (Case No. 2308/2013) R 2,000,000 (2017: R 2,000,000)

Re-cancellation of contract by ULM, challenged by Sunset Beach Trading in the High Court: claim for damages allegedly suffered by the Plaintiff for loss of profit in the amount of R 1,875,126 plus interest. The matter was set down for hearing on the 30th of May 2016. The matter was postponed for the Defendant to amend its plea. The matter must proceed until it reaches its final logical conclusion. ULM has prospects of success.

11. Imbumba Mzamani the Immediate Contractors vs Umzimvubu Local Municipality (Case No. Ec/Mtha/Rc569/2013) R 212,000 (2017: R 212,000)

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44. Contingencies (continued)

The claim is based on non payment of a sum of R 156,097.52 plus interest for services rendered by the Plaintiff to the Municipality. ULM have prospects of success and the Plaintiff has up to date not discharged their obligation as required in terms of the Magistrate Court Rules.

12. Umzimvubu Local Municipality vs Millennium Development Trust (Case No. GOM/ULM/0089/ad) R 1,500,000 (2017: R 1,500,000)

Mellennium Development Trust (Litigation) Extention 6 Development/ Assisting LLM and providing legal opinion on merits of success with regard to cancellation/ termination of agreement between ULM and MDT and instructions to institute High Court legal proceedings with the assistance of Junior and Senior Counsel.

13. Siyabulela Ndzumo (Case No. 84/2015) R 40,000 (2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due to allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given.

14. Ndzameko Kene (Case No. 87/2015) R 40,000 (2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by The Municipality. Plaintiff's case was dismissed but subyet to appeal, and no Court dates have been given.

15. Tamsanqa Tuswa (Case No. 83/2015) R 40,000 (2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given.

16. Yalela Ntintili (Case No. 83/2015) R 40,000 (2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given.

17. Rose Jakuja (Case No. 82/2015) R 40,000 (2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given.

18. Gideon Kondlo (Case No. 85/2015) R 40,000 (2017: R 40,000)

Magistrate Court's claim for R 200,000 in damages suffered by the Plaintiff due allegedly unlawful demolition of his house including furniture and a kraal by the Municipality. The Plaintiff's case was dismissed but subject to appeal, and no Court dates have been given. There was a High Court application for interdict to declare the Municipality's decision to prioritise electrification of Maxhegwini village over Sivumela village unlawful and for the decision to be set aside. The matter is subject to appeal at the Supreme Court of Appeal.

19. Mzolisi Gqunu (Case No. 133/2015) R 80,000 (2017: R 80,000)

This matter came before Court on the 27th of August 2015 for an interdict application that was brought on urgent basis by applicants who were interdicting the Municipality from stopping applicant's in their building Badibanise location, Lubhacweni Administrave Area, Kwa-Bhaca.

20. Ex Parte Application (Case No. 17/2018)

Notice of sale of impounded vehicles.

21. Umzimvubu Local Municipality vs Mbali Rural Developers CC (Arbitration) R 220,601 (2017: R 220,601)

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44. Contingencies (continued)

Enforcing an arbitration award and have been endeavouring to attach movables to satisfy the claim. However, the Writ has been misplaced by the office's Sheriff of Kokstad and we are taking the necessary steps to re-issue the Writ.

45. Related party transactions

All related party transactions are conducted at arm's length, unless stated otherwise.

45.1 Interest of Related Parties

Councillors and/or management of the municipality have relationships with businesses as indicated below:

| Name of Related Person and Designation | Description of Related Party Relationship |
|---|--|
|---|--|

| | |
|--------------------------|---|
| Canca Nokwazi (Official) | Owner (Husband) of Litto Trading Enterprise |
|--------------------------|---|

| | |
|------------------------------|------------------------------------|
| Dikwayo Siphokazi (Official) | Owner (Husband) of DMMP Trading CC |
|------------------------------|------------------------------------|

| | |
|--------------------------------|---|
| Ntshengulana Mygirl (Official) | Owner (Husband) of Mizestozz Trading Enterprise |
|--------------------------------|---|

| | |
|------------------------------|----------------------------------|
| Madlanga Lindiswa (Official) | Owner (Brother) of Mpi Attorneys |
|------------------------------|----------------------------------|

| | |
|-------------------------|-------------------------------|
| Mr Mdzinwa (Chief Whip) | Owner (Wife) of 2nd World BnB |
|-------------------------|-------------------------------|

| | |
|------------------------------------|---------------------------------|
| Madlanga Lindiswa (Demand Officer) | Owner (Brother) of SOC Cleaning |
|------------------------------------|---------------------------------|

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45. Related party transactions (continued)

45.2 Councillors and Key Management Personnel - Family of the Municipality.

| Position and Name | Family Member | Department | Relationship | Remuneration |
|------------------------------|---------------|----------------------|--------------|----------------|
| Assistance Manager - Z Ndevu | Mbiko B | Budget & Treasury | Cousin | 217 209 |
| Manager - M N Sineke | S Sineke | Citizens & Community | Cousin | 92 694 |
| Councillor - S Madlanga | Madlanga L | Budget & Treasury | Brother | 187 412 |
| | | - | - | - |
| | | | | 497 315 |

45.3 Service rendered to Related Parties

During the year the municipality did not render services to any other related parties other than those indicated above.

45.4 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. No loans from prior to this date exists.

45.5 Compensation of Related Parties

Compensation of Key Management Personnel and Councillors is set out in Note 30 and Note 31 to the Financial Statements.

45.6 Purchases from Related Parties

The municipality bought goods from the following companies, which are considered to be Related Parties:

| Company Name | Related Person | Company Capacity | Municipal Capacity | 2018 | 2017 |
|------------------------------|-------------------|------------------|--------------------|------------------|------------------|
| Soul Evolution Management CC | Mbedu Bongiswa | Owner (brother) | Intern - Audit | 23 453 | 203 283 |
| Myoza-yoza Trading | Mbedu Bongiswa | Owner (husband) | Intern - Audit | 2 946 893 | 3 479 586 |
| DMMP Trading CC | Dikwayo Siphokazi | Owner (husband) | Personal Assistant | - | 193 000 |
| Glenhope Trading | Qhaba Zembe | Owner (Wife) | SPU & Comm | 185 000 | - |
| Litto Trading | Canca Nokwazi | Owner (husband) | Disaster Officer | 596 053 | 229 628 |
| MPI Attorney | Madlanga Lindiswa | Owner (brother) | Demand Officer | 540 920 | 199 614 |
| 2nd World | Mr Mdzinwa | Owner (husband) | Councillor | 9 100 | 50 900 |
| | | - | - | - | |
| | | | | 4 301 419 | 4 356 011 |

The transactions are concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions were considered to be at arm's length.

Related party balances

46. Going concern

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

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47. Unauthorised expenditure

Current year 96 399 127 -

Unauthorised expenditure pertains primarily to non cash items relating to the revaluation of assets project which yielded larger depreciation than budgeted, as well as the loss on transfer of electrical assets to Eskom and Impairment of Debtors. The investigation by MPAC is still in progress as at 30 June 2018, this investigation will determine the process going forward as stipulated in Circular 68 of the MFMA.

48. Fruitless and wasteful expenditure

To management's best knowledge instances of note indicating that Fruitless and Wasteful Expenditure was incurred during the year under review were not revealed.

49. Irregular expenditure

| | | |
|---------------------------|-------------------|-------------------|
| Opening balance | 59 642 555 | - |
| Add: Current year Reg 32 | 10 339 874 | - |
| Add: Current year Reg 29 | 124 403 724 | 59 642 555 |
| Add: Current year Reg 36 | 4 753 814 | - |
| Less: Amounts written off | (184 046 279) | - |
| | 15 093 688 | 59 642 555 |

The amount disclosed in the prior year amounts to R56 635 749 however certain expenditure was incidentally omitted which amounts to R3 006 849 and the irregular expenditure register has been updated.

Current year Regulation 32 and 36 are under investigation by M PAC and current year Regulation 29 has been written off by Council as at 30 June 2018.

50. Additional disclosure in terms of Municipal Finance Management Act

50.1 Contributions to organised local government

| | | |
|----------------------------|-----------|-----------|
| Council Subscriptions | 704 826 | 754 758 |
| Amount Paid - current year | (704 826) | (754 758) |
| | - | - |

50.2 Audit fees

| | | |
|---------------------------------|----------------|---------------|
| Opening balance | 25 609 | - |
| Current year subscription / fee | 3 610 826 | 2 478 760 |
| Amount paid - current year | (3 636 435) | (2 453 151) |
| Accrual amount | 672 902 | - |
| | 672 902 | 25 609 |

50.3 PAYE and UIF

| | | |
|---------------------------------|----------------|--------------|
| Current year subscription / fee | 14 972 082 | 12 148 955 |
| Amount paid - current year | (14 836 881) | (12 148 955) |
| | 135 201 | - |

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

50.4 Pension and Medical Aid Deductions

| | | |
|---------------------------------|--------------|--------------|
| Current year subscription / fee | 13 252 201 | 11 981 770 |
| Amount paid - current year | (13 252 201) | (11 981 770) |
| | - | - |

50.5 VAT

| | | |
|----------------|-----------|-----------|
| VAT receivable | 6 147 779 | 4 595 689 |
|----------------|-----------|-----------|

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

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

50.6 Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018

| | Outstanding more than 90 days R | Total R |
|-------------------|--|------------|
| Councillor Garane | - 1 404 | 1 404 |

30 June 2017

| | Outstanding more than 90 days R | Total R |
|--------------------|--|------------|
| Councillor Mdzinwa | - 7 689 | 7 689 |
| Councillor Garane | - 6 172 | 6 172 |
| Councillor Dangisa | - 3 630 | 3 630 |
| | - 17 491 | 17 491 |

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51. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements. The following deviations occurred as a result of it being impracticable to follow the supply chain management processes.

Supplier name and Reason for Deviation

| | | |
|--|---------|---------|
| Truvelo Manufacturers - This is for Repairs and Maintenance : | 27 304 | 14 792 |
| The machine needs repairs and it was not known as to what needs to be repaired a diagnoses had to be done prior making repairs. The municipality will incur cost of diagnoses of the machine as well as the risk of different service providers losing certain parts on that process of diagnoses. With the above mentioned reasons it makes it impractical to follow normal SCM processes. | | |
| Alfred Nzo Community Radio - Promotion, adverts, broadcasts : | 302 800 | 162 781 |
| Alfred Community Radio is the only community radio that has high listenership and good coverage under the community of Alfred Nzo. The target market for the advert is the community of Alfred Nzo district. | | |
| Neffcon Road Testing Station - Machinery & Equipment: | 19 141 | |
| The machine needs repairs and it was not known as to what needs to be repaired a diagnoses had to be done prior making repairs. The municipality will incur cost of diagnoses of the machine as well as the risk of different service providers losing certain parts on that process of diagnoses. With the above mentioned reasons it makes it impractical to follow normal SCM processes. | | |
| Babcock Africa - Repairs and maintenance and Plant Hire : | 79 294 | 37 769 |
| Volvo Machinery & Plant (TLB) had a breakdown the municipality could not be able to request quotations as it was not known what needs to be repaired different service providers could not be called to come and diagnose the TLB as it would be too costly for the municipality to do so hence Babcock Africa has been chosen to come and repair the TLB | | |
| Barloworld Equipment - Transport Asset :Vehicle Maintenance : | 106 050 | 122 155 |
| Volvo Machinery & Plant (TLB) had a breakdown the municipality could not be able to request quotations as it was not known what needs to be repaired different service providers could not be called to come and diagnose the TLB as it would be too costly for the municipality to do so hence Babcock Africa has been chosen to come and repair the TLB | | |
| Randdata PTY LTD - Stationery : | 31 977 | |
| An Authorization for deviation of Sec 56 notice books, Rand Data is the service provider that specializes with this type of service and is authorized service provider by Department of Transport to supply the traffic notice books. | | |
| Government Printing Works - Printing of gazette as per attachment : | 45 000 | 17 683 |
| An authorisation for deviation to Gazette Section 14 manual and rules of Order from Government Printing Work for an amount of R 45000 ,Government printing Works is the authorized service provider by Department of Government Printing Works to print and supply the Gazette of Sec 14 manual rules. | | |
| PSA Africa | - | 2 485 |
| The Calibration of Alcohol test Machine was bought from PSA Africa and the service is preferred to be done there due to the fact that alcohol test Machine has been purchased from them, and that reduces the chances of problems that can occur if it's serviced somewhere wherein PSA Africa might dispute repairing the machine claiming the cause might be other reasons of negligence by any other service provider but them which will result to financial loss to the Municipality. | | |
| Mascor Mount Currie | - | 7 044 |

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2018 2017

51. Deviation from supply chain management regulations (continued)

The Municipal Plant was bought at Mascor Mount Currie John Deere and the service is preferred to be done there due to the fact that John Deere tractor has been purchased from them, and that reduces the chances of problems that can occur if it's serviced somewhere wherein Babcock might dispute repairing claiming the cause might be other reasons of negligence by any other service provider but them which will result to financial loss to the Municipality.

PAYDAY - 166 496

Umzimvubu Local Municipality is required to comply with MSCOA as indicated by Treasury and in order to comply with MSCOA requirements of the current payroll system needs to be upgraded. The Municipality is currently using Payday for processing and payment of salaries. SCM processes could not be followed as Payday is the only system used by the Municipality to process salaries.

Amabhaca Craft - 72 800

The emergency of the event required SCM processes not to be followed due to the fact that a disaster occurred and kids were homeless as a result they did not even have school uniform and the Municipality assisted.

Visual advertising - 11 400

SCM processes could not be followed due to the fact that LED screen in Mt Ayliff was Supplied on tender by visual Advertising and also have been tasked with monitoring and control for both ULM LED screens, hence it will be advisable that the training to ULM staff on how to operate, monitor and control of the specialized equipment be done by them.

611 566 615 405

52. Budget differences

Material differences between budget and actual amounts and prior year actuals and current year actuals:

Financial Performance

Sale of goods

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Increase in tender documents bought by prospective bidders, Entrance fees for Masibuyelembu Festival due to high turn up of spectators

Management's explanation for fluctuations - Budget vs Actuals:

Under collection of which it was anticipated that the collection would at least increase by 10% but that was not achieved

Service charges

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Increase in tariff for Vacant Plot in order to encourage owners to develop sites

Management's explanation for fluctuations - Budget vs Actuals:

Anticipated to collect more as a result of new skip bins to be bought however they were purchased at a later stage

Rental of facilities and equipment

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Public works payments for arrears and current debt

Management's explanation for fluctuations - Budget vs Actuals:

Collection was more than anticipated due to the review of the lease agreement with Public Works which has escalation but previously there was not escalation

Interest received (trading)

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Increase on outstanding debtors which results to an increase to interest raised on the outstanding debt

Income from Agency services

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Tariff increase

Management's explanation for fluctuations - Budget vs Actuals:

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52. Budget differences (continued)

Under collection of which it was anticipated that the collection would atleast increase by 10% but that was not achieved

Licences and permits (exchange)

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Tariff increase

Management's explanation for fluctuations - Budget vs Actuals:

Reclassification has been as per SCOA requirement fines were previously under Licences & permits hence there is a high variance

Operating income

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Municipality purchased an impounding truck as such there were more car impounded which resulted to more payments and there a marathon projects of which runners paid subscription fees to participate

Interest received - investment

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Increase in investments as a result of reinvesting at increased rate/revised rates

Government grants & subsidies

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Increase on the allocation of Equitable Share & Electrification

Management's explanation for fluctuations - Budget vs Actuals:

Received additional funding for electrification

Fines

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Write off of 13/14 prior year error of fines raised as well improvement on collection of traffic fines

Management's explanation for fluctuations - Budget vs Actuals:

Non payment by Traffic offenders of which the basis for the budget was the prior year collection

Personnel

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Yearly increment for Staff & Managers

Management's explanation for fluctuations - Budget vs Actuals:

Budget for the increment of HOD

Remuneration of councillors

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Yearly increment for Councillors and increase on cell phone allowance

Depreciation and amortization

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

New assets purchased and completed projects

Management's explanation for fluctuations - Budget vs Actuals:

Under budgeted based on the historical year depreciation however due to revaluation of assets which resulted in high values of assets

Impairment loss/ reversal of impairment

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Write off of traffic fines which were previously incorrectly raised

Management's explanation for fluctuations - Budget vs Actuals:

Budget was based traffic fines raised last year however due to write off of debt from traffic fines which were erroneously raised the actuals increased

Finance costs

Management's explanation for fluctuations - Budget vs Actuals:

No budget as we did not have a contract in existence

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52. Budget differences (continued)

Lease rentals on operating lease

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

New lease for printers

Management's explanation for fluctuations - Budget vs Actuals:

There was not lease rental in the prior year

Material and Stores

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Reclassification previously printing and stationery was under Operating Costs however with the new MSCOA reform it had to be under Material & Stores

Management's explanation for fluctuations - Budget vs Actuals:

This as a result of MSCOA classification previously It was budgeted for under printing and stationery

Contracted Services

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Reclassification has been done some expensed were on Operating Costs & Repairs & Maintenance however with the new MSCOA reform it had to be under Contracted Services

Management's explanation for fluctuations - Budget vs Actuals:

Reclassification has been done some expensed were budgeted Operating Costs & Repairs & Maintenance however with the new MSCOA reform it had to be under Contracted Services

Loss on disposal of assets and liabilities

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Due to transfer of electrification projects to Eskom & Impairment

Management's explanation for fluctuations - Budget vs Actuals:

This was budgeted for on transfers recognised capital for electrification transfer since electrification is grant funded

Operating costs

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18:

Reclassification has been done some expensed were on Operating Costs & Repairs & Maintenance however with the new MSCOA reform it had to be under Contracted Services

Management's explanation for fluctuations - Budget vs Actuals:

Reclassification has been done some expensed were budgeted Operating Costs & Repairs & Maintenance however with the new MSCOA reform it had to be under Contracted Services

| | Budget | Actuals | Variance |
|--|--------------------|--------------------|--------------------|
| Operating costs | 152 921 093 | 51 403 236 | 101 517 857 |
| Loss on disposal of assets and liabilities | - | 12 892 186 | -12 892 186 |
| Electricity transferred | - | 129 909 988 | -129 909 988 |
| | 152 921 093 | 194 205 410 | -41 284 317 |

Financial Position

Operating lease assets

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

New lease to Public Works and current year movement

Receivables from non- exchange transactions

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

Increase in the tariff for businesses and interest raised as a result of non payments for consumer debtors

VAT Receivable

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

Increase of 15% & outstanding payments from SARS at year end

PPE

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

Due to transfer of electrification projects to Eskom

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52. Budget differences (continued)

Payables from Exchange

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

Back pay of HOD backpays , increased accruals and completeness of accounting of creditors at year end

Payables from Non Exchange

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

An advance payment made by Public Works at year end

Provisions

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

Rehabilitation of landfill sites

Disclosure items

Commitments

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

Some projects were completed in the year under review

Unauthorised expenditure

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

Transfer of Electrical Assets to Eskom and revaluation of assets which increased the depreciation that was budgeted less than the amount raised

Irregular expenditure

Management's explanation for fluctuations - Actual 2016/17 vs Actuals 2017/18

Prior year irregular was not written off by Council at year end however in the current year it has been written off by Council

53. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

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53. Prior-year adjustments (continued)

2017

| | As previously reported | Correction of error | Change in accounting policy | Re-classification | Restated |
|--|------------------------|---------------------|-----------------------------|-------------------|---------------------|
| Property, plant and equipment - Land | 7 006 756 | 6 369 220 | - | - | 13 375 976 |
| Property, plant and equipment - Buildings | 17 251 897 | 42 674 876 | - | 76 375 341 | 136 302 114 |
| Property, plant and equipment - Community | 76 375 341 | - | - | (76 375 341) | - |
| Property, plant and equipment - Infrastructure | 275 773 085 | 323 499 165 | - | - | 599 272 250 |
| Property, plant and equipment - Capital under construction | 146 432 582 | 9 896 468 | - | - | 156 329 050 |
| Property, plant and equipment - Other | 17 230 377 | - | - | (17 230 377) | - |
| Property, plant and equipment - Movables | - | 268 925 | - | 17 230 377 | 17 499 302 |
| Investment Property | 19 961 575 | 43 218 843 | 1 844 470 | - | 65 024 888 |
| Payables from exchange transactions | (11 413 736) | (3 729 762) | - | - | (15 143 498) |
| Provisions | (10 477 991) | 7 120 449 | - | - | (3 357 542) |
| Inventory | 957 909 | (634 375) | - | - | 323 534 |
| Opening Accumulated surplus | (525 702 122) | (492 066 949) | (1 844 470) | - | (1 019 613 541) |
| Traffic fines | 11 709 083 | (4 925 735) | - | - | 6 783 348 |
| Traffic fines - impairment | (8 170 981) | 4 925 735 | - | - | (3 245 246) |
| Receivables from exchange - Rental | 681 577 | - | - | (681 577) | - |
| Receivables from exchange - Other | 1 002 722 | - | - | 681 577 | 1 684 299 |
| | 18 618 074 | (63 383 140) | - | - | (44 765 066) |

Statement of financial performance

2017

| | As previously reported | Correction of error | Re-classification | Restated |
|---------------------------------|------------------------|---------------------|-------------------|--------------------|
| Income from agency services | 1 847 180 | - | (144 261) | 1 702 919 |
| Licenses and permits | 2 241 112 | - | 144 261 | 2 385 373 |
| Sale of goods | - | - | 615 212 | 615 212 |
| Operating income | 2 159 963 | - | (615 212) | 1 544 751 |
| Employee related costs | 56 409 344 | 3 357 725 | - | 59 767 069 |
| Depreciation and amortization | 36 136 746 | 55 754 482 | - | 91 891 228 |
| Impairment losses | 2 880 203 | 723 575 | - | 3 603 778 |
| Finance costs | 783 353 | (386 365) | - | 396 988 |
| Material and stores | - | - | 193 654 | 193 654 |
| Contracted services | 7 231 781 | 1 317 936 | 26 859 553 | 35 409 270 |
| Actuarial gain | - | 80 056 | - | 80 056 |
| Operational costs | 68 103 253 | (533 619) | (14 699 805) | 52 869 829 |
| Grants and subsidies paid | 4 288 588 | - | (4 288 588) | - |
| Government Grants (Conditional) | 3 555 887 | - | (3 555 887) | - |
| Repairs and Maintenance | 4 405 637 | 103 290 | (4 508 927) | - |
| Loss on disposal of PPE | 390 251 | 3 282 712 | - | 3 672 963 |
| | 190 433 298 | 63 699 792 | - | 254 133 090 |

53.1 Prior period errors analysis

During the current financial year the municipality performed a complete verification and reconciliation of all municipal assets. To ensure completeness of Property Plant and Equipment a full property reconciliation was performed. Management went as far back as was practical to do so in calculating the carrying value of all assets of the municipality. This resulted in a number of corrections being done

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53. Prior-year adjustments (continued)

The adjustment on infrastructure and buildings occurred due to:

The asset register was updated for all assets under the control of the municipality. Management went as far back as was practical to do so in calculating the carrying value of all assets of the municipality.

Components identified that was purchased prior to GRAP adoption date (30 June 2009) was valued using the Depreciated Replacement cost method in line with Directive 7. This resulted in a change in the value of Infrastructure.

Depreciation was recalculated on all assets based on updated completion dates and condition assessments.

The asset register also componentised as required by GRAP and estimated useful life's updated accordingly.

The landfill site provision was updated and corrected by a professional valuer. See the table above for the financial impact on the Statement of Financial Position

The adjustment on work in progress assets occurred due to:

The work in progress register was updated with the correct completion dates and assets appropriately transferred. See the table above for the financial impact on the Statement of Financial Position

The adjustment on land occurred due to:

Reclassification of Expenditure - 2016/17, As a result of the above adjustment in the 15/16 year, depreciation was recalculated on the corrected assets and an adjustment to the 2016/17 depreciation amount was passed. R787,240. See the table above for the financial impact on the Statement of Financial Position

The adjustment on Investment property occurred due to:

A complete reconciliation was performed on property of the municipality based on the latest deeds data, valuation roll and lease register. See the table above for the financial impact on the Statement of Financial Position

The adjustment on Landfill site provision occurred due to:

Due to the complete restatement of the asset register a land fill site provision report was obtained from a professional value. The provision was updated accordingly. See the table above for the financial impact on the Statement of Financial Position

The adjustment on Trade receivables from exchange transactions occurred due to:

A traffic fine correction was done as an incorrect traffic fine was erroneously raised several years ago. This has been written off. Accordingly, the traffic fine receivable gross balance and traffic fine impairment balance within the trade receivables from non-exchange transactions were adjusted, however, there was no net impact on this line item.

The adjustment on Inventory and Payables from exchange transactions occurred due to:

1. An accrual being incorrectly raised in the 2016/17 financial year and accordingly reversed from inventory and payables
2. A reclassification of erf's held for sale previously disclosed under Inventory but now reclassified under Investment property. See the table above for the financial impact on the Statement of Financial Position

The adjustment on Opening Accumulated surplus occurred due to:

This is an aggregate change of all effects prior to 1 July 2016, relating to verification and adjustments to Property, plant and equipment, Investment property, Inventory and Provisions. See the table above for the financial impact on the Statement of Financial Position

The change in Employee related costs occurred due to:

1. Correction passed for the raising of a bonus accrual in the prior year which was previously not raised
 2. Correction passed for the reclassification of workman's compensation previously reported under Operating expenses.
- See the table above for the financial impact on the Statement of Financial Performance

The change in Depreciation and amortization occurred due to:

A complete verification and reconciliation of all municipal assets as described in the corrections to PPE above. See the table above for the financial impact on the Statement of Financial Performance

The change in impairment occurred due to:

A complete verification and reconciliation of all municipal assets as described in the corrections to PPE above. See the table above for the financial impact on the Statement of Financial Performance

The change in Finance costs occurred due to:

A complete verification and reconciliation of all municipal assets as described in the corrections to PPE above, which had an effect on recalculating the landfill site valuation and subsequently the Finance costs. See the table above for the financial impact on the Statement of Financial Performance

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53. Prior-year adjustments (continued)

The change in Operating expenses occurred due to:

Correction passed for the reclassification of workman's compensation previously reported under Operating expenses. See the table above for the financial impact on the Statement of Financial Performance

Change in accounting policy

During the 2018 financial year the municipality decided to change its accounting policy on investment property from cost model to fair value model as it was deemed that this would provide more reliable and relevant information regarding investment property.

The following factors were considered and resulted in the change in accounting policy:

- i. The cost prices of Investment Property reflect, in most cases, the price paid several years ago for properties but would not be considered a reasonable current value of these assets should they be sold in an arm's length transaction. That is to say, the cost price differs materially from the current market value of the properties;
- ii. The majority of the municipal investment property relates to vacant stands;
- iii. Umzimvubu Local Municipality experiences highly unstable market related conditions due to various social, political and economic factors and it is considered that the fair value model will more accurately reflect these conditions;
- iv. A further challenge experienced by the Municipality is illegal property invasions which occur. The fair value model will also more accurately account for the financial impact on investment properties arising from such cases.

53.2 Reclassifications analysis

The change in Income from Agency services and Licenses and Permits occurred due to:

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). Items from Income from Agency services where recalssified to Licenses and Permits. See the table above for the financial impact on the Statement of Financial Performance

The change in Sale of goods and Operating income occurred due to:

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

The change in Material and stores occurred due to:

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

The change in Contracted services occurred due to:

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

The change in Operating expenses occurred due to:

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

The change in Grants and subsidies paid occurred due to:

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

The change in Government grants (Conditional) occurred due to:

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

The change in Repairs and maintenance occurred due to:

Reclassification as per the Municipal Standard Chart of Accounts (mSCOA). See the table above for the financial impact on the Statement of Financial Performance

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| | 2018 | 2017 |
|---|------------------|------------------|
| 54. Repairs and maintenance | | |
| Contracted Services | | |
| Contractors - Maintenance of Buildings and facilities | 2 930 910 | 1 187 973 |
| Contractors - Maintenance of Equipment | 425 917 | 11 198 |
| Contractors - Maintenance of Unspecified assets | 3 350 376 | 3 309 756 |
| | 6 707 203 | 4 508 927 |

Repairs and Maintenance is removed as a line item from the Statement of Financial Performance with the implementation of mSCOA as it does not reflect the nature of the expense. It is disclosed in various other expenditure line items. The above expenditure relating to repairs and maintenance projects were identified by the municipality and all fall within the Contracted Services expenditure.

In addition to the above, GRAP 17 requires disclosure of repairs and maintenance per asset class:

| | | |
|-------------------------|------------------|------------------|
| Buildings | 2 930 910 | 1 187 973 |
| Machinery and Equipment | 425 917 | 11 198 |
| Infrastructure | 3 350 376 | 3 309 756 |
| | 6 707 203 | 4 508 927 |