



# uMGUNGUNDOVU

U M A S I P A L A W E S I F U N D A

D I S T R I C T M U N I C I P A L I T Y

D I S T R I K M U N I S I P A L I T E I T

UMGUNGUNDOVU DISTRICT MUNICIPALITY  
Annual Financial Statements  
for the year ended June 30, 2018

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## General Information

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### Executive Committee

Mayor

TE Maphumulo (ANC)

Deputy Mayor

TR Zungu (ANC)

MS Bond (DA)

GM Ngube (ANC)

DS Mkhize (ANC)

B A Mchunu (ANC)

BC Nhlabathi (DA)

BE Zuma (IFP)

M Dladla (ANC)

D Phungula (ANC)

Other councillors

MK Dlamini (ANC)

N V Duze (ANC)

AS Dlamini (ANC)

SW Dlamini (ANC)

SC Gwala (ANC)

TA Hlatshwayo (DA)

JE Holmes (DA)

R Jugmohan (DA)

B Khumalo (ANC)

SJ Luthuli (ANC)

NC Mabhida (ANC)

LL Madlala (ANC)

BK Mkhize (IFP)

K Mkhize (ANC)

M Mthethwa(ANC)

MJ Mkhize (ANC)

S Mkhize (ANC)

N Phoswa (ANC)

S Gabela (ANC)

NZ Ndlovu (ANC)

KCS Nene (ANC)

MD Njokwe (ANC)

LC Ngcobo (ANC)

GH Ngcobo (ANC)

B Ngcongo (ANC)

SD Nkuna (ANC)

MV Ntshangase (ANC)

RB Strachan (DA)

BC Sokhela (IFP)

R Soobiah (ANC)

E Xaba (DA)

HM Zondi (ANC)

N Zondo (ANC)

**Grading of local authority**

Grade 5

**WHIP**

DA Ndlela (ANC)

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## General Information

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<b>SPEAKER</b>	ME Dladla (ANC)
<b>MANAGEMENT</b>	Municipal Manager- DR. RM Ngcobo Executive Manager - Financial Services - SD Ncube- Dlamini Executive Manager - Corporate Services - GH Bhengu (Appointed from 1 May 2017, Resigned 22 June 2018) Acting Executive Manager - Corporate Services - WMS Sibiya (Appointed 01 July 2018) Executive Manager - Technical Services - EB Mbambo Executive Manager - Community Services - RM Baloyi (Medical Boarded 30 June 2018)
<b>Registered office</b>	242 Langalibalele Street Pietermaritzburg 3201
<b>Postal address</b>	P O Box 3235 Pietermaritzburg 3200
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General Registered Auditors
<b>Website</b>	<a href="http://www.umdmd.gov.za">www.umdmd.gov.za</a>
<b>Other Information</b>	Telephone: 033 897 6700 Fax : 033 342 5502

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Index

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 11
Appropriation Statement	12 - 13
Accounting Policies	14 - 33
Notes to the Annual Financial Statements	34 - 55

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)

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the 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 June 30, 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 external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 55, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2018 and were signed on its behalf by:

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**Accounting Officer**  
**Designation**

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Officer's Report

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### 1. Ratio Analysis

- **Liquidity Ratio** - 2.21:1 (2.02:1)  
The Municipality has enough short term assets to finance short term liabilities.
- **Solvency Ratio** - 4.22:1 (4.13:1).  
Assets are over 5 times the liabilities , the Municipality will be able to meet all its short and long term obligations.
- **Cash Ratio** - 2.21:1 (0.65:1).  
There is sufficient cash to pay short term liabilities.

### 2. Going concern

We draw attention to the fact that at June 30, 2018, the municipality had an accumulated surplus of R 1,059,356,122 and that the municipality's total liabilities exceed its assets by R 1,093,946,308.

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.

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

### 3. Establishment of the development agency

The district established a wholly owned by the district development agency. The agency was operating for the 2017 /2018 financial year.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Financial Position as at June 30, 2018

	Note(s)	2018 R	2017 R	
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	<u>32.20</u>	2	49,365,759	94,043,319
Consumer debtors	<u>31.20.20</u>	3	120,379,671	144,287,661
Receivables from exchange transactions	<u>31.20</u>	4	10,916,946	217,404,459
Inventories	<u>30.20</u>	5	2,063,978	2,472,384
			<b>182,726,354</b>	<b>458,207,823</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	<u>20.20</u>	6	1,346,196,668	1,254,580,212
Intangible assets	<u>23.22</u>	7	1,382,954	767,391
			<b>1,347,579,622</b>	<b>1,255,347,603</b>
<b>Total Assets</b>			<b>1,530,305,976</b>	<b>1,713,555,426</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Payables from exchange transactions	<u>51.20</u>	8	122,942,213	121,629,651
Other financial liabilities	<u>41.27-28</u>	9	9,072,450	8,634,097
Consumer deposits	<u>51.10.20</u>	10	6,183,311	5,907,544
Provisions	<u>52.20</u>	11	31,130,001	31,809,986
Unspent conditional grants and receipts	<u>43.20</u>	12	30,403,027	16,770,548
VAT payable	<u>51.20</u>	13	23,333,113	7,254,496
			<b>223,064,115</b>	<b>192,006,322</b>
<b>Non-Current Liabilities</b>				
Other financial liabilities	<u>41.27-28</u>	9	213,295,553	210,699,839
<b>Total Liabilities</b>			<b>436,359,668</b>	<b>402,706,161</b>
<b>Net Assets</b>			<b>1,093,946,308</b>	<b>1,310,849,265</b>
<b>Reserves</b>				
Revaluation reserve	<u>40.22</u>	14	34,590,186	24,064,477
Accumulated surplus	<u>40.24</u>	15	1,059,356,122	1,286,784,782
<b>Total Net Assets</b>			<b>1,093,946,308</b>	<b>1,310,849,259</b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Financial Performance

	Note(s)	2018 R	2017 R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	16	177,003,208	124,228,853
Rental of facilities and equipment	17	246,483	205,215
Recoveries		918,165	-
Other income	18	7,923,097	11,040,889
Interest received - investment	19	3,801,783	15,432,321
<b>Total revenue from exchange transactions</b>		<b>189,892,736</b>	<b>150,907,278</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Interest, Dividends and Rent on Land	20	30,067,834	23,308,202
<b>Transfer revenue</b>			
Government grants & subsidies	21	536,528,084	608,077,666
Fines, Penalties and Forfeits	22	1,995,781	-
Other transfer revenue 1		4,122,744	-
<b>Total revenue from non-exchange transactions</b>		<b>572,714,443</b>	<b>631,385,868</b>
<b>Total revenue</b>	23	<b>762,607,179</b>	<b>782,293,146</b>
<b>Expenditure</b>			
Employee related costs	24	(206,407,522)	(198,158,827)
Remuneration of councillors	25	(10,347,456)	(10,239,416)
Administration	26	-	(7,107,273)
Depreciation and amortisation	27	(38,934,806)	(61,521,906)
Finance costs	28	(35,320,936)	(19,737,550)
Lease rentals on operating lease	29	-	(1,778,490)
Debt Impairment	30	(139,701,691)	(61,029,639)
Bulk purchases	31	(132,382,728)	(121,186,282)
Contracted services	32	(192,645,819)	(142,306,896)
General Expenses	33	(65,647,244)	(105,606,638)
<b>Total expenditure</b>		<b>(821,388,202)</b>	<b>(728,672,917)</b>
<b>Operating (deficit) surplus</b>		<b>(58,781,023)</b>	<b>53,620,229</b>
Loss on disposal of assets and liabilities		-	(16,683,542)
Actuarial gains/losses	35	2,755,498	-
		<b>2,755,498</b>	<b>(16,683,542)</b>
<b>(Deficit) surplus for the year</b>		<b>(56,025,525)</b>	<b>36,936,687</b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
<b>Balance at July 01, 2016</b>	<b>24,064,477</b>	<b>1,249,848,095</b>	<b>1,273,912,572</b>
Changes in net assets			
Surplus for the year	-	36,936,687	36,936,687
Total changes	-	36,936,687	36,936,687
<b>Balance at July 01, 2017</b>	<b>24,064,477</b>	<b>1,115,381,647</b>	<b>1,139,446,124</b>
Changes in net assets			
Changes in Accumulated Surplus	10,525,709	-	10,525,709
Net income (losses) recognised directly in net assets	10,525,709	-	10,525,709
Surplus for the year	-	(56,025,525)	(56,025,525)
Total recognised income and expenses for the year	10,525,709	(56,025,525)	(45,499,816)
Total changes	10,525,709	(56,025,525)	(45,499,816)
<b>Balance at June 30, 2018</b>	<b>34,590,186</b>	<b>1,059,356,122</b>	<b>1,093,946,308</b>
Note(s)	14		

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Cash Flow Statement

	Note(s)	2018 R	2017 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		177,003,208	91,197,685
Grants		187,583,488	626,640,041
Interest income		3,801,783	16,239,316
		<u>368,388,479</u>	<u>734,077,042</u>
<b>Payments</b>			
Employee costs		(216,754,978)	(208,398,243)
Suppliers		(392,297,555)	(113,615,892)
Finance costs		(35,320,936)	(22,862,781)
Other payments		376,222,981	(273,393,636)
		<u>(268,150,488)</u>	<u>(618,270,552)</u>
<b>Net cash flows from operating activities</b>	36	<b><u>100,237,991</u></b>	<b><u>115,806,490</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	6	(435,201,736)	(299,133,435)
Purchase of other intangible assets	7	(2,061,173)	(1,717,849)
Other movement in property plant and equipment		305,391,908	85,151,338
		<u>(131,871,001)</u>	<u>(215,699,946)</u>
<b>Cash flows from financing activities</b>			
Proceeds from other financial liabilities		-	99,683,000
Repayment of other financial liabilities		3,034,067	(61,714,873)
Movement in VAT payable		(16,078,617)	(22,542,614)
		<u>(13,044,550)</u>	<u>15,425,513</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(44,677,560)</b>	<b>(84,467,943)</b>
Cash and cash equivalents at the beginning of the year		94,043,319	178,511,262
<b>Cash and cash equivalents at the end of the year</b>	2	<b><u>49,365,759</u></b>	<b><u>94,043,319</u></b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	(228,996,259)	32,608,307	<b>(196,387,952)</b>	(177,003,208)	<b>19,384,744</b>
Rental of facilities and equipment	(250,000)	-	<b>(250,000)</b>	(246,483)	<b>3,517</b>
Recoveries	-	-	-	(918,165)	<b>(918,165)</b>
Other income 1	-	-	-	(6,272,458)	<b>(6,272,458)</b>
Other income - (rollup)	(14,900,000)	2,700,000	<b>(12,200,000)</b>	(1,650,639)	<b>10,549,361</b>
Interest received - investment	(12,000,000)	8,000,000	<b>(4,000,000)</b>	(801,780)	<b>3,198,220</b>
<b>Total revenue from exchange transactions</b>	<b>(256,146,259)</b>	<b>43,308,307</b>	<b>(212,837,952)</b>	<b>(186,892,733)</b>	<b>25,945,219</b>

##### Revenue from non-exchange transactions

##### Taxation revenue

Interest, Dividends and Rent on Land	(5,000,000)	-	<b>(5,000,000)</b>	(30,067,834)	<b>(25,067,834)</b>
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##### Transfer revenue

Government grants & subsidies	(629,650,000)	5,286,631	<b>(624,363,369)</b>	(540,650,828)	<b>83,712,541</b>
Fines, Penalties and Forfeits	-	-	-	(1,995,781)	<b>(1,995,781)</b>
Other transfer revenue 1	-	-	-	4,122,744	<b>4,122,744</b>

<b>Total revenue from non-exchange transactions</b>	<b>(634,650,000)</b>	<b>5,286,631</b>	<b>(629,363,369)</b>	<b>(568,591,699)</b>	<b>60,771,670</b>
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<b>Total revenue</b>	<b>(890,796,259)</b>	<b>48,594,938</b>	<b>(842,201,321)</b>	<b>(755,484,432)</b>	<b>86,716,889</b>
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#### Expenditure

Personnel	228,193,896	(6,646,000)	<b>221,547,896</b>	206,407,522	<b>(15,140,374)</b>
Remuneration of councillors	11,085,909	1,180,521	<b>12,266,430</b>	10,347,456	<b>(1,918,974)</b>
Depreciation and amortisation	46,713,431	(10,000,000)	<b>36,713,431</b>	38,934,806	<b>2,221,375</b>
Finance costs	23,019,000	400,000	<b>23,419,000</b>	35,320,936	<b>11,901,936</b>
Debt Impairment	78,997,680	-	<b>78,997,680</b>	139,701,691	<b>60,704,011</b>
Bulk purchases	111,033,989	10,200,000	<b>121,233,989</b>	132,382,728	<b>11,148,739</b>
Contracted Services	168,080,549	30,698,523	<b>198,779,072</b>	192,645,819	<b>(6,133,253)</b>
General Expenses	71,226,496	10,327,107	<b>81,553,603</b>	67,269,008	<b>(14,284,595)</b>

<b>Total expenditure</b>	<b>738,350,950</b>	<b>36,160,151</b>	<b>774,511,101</b>	<b>823,009,966</b>	<b>48,498,865</b>
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<b>Operating surplus</b>	<b>(152,445,309)</b>	<b>84,755,089</b>	<b>(67,690,220)</b>	<b>67,525,534</b>	<b>135,215,754</b>
Actuarial gains/losses	-	-	-	2,755,498	<b>2,755,498</b>

<b>Surplus before taxation</b>	<b>(152,445,309)</b>	<b>84,755,089</b>	<b>(67,690,220)</b>	<b>70,281,032</b>	<b>137,971,252</b>
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# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(152,445,309)</b>	<b>84,755,089</b>	<b>(67,690,220)</b>	<b>70,281,032</b>	<b>137,971,252</b>	
<b>Reconciliation</b>						

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
<b>2018</b>											
<b>Financial Performance</b>											
Service charges	(228,996,259)	32,608,307	(196,387,952)	-	-	(196,387,952)	177,003,208	-	373,391,160	(90)%	(77)%
Investment revenue	(12,000,000)	8,000,000	(4,000,000)	-	-	(4,000,000)	3,801,783	-	7,801,783	(95)%	(32)%
Transfers recognised - operational	(462,884,000)	(2,413,369)	(465,297,369)	-	-	(465,297,369)	430,313,750	-	895,611,119	(92)%	(93)%
Other own revenue	(20,150,000)	2,700,000	(17,450,000)	-	-	(17,450,000)	48,029,602	-	65,479,602	(275)%	(238)%
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>(724,030,259)</b>	<b>40,894,938</b>	<b>(683,135,321)</b>	<b>-</b>	<b>-</b>	<b>(683,135,321)</b>	<b>659,148,343</b>	<b>-</b>	<b>1,342,283,664</b>	<b>(96)%</b>	<b>(91)%</b>
Employee costs	228,193,896	(6,646,000)	221,547,896	-	-	221,547,896	(206,407,522)	-	(427,955,418)	(93)%	(90)%
Remuneration of councillors	11,085,909	1,180,521	12,266,430	-	-	12,266,430	(10,347,456)	-	(22,613,886)	(84)%	(93)%
Debt impairment	-	-	-	-	-	-	(139,701,691)	-	(139,701,691)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	46,713,431	(10,000,000)	36,713,431	-	-	36,713,431	(38,934,806)	-	(75,648,237)	(106)%	(83)%
Finance charges	23,019,000	400,000	23,419,000	-	-	23,419,000	(35,320,936)	-	(58,739,936)	(151)%	(153)%
Materials and bulk purchases	111,033,989	10,200,000	121,233,989	-	-	121,233,989	(132,382,728)	-	(253,616,717)	(109)%	(119)%
Other expenditure	318,304,725	41,025,630	359,330,355	-	-	359,330,355	(258,293,063)	-	(617,623,418)	(72)%	(81)%
<b>Total expenditure</b>	<b>738,350,950</b>	<b>36,160,151</b>	<b>774,511,101</b>	<b>-</b>	<b>-</b>	<b>774,511,101</b>	<b>(821,388,202)</b>	<b>-</b>	<b>(1,595,899,303)</b>	<b>(106)%</b>	<b>(111)%</b>
<b>Surplus/(Deficit)</b>	<b>14,320,691</b>	<b>77,055,089</b>	<b>91,375,780</b>	<b>-</b>	<b>-</b>	<b>91,375,780</b>	<b>(162,239,859)</b>	<b>-</b>	<b>(253,615,639)</b>	<b>(178)%</b>	<b>(1,133)%</b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Appropriation Statement

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
	R	R	R	R	R	R	R	R	R	R	R
Transfers recognised - capital	(166,766,000)	7,700,000	(159,066,000)	-		(159,066,000)	106,214,334		265,280,334	(67)%	(64)%
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(152,445,309)</b>	<b>84,755,089</b>	<b>(67,690,220)</b>	<b>-</b>		<b>(67,690,220)</b>	<b>(56,025,525)</b>		<b>11,664,695</b>	<b>83 %</b>	<b>37 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>(152,445,309)</b>	<b>84,755,089</b>	<b>(67,690,220)</b>	<b>-</b>		<b>(67,690,220)</b>	<b>(56,025,525)</b>		<b>11,664,695</b>	<b>83 %</b>	<b>37 %</b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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).

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

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and building which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the over their expected useful lives to their estimated residual value.

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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Item	Depreciation method	Average useful life
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# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

Buildings	Straight line	Fair value (30 years)
Plant and machinery	Straight line	10 to 20 years
Furniture and fixtures	Straight line	10 to 15 years
Motor vehicles	Straight line	10 to 15 years
IT equipment	Straight line	10 to 15 years
Computer software	Straight line	5 to 15 years
Infrastructure Water & Sanitation	Straight line	10 to 100 years
Fire Engines	Straight line	15 to 20 years
Mobile Offices	Straight line	15 to 20 years
Heavy machinery	Straight line	15 to 20 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

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

### 1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

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

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.4 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

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<b>Item</b>	<b>Depreciation method</b>	<b>Average useful life</b>
Computer software, other	Straight line	3 - 5 years
Licenses	Straight line	3 - 5 years
Websites	Straight line	3 - 5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note ).

### 1.5 Financial instruments

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

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

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

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.5 Financial instruments (continued)

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.5 Financial instruments (continued)

#### Classification

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

<b>Class</b>	<b>Category</b>
Trade and other receivables	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Bank and cash	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Trade and other payables	Financial liability measured at amortised cost
Development Bank of Southern Africa	Financial liability measured at amortised cost

#### Initial recognition

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

The Municipality recognises financial assets using trade date accounting.

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

The Municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.5 Financial instruments (continued)

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

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

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### 1.6 Inventories

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

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

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

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

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

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

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.6 Inventories (continued)

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.7 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.7 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

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

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

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

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.7 Employee benefits (continued)

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.7 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.7 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.7 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.7 Employee benefits (continued)

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.8 Provisions and contingencies

Provisions are recognised when:

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

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

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

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.8 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.9 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.9 Commitments (continued)

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

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

### 1.10 Revenue from exchange transactions

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

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

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

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

### 1.11 Revenue from non-exchange transactions

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

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.11 Revenue from non-exchange transactions (continued)

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

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

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

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

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.12 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### 1.13 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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

### 1.14 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified

### 1.15 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.16 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. Total deviations for the 2017/2018 financial year is R28 733 957.46. Total irregular expenditure is R31 598 195.40 and of this amount R48 097 is fruitless expenditure.

### 1.17 Irregular expenditure

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

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

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

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.17 Irregular expenditure (continued)

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

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

### 1.18 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.19 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2017 to 6/30/2018.

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

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

### 1.20 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

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### 1.21 Other accounting policy

#### **General Expenses .**

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decrease in net assets, other than those relating to distributions to owners. Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting, expenses are recognised when incurred, usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>2. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	8,555	10,607
Bank balances	45,607,204	30,282,712
Short-term deposits	-	60,000,000
Investments	3,750,000	3,750,000
	<b>49,365,759</b>	<b>94,043,319</b>

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

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

### Cash and cash equivalents pledged as collateral

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2018	June 30, 2017	June 30, 2016
FNB BANK -Salaries Account - 50940092196	239,602	1,649	50	239,633	1,680	82
FNB BANK -Projects Account - 62023616462	182,777	880,819	6,617,461	182,777	880,818	6,617,461
FNB BANK - Money Market Account - 62215748289	3,239,010	3,282,148	797,943	3,239,010	3,282,148	797,943
FNB BANK - Mandela Race Account - 62411577193	731,208	104,215	86,972	731,208	104,215	86,972
FNB BANK - Main Account - 50940026773	37,586,844	22,323,958	42,174,165	37,579,261	22,305,749	42,174,165
FNB BANK - UMDM MIG Account - 62400041985	83,581	79,553	75,486	83,581	79,553	75,486
ABSA BANK - Fixed Deposit - 2072673843	-	-	30,000,000	-	-	30,000,000
NEDBANK - 3 Months deposit - 03/7165014047/00023	-	30,000,000	30,000,000	-	30,000,000	30,000,000
ABSA BANK - Mandela Acc - 4004362410	137,526	-	-	137,526	-	-
FNB BANK - Public sector - 62243484417	(169)	-	-	(169)	-	-
INVESTEC BANK-Fixed Deposit-455213	-	-	30,000,000	-	-	30,000,000
FNB BANK-Fixed Deposit- 71101199555	3,750,000	3,750,000	3,750,000	3,750,000	3,750,000	3,750,000
STANDARD BANK-Fixed Deposit-358610095-004	-	30,000,000	30,000,000	-	30,000,000	30,000,000
Ithala Bank -63647675	-	-	5,000,000	-	-	5,000,000
FIRST NATIONAL BANK- SANBI ACCOUNT	3,414,371	3,628,548	-	3,414,371	3,628,548	-
<b>Total</b>	<b>49,364,750</b>	<b>94,050,890</b>	<b>178,502,077</b>	<b>49,357,198</b>	<b>94,032,711</b>	<b>178,502,109</b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>2. Cash and cash equivalents (continued)</b>		
The FNB Investment to the value of R3 750 000 is held as security for the long term loans held with DBSA. Refer to note 5 or 9 (as applicable)		
<b>3. Consumer debtors</b>		
<b>Gross balances</b>		
Water	<u>518,227,027</u>	<u>402,433,326</u>
<b>Less: Allowance for impairment</b>		
Water	<u>(397,847,356)</u>	<u>(258,145,665)</u>
<b>Net balance</b>		
Water	<u>120,379,671</u>	<u>144,287,661</u>
<b>Water</b>		
Current (0 -30 days)	39,274,076	11,656,859
31 - 60 days	13,338,930	11,387,820
61 - 90 days	11,152,348	8,779,899
91 - 120 days	13,409,646	7,118,834
121 - 180 days	9,767,808	19,094,910
> 180 days	431,284,219	344,395,004
Less: Allowance for impairment	<u>(397,847,356)</u>	<u>(258,145,665)</u>
	<u><b>120,379,671</b></u>	<u><b>144,287,661</b></u>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>3. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>House holds</b>		
Current (0 -30 days)	24,759,143	9,678,564
31 - 60 days	10,142,811	8,989,027
61 - 90 days	8,409,552	7,794,568
91 - 120 days	11,443,589	6,391,725
121 - 180 days	8,647,090	17,278,943
> 180 days	399,791,928	327,577,431
	<u>463,194,113</u>	<u>377,710,258</u>
Less: Allowance for impairment	(397,847,356)	(258,145,665)
	<b><u>65,346,757</u></b>	<b><u>119,564,593</u></b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	10,043,561	1,126,337
31 - 60 days	2,622,906	1,546,881
61 - 90 days	2,439,031	597,500
91 - 120 days	1,559,211	430,544
121 - 180 days	903,411	1,113,495
> 180 days	21,950,284	11,729,960
	<u>39,518,404</u>	<u>16,544,717</u>
<b>Government</b>		
Current (0 -30 days)	4,471,371	851,956
31 - 60 days	573,213	851,912
61 - 90 days	303,765	387,831
91 - 120 days	406,846	296,566
121 - 180 days	217,308	702,472
> 180 days	7,807,230	5,087,615
	<u>13,779,733</u>	<u>8,178,352</u>
<b>Total</b>		
Current (0 -30 days)	39,274,076	11,656,859
31 - 60 days	13,338,930	11,387,820
61 - 90 days	11,152,348	8,779,899
91 - 120 days	13,409,646	7,118,834
121 - 180 days	9,767,808	19,094,910
> 180 days	431,284,219	344,395,004
	<u>518,227,027</u>	<u>402,433,326</u>
Less: Allowance for impairment	(397,847,356)	(258,145,665)
	<b><u>120,379,671</u></b>	<b><u>144,287,661</u></b>
<b>Less: Allowance for impairment</b>		
> 365 days	<u>(397,847,356)</u>	<u>(258,145,665)</u>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(258,145,665)	(234,392,347)
Contributions to allowance	(139,701,691)	(61,029,638)
Debt impairment written off against allowance	-	37,276,320
	<b><u>(397,847,356)</u></b>	<b><u>(258,145,665)</u></b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>4. Receivables from exchange transactions</b>		
Deposits	1,031,098	1,106,371
Agency agreements	1,553,449	1,749,992
Other debtors	8,088,020	9,046,395
Prepaid expenses	-	955,201
Interest accrued	244,379	778,555
WSIG	-	18,130,636
MIG	-	183,451,370
Clearing account	-	2,185,939
	<b>10,916,946</b>	<b>217,404,459</b>
<b>5. Inventories</b>		
Consumable stores	1,758,796	2,191,697
Water	305,182	280,687
	<b>2,063,978</b>	<b>2,472,384</b>
Inventories recognised as an expense during the year	951,603	4,300,132

Inventory is measured at the lower of cost and net realisable value. Inventory recognised as an expense excludes material purchased for direct use.

## 6. 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	1,905,000	-	1,905,000	1,905,000	-	1,905,000
Buildings	30,681,877	(4,125,968)	26,555,909	30,681,877	(3,129,821)	27,552,056
Plant and machinery	20,593,360	(4,121,799)	16,471,561	20,845,999	(3,252,967)	17,593,032
Furniture and fixtures	5,200,726	(3,173,129)	2,027,597	5,033,307	(2,899,342)	2,133,965
IT equipment	6,954,415	(4,356,461)	2,597,954	6,738,924	(4,154,242)	2,584,682
Infrastructure	2,227,079,397	(1,366,607,066)	860,472,331	1,963,630,957	(1,373,077,449)	590,553,508
Infrastructure - Working in progress	436,166,316	-	436,166,316	612,257,969	-	612,257,969
<b>Total</b>	<b>2,728,581,091</b>	<b>(1,382,384,423)</b>	<b>1,346,196,668</b>	<b>2,641,094,033</b>	<b>(1,386,513,821)</b>	<b>1,254,580,212</b>

### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Transfers	Depreciation	Total
Land	1,905,000	-	-	-	1,905,000
Buildings	27,552,056	-	-	(996,147)	26,555,909
Plant and machinery	17,593,032	-	-	(1,121,471)	16,471,561
Furniture and fixtures	2,133,965	167,420	-	(273,788)	2,027,597
IT equipment	2,584,682	342,154	-	(328,882)	2,597,954
Infrastructure	590,553,508	305,391,907	-	(35,473,084)	860,472,331
Infrastructure - Working in progress	612,257,969	129,300,255	(305,391,908)	-	436,166,316
	<b>1,254,580,212</b>	<b>435,201,736</b>	<b>(305,391,908)</b>	<b>(38,193,372)</b>	<b>1,346,196,668</b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Restated

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

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

	Opening balance	Additions	Transfers	Depreciation	Total
Land	1,905,000	-	-	-	1,905,000
Buildings	28,586,174	-	-	(1,034,118)	27,552,056
Plant and machinery	7,878,415	10,346,188	-	(631,571)	17,593,032
Furniture and fixtures	2,120,277	274,634	-	(260,946)	2,133,965
IT equipment	1,803,607	1,091,800	-	(310,725)	2,584,682
Water Infrastructure	568,779,009	96,114,219	(16,683,541)	(57,656,179)	590,553,508
Water infrastructure-Work in Progress	506,102,713	191,306,594	(85,151,338)	-	612,257,969
	<b>1,117,175,195</b>	<b>299,133,435</b>	<b>(101,834,879)</b>	<b>(59,893,539)</b>	<b>1,254,580,212</b>

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.

### 7. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	7,570,540	(6,187,586)	1,382,954	5,509,367	(4,741,976)	767,391

#### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	767,391	2,061,173	(1,445,610)	1,382,954

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>7. Intangible assets (continued)</b>		
<b>Reconciliation of intangible assets - 2017</b>		
	Opening balance	Additions
	Amortisation	Total
Computer software, other	677,910	1,717,849
	(1,628,368)	767,391
	<u>677,910</u>	<u>1,717,849</u>
	<u>(1,628,368)</u>	<u>767,391</u>
<b>8. Payables from exchange transactions</b>		
Trade payables	89,037,723	85,352,011
Other payables 1	3,063,440	3,282,621
Accrued leave pay	12,972,729	11,921,249
Accrued bonus	6,171,063	4,480,677
Other accrued expenses	588,489	876,509
Retention	11,108,769	15,716,584
	<u>122,942,213</u>	<u>121,629,651</u>
<b>Trade payable ageing</b>		
0 - 30 days	85,667,760	56,779,977
31 - 60 days	2,456,709	23,561,968
61 - 90 days	392,796	1,076,795
91 - 180 days	520,458	858,832
	<u>89,037,723</u>	<u>82,277,572</u>
<b>9. Other financial liabilities</b>		
<b>At amortised cost</b>		
DBSA Loan	222,368,003	219,333,936
	<u>222,368,003</u>	<u>219,333,936</u>
The Loans from Development Bank Southern Africa are subject to interest at an average rate of 10% and are repayable over an average period of 20 years		
A FNB Investment to the value of R3 750 000 is held as security for the long term loans held with DBSA. Refer to note 5 or 9 (as applicable)		
<b>Non-current liabilities</b>		
At amortised cost	213,295,553	210,699,839
	<u>213,295,553</u>	<u>210,699,839</u>
<b>Current liabilities</b>		
At amortised cost	9,072,450	8,634,097
	<u>9,072,450</u>	<u>8,634,097</u>
<b>10. Consumer deposits</b>		
Water	6,183,311	5,907,544
	<u>6,183,311</u>	<u>5,907,544</u>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
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### 11. Provisions

#### Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Total
Post employee benefits	21,534,198	-	(2,267,985)	19,266,213
Long services award	10,275,788	1,588,000	-	11,863,788
	<b>31,809,986</b>	<b>1,588,000</b>	<b>(2,267,985)</b>	<b>31,130,001</b>

#### Reconciliation of provisions - 2017

	Opening Balance	Additions	Total
Post employee benefits	19,339,372	2,194,826	21,534,198
Long services award	9,867,668	408,120	10,275,788
	<b>29,207,040</b>	<b>2,602,946</b>	<b>31,809,986</b>

The warranty provision represents management's best estimate of the municipality's liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

There is no expected reimbursement (from the manufacturer) in respect of this provision.

The restructuring provision relates to redundancy costs incurred on the disposal of. At , approximately -% of the staff had been retrenched. The remainder departed in .

The municipality moved from its previous leased premises. The lease is non-cancellable and the lease continues for the next - years. The municipality cannot find a lessee to occupy the premises.

### 12. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Camperdown waste water works & PTP Grants	4,308,912	4,308,912
ORIO Grant	11,550,860	11,550,860
Water Services Infrastructure Grant	11,243,255	-
Development Agency Support Programme & Summit	3,300,000	-
SETA	-	910,776
	<b>30,403,027</b>	<b>16,770,548</b>

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; and

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

### 13. VAT payable

Tax refunds payables	23,333,113	7,254,496
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Vat output is paid to SARS once payment has been received from third parties.

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R	
<b>14. Revaluation reserve</b>			
<p>The revaluation reserve arose due to the Land and Buildings recorded at market values. The valuation was performed by a professional valuer by Local Municipalities where valued properties are situated. The municipality used valuation roll values to revalue its land and buildings. The valuation roll was implemented on 01 July 2009.</p>			
Opening balance	24,064,477	24,064,477	
Change during the year	10,532,624	-	
Change from the Accumulated Surplus	(6,915)	-	
	<b>34,590,186</b>	<b>24,064,477</b>	
<b>15. Accumulated surplus</b>			
<b>Ring-fenced internal funds and reserves within accumulated surplus - 2018</b>			
	Capital replacement reserve	Government grant reserve	Total
Opening balance	10,532,624	577,331,904	587,864,528
Transfer to capital replacement reserve	(10,532,624)	-	(10,532,624)
	<b>-</b>	<b>577,331,904</b>	<b>577,331,904</b>
<b>Ring-fenced internal funds and reserves within accumulated surplus - 2017</b>			
	Capital replacement reserve	Government grant reserve	Total
Opening balance	10,532,624	577,331,904	587,864,528
<b>16. Service charges</b>			
Service charges	283,203	323,038	
Sale of water	155,911,896	111,576,882	
Sewerage and sanitation charges	20,808,109	12,328,933	
	<b>177,003,208</b>	<b>124,228,853</b>	
<b>17. Rental of facilities and equipment</b>			
<b>Facilities and equipment</b>			
Rental of equipment	-	205,215	
<b>18. Other income</b>			
Project income	14,134	1,696,654	
Sundry income	7,908,963	9,344,235	
	<b>7,923,097</b>	<b>11,040,889</b>	
<b>19. Investment revenue</b>			
<b>Interest revenue</b>			
Bank	3,801,783	15,432,321	

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>20. Interest, dividends and Rent on Land</b>		
Interest - Receivables	<u>30,067,834</u>	<u>23,308,202</u>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>21. Government grants and subsidies</b>		
<b>Operating grants</b>		
Department of water and sanitation grant	-	3,464,411
Equitable share	420,729,000	428,361,527
Expanded public works	1,428,000	2,094,000
FMG	1,250,000	1,250,000
Intergovernmental Relations	-	1,163,744
Rural roads asset management system	2,526,000	2,384,000
Corridor development bulk sewer line	-	5,414,301
SETA Grant	4,380,750	11,249,893
	<u>430,313,750</u>	<u>455,381,876</u>
<b>Capital grants</b>		
Massification	-	11,650,712
MIG	72,590,225	72,679,442
Water services infrastructure grant	33,624,109	68,365,636
	<u>106,214,334</u>	<u>152,695,790</u>
	<b><u>536,528,084</u></b>	<b><u>608,077,666</u></b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies realised as income:		
Conditional grants received	179,716,139	608,077,666
Unconditional grants received	-	428,361,527
	<u>179,716,139</u>	<u>1,036,439,193</u>
<b>FMG</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(1,250,000)	(1,250,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 12)		

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>21. Government grants and subsidies (continued)</b>		
<b>EPWP Grant</b>		
Current-year receipts	1,428,000	2,094,000
Conditions met - transferred to revenue	(1,428,000)	(2,094,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 12)		
<b>Rural Roads Assets Management Systems Grant</b>		
Current-year receipts	2,526,000	2,384,000
Conditions met - transferred to revenue	(2,526,000)	(2,384,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 12).		
<b>Massification Grant</b>		
Balance unspent at beginning of year	-	1,650,712
.	-	10,000,000
Conditions met - transferred to revenue	-	(11,650,712)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 12).		
<b>MIG</b>		
Balance unspent at beginning of year	(183,451,373)	(220,401,928)
Current-year receipts	96,021,000	109,630,000
Conditions met - transferred to revenue	87,430,373	(72,679,445)
	<u>-</u>	<u>(183,451,373)</u>
Conditions still to be met - remain liabilities (see note 3)		
<b>PTP Grant</b>		
Balance unspent at beginning of year	-	308,817
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Other- Consolidation	-	(308,817)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 12).		
<b>Water Services Infrastructure Grant</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	62,998,000	50,235,000
Conditions met - transferred to revenue	(51,754,745)	(50,235,000)
	<u>11,243,255</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 3).		

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>21. Government grants and subsidies (continued)</b>		
<b>Department of Water and Sanitation Grant</b>		
Balance unspent at beginning of year	-	3,464,411
Conditions met - transferred to revenue	-	(3,464,411)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 12).		
<b>Corridor Development Bulk Sewer Line</b>		
Current-year receipts	-	5,414,301
Conditions met - transferred to revenue	-	(5,414,301)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 12).		
<b>Camperdown Water Works</b>		
Balance unspent at beginning of year	-	4,000,095
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Other	-	(4,000,095)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 12).		
<b>SETA Grant</b>		
Balance unspent at beginning of year	910,776	-
Current-year receipts	-	12,160,669
Conditions met - transferred to revenue	(910,776)	(11,249,893)
	<u>-</u>	<u>910,776</u>
Conditions still to be met - remain liabilities (see note 12).		
<b>22. Fines, Penalties and Forfeits</b>		
Fines, Penalties and Forfeits 1	1,995,781	-
	<u>1,995,781</u>	<u>-</u>
<b>23. Revenue</b>		
Service charges	177,003,208	124,228,853
Rental of facilities and equipment	246,483	205,215
Recoveries	918,165	-
Other income - (rollup)	7,923,097	11,040,889
Interest received - investment	3,801,783	15,432,321
Interest, Dividends and Rent on Land	30,067,834	23,308,202
Government grants & subsidies	536,528,084	608,077,666
Fines, Penalties and Forfeits	1,995,781	-
Other transfer revenue 1	4,122,744	-
	<u>762,607,179</u>	<u>782,293,146</u>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>23. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	177,003,208	124,228,853
Rental of facilities and equipment	246,483	205,215
Recoveries	918,165	-
Other income - (rollup)	7,923,097	11,040,889
Interest received - investment	3,801,783	15,432,321
	<b><u>189,892,736</u></b>	<b><u>150,907,278</u></b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Interest, Dividends and Rent on Land	30,067,834	23,308,202
<b>Transfer revenue</b>		
Government grants & subsidies	536,528,084	608,077,666
Fines, Penalties and Forfeits	1,995,781	-
Other transfer revenue 1	4,122,744	-
	<b><u>572,714,443</u></b>	<b><u>631,385,868</u></b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>24. Employee related costs</b>		
Basic	122,539,625	108,330,550
Medical aid - company contributions	11,553,759	11,848,955
UIF	785,146	752,383
WCA	-	1,593,739
SDL	1,508,530	1,581,432
Other payroll levies	44,628	38,373
Leave pay provision charge	1,583,610	1,860,129
Group life insurance	-	2,749,713
Defined contribution plans	23,690,941	23,471,018
Travel, motor car, accommodation, subsistence and other allowances	18,011,558	17,860,370
Overtime payments	7,831,565	9,370,424
Long-service awards	2,640,185	2,932,703
Acting allowances	865,109	827,408
Housing benefits and allowances	1,022,788	1,000,774
Annual bonus	10,889,302	8,869,653
Standby Allowance	4,081,012	3,877,783
Telephone allowance	136,929	1,098,846
Clothing allowance	114,357	94,574
Other # 7	(2,472,700)	-
Other # 8	1,581,178	-
	<b>206,407,522</b>	<b>198,158,827</b>
<b>Senior Management Remuneration</b>		
<b>Remuneration of Municipal Manager</b>		
Annual remuneration	649,440	1,351,252
Car allowance	-	144,000
Performance bonuses	-	89,454
Other	12,600	18,000
Leave pay	-	226,211
	<b>662,040</b>	<b>1,828,917</b>
<b>Remuneration of SEM: Financial Services</b>		
Annual remuneration	1,311,614	1,247,286
Car allowance	180,000	180,000
Performance bonuses	69,823	77,347
Other	21,600	30,960
Acting Allowance	49,608	-
	<b>1,632,645</b>	<b>1,535,593</b>
<b>Remuneration of SEM: Corporate Services</b>		
Annual remuneration	940,802	160,296
Car allowance	117,383	20,000
Performance bonuses	-	3,600
Other	21,129	-
Leave Pay	84,277	-
	<b>1,163,591</b>	<b>183,896</b>
<b>Remuneration of SEM: Technical services</b>		

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>24. Employee related costs (continued)</b>		
Annual remuneration	945,247	878,485
Car allowance	351,628	313,386
Performance bonuses	81,743	75,243
Other	38,151	223,031
Contribution to UIF, Medical and Pension funds	-	38,151
	<b>1,416,769</b>	<b>1,528,296</b>
<b>Remuneration of SEM: Community Services</b>		
Annual remuneration	1,091,095	1,031,768
Car allowance	163,850	163,850
Performance bonuses	62,401	58,348
Other	21,600	109,330
Contribution to UIF, Medical and Pension funds	-	9,300
	<b>1,338,946</b>	<b>1,372,596</b>
<b>25. Remuneration of councillors</b>		
Remuneration to Councillors	10,347,456	10,239,416
<b>In-kind benefits</b>		
The Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has 4 full time bodyguards. The Deputy Mayor and Speaker have three full-time bodyguards.		
The salaries, allowances and benefits paid to councillors in the 2017/2018 financial year were within the upper limits as determined by the National Minister of Co-operative Government And Traditional affairs		
<b>26. Administrative expenditure</b>		
Administration and management fees - third party	-	7,107,273
<b>27. Depreciation and amortisation</b>		
Property, plant and equipment	38,934,806	59,893,538
Intangible assets	-	1,628,368
	<b>38,934,806</b>	<b>61,521,906</b>
<b>28. Finance costs</b>		
Fair value adjustments on payables	52,964	-
Other interest paid	35,267,972	19,737,550
	<b>35,320,936</b>	<b>19,737,550</b>
<b>29. Lease rentals on operating lease</b>		
<b>Premises</b>		
Contractual amounts	-	1,778,490

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>30. Debt impairment</b>		
Contributions to debt impairment provision	-	61,029,639
Bad debts written off	139,701,691	-
	<b>139,701,691</b>	<b>61,029,639</b>
<b>31. Bulk purchases</b>		
Water	132,382,728	121,186,282
<b>32. Contracted services</b>		
<b>Presented previously</b>		
Fleet Services	675,771	56,188,626
Operating Leases	-	69,934,401
Specialist Services	191,970,048	-
Other Contractors	-	16,183,869
<b>33. General expenses</b>		
Advertising	1,136,014	149,752
Auditors remuneration	1,960	1,913,530
Bank charges	4,724,973	1,070,153
Consulting and professional fees	8,328,358	16,562,195
Consumables	-	7,002,364
Entertainment	87,707	4,536,523
Hire	2,275,003	3,503,914
Insurance	666,345	597,093
Conferences and seminars	4,939,068	660,004
Levies	-	1,394,432
Magazines, books and periodicals	129,526	216,428
Medical expenses	-	147,064
Motor vehicle expenses	19,690,286	20,383,835
Postage and courier	852,992	840,156
Printing and stationery	1,695,612	2,052,145
Promotions	-	2,804,576
Protective clothing	708,340	2,050,501
Repairs and maintenance	2,029,741	4,725,400
Research and development costs	-	219,750
Royalties and license fees	347,368	506,704
Security (Guarding of municipal property)	-	7,615,278
Staff welfare	-	292,741
Subscriptions and membership fees	4,144	896,232
Telephone and fax	2,693,832	4,306,974
Training	7,781,971	11,919,856
Travel - local	2,140,382	2,920,992
Expense 1	1,490,330	-
Disaster Response Tools	-	497,945
Bursary	627,570	-
Other expenses	3,295,722	-
Manufacturing expenses	-	5,820,101
	<b>65,647,244</b>	<b>105,606,638</b>
<b>34. Auditors' remuneration</b>		
Fees	1,960	1,913,530

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>35. Employee benefit obligations</b>		
<b>Defined benefit plan</b>		
<b>Post retirement medical aid plan</b>		
The municipality operates on 5 accredited medical aid schemes, namely Bonitas, KeyHealth, LA Health, Samumed and HosMed.		
<b>Pension benefits</b>		
Pensioners continue on the option they belonged to on the day of their retirement. The independent valuers, i3 Actuaries and Consultants, carry out a statutory valuation on an annual basis.		
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
<b>Heading</b>		
Opening balance	22,971,000	20,801,000
Net expense recognised in the statement of financial performance	2,170,000	2,170,000
	<b>25,141,000</b>	<b>22,971,000</b>
<b>Ex-gratia Pension Benefits Liability</b>		
	733,198	708,372
	(26,985)	24,826
	<b>706,213</b>	<b>733,198</b>
<b>Net expense recognised in the statement of financial performance</b>		
<b>Heading</b>		
Current service cost	-	688,000
Interest cost	-	1,645,000
Actuarial (gains) losses	-	348,000
Expected return on reimbursement rights	-	(511,000)
	-	<b>2,170,000</b>
<b>Ex-gratia Pension Benefits Liability</b>		
	55,402	57,166
	(96,889)	(92,557)
	14,502	60,218
	<b>(26,985)</b>	<b>24,827</b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>35. Employee benefit obligations (continued)</b>		
<b>Changes in the fair value of plan assets are as follows:</b>		
<b>Heading</b>		
Opening balance	22,971,000	20,801,000
Actuarial gains (losses)	(2,964,000)	-
Assets distributed on settlements	-	348,000
Contributions by employer	-	688,000
Contributions by plan participants	-	1,645,000
Benefits paid	-	(511,000)
	<b>20,007,000</b>	<b>22,971,000</b>
<b>Ex-gratia Pension Benefits Liability</b>		
Liability at the end of the period	733,198	708,372
Interest Cost	55,402	60,218
Actuarial (Gain) / Loss	14,502	57,166
Benefit Paid	(96,889)	(92,557)
	<b>706,213</b>	<b>733,199</b>

### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	2.43 %	9.67 %
Expected rate of return on assets	-	7.80 %
Expected rate of return on reimbursement rights	-	0.82 %
Actual return on reimbursement rights	-	63.00 %
Medical cost trend rates	-	90.00 %
Expected increase in salaries	-	90.00 %
Proportion of employees opting for early retirement	-	0.71 %

No explicit assumption was made about additional mortality or health care costs due to AIDS

<b>Percentage of inservice members withdrawing before retirement</b>	Females	Males
Age 20 - 29	24%	16%
Age 30 - 39	15%	10%
Age 40 - 49	6%	6%
Age 50 - 54	4%	2%
Age 55+	0%	0%

### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

### Sensitivity analysis

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

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2018	2017
R	R

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### 35. Employee benefit obligations (continued)

The results presented are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results, will depend on the extent to which actual experience differs from the assumptions made.

The assumption which tends to have the greatest impact on the results is the level of mortality and medical aid inflation

#### Sensitivity results

The liability at the Valuation date was recalculated to show the effect of:

(i) A 1% increase and decrease in the assumed rate of health care cost inflation:

(iv) A 20% increase and decrease in the assumed rates of post retirement mortality": and

#### Long service award and retirement gifts

The independent valuers, I3 Actuaries and Consultants, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>35. Employee benefit obligations (continued)</b>		
Discount rate per annum	10.97%	8.64%
General salary inflation	8.46%	6.47%
Net effective discount rate	2.31%	2.04%
Average retirement age	63 years	63 years
Mortality during employment	SA85/90	SA85-90
<b>Members withdrawn from services</b>		
	Females	Males
Age 20 - 29	24%	16%
Age 30 -39	15%	10%
Age 40 - 49	6%	6%
Age 50 - 54	2%	2%
	-	-
<b>Movement in defined benefit obligation</b>		
Balance at the beginning of the year* Round up	10,275,788	9,867,668
Current service costs	869,000	876,920
Interest costs	888,000	824,937
Actuarial gain / (loss)	194,000	(538,254)
Benefit payment	(498,000)	(755,483)
New employees	135,000	-
	<b>11,863,788</b>	<b>10,275,788</b>
<b>The amounts recognised in the Statement of Financial Performance were as follows:</b>		
Current costs	869,000	876,920
Interest cost	888,000	824,937
Actuarial gain / (loss)	194,000	(538,254)
Benefit payment	(498,000)	(755,483)
New employees	135,000	-
	<b>1,588,000</b>	<b>408,120</b>
<b>In Conclusion: Statement of financial position obligated for:</b>		
Post employment medical benefit	18,560,000	20,801,000
Post employment pension benefit	-	733,198
Long service award	-	10,275,788
	<b>18,560,000</b>	<b>31,809,986</b>
<b>Statement of Financial Performance obligation for:</b>		
Post employment medical benefit	-	2,170,000
Post employment pension benefit	-	24,826
Long service award	-	408,120
	-	<b>2,602,946</b>

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>36. Cash generated from operations</b>		
(Deficit) surplus	(56,025,525)	36,936,687
<b>Adjustments for:</b>		
Depreciation and amortisation	38,934,806	61,521,906
Gain on sale of assets and liabilities	-	16,683,542
Debt impairment	139,701,691	61,029,639
Movements in provisions	(679,985)	2,602,946
Other non-cash items	(144,094,639)	-
<b>Changes in working capital:</b>		
Inventories	408,406	(796,668)
Receivables from exchange transactions	206,487,513	52,477,020
Consumer debtors	(115,793,701)	(51,646,942)
Payables from exchange transactions	1,312,562	(45,439,915)
VAT	16,078,617	(22,542,614)
Unspent conditional grants and receipts	13,632,479	4,661,973
Consumer deposits	275,767	318,916
	<b>100,237,991</b>	<b>115,806,490</b>
<b>37. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	197,454,799	234,889,865
<b>Contracted for operating commitments</b>		
• Office Rental	702,994	895,699
• Security	9,405,274	16,044,291
• Maintenance	2,045,420	5,841,662
• Water Tankering	-	8,270,136
• Other General	7,242,653	-
	<b>19,396,341</b>	<b>31,051,788</b>
<b>Total commitments</b>		
Capital commitments	197,454,799	234,889,865
Operating commitments	19,396,341	31,051,788
	<b>216,851,140</b>	<b>265,941,653</b>

This committed expenditure relates to property 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.

## 38. Contingencies

A matter between the municipality and MHZA Machine Handling CC in relation to ORIO Funded Projects. The matter is in relation to monetary claims for services rendered by MHZA amounting to R 16 609 254.33 and a further R 56 245 406.84 for damages. The total claim amounts to R 56 245 406.84. A matter between Amaraka Investments to the value of R 13 050 776. pertaining to a developers claim for re-imbursment for transporting effluent. Another matter between Yellowdot to the value of R445 796.97 for unpaid invoices and the early termination of contract. An amount of R 350 000 is claimed by Goerge Shabalala for damages caused by sewer overflow. An amount of R 155 828.70 is claimed by Mbulelo Sibiya for motor vehicle damages caused by an employee during the cause and scope of employment

# UMGUNGUNDLOVU DISTRICT MUNICIPALITY

(Registration number DC 22)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>39. Prior period errors</b>		
Property, plant and equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)		
The correction of the error(s) results in adjustments as follows:		
<b>40. Going concern</b>		
We draw attention to the fact that at June 30, 2018, the municipality had an accumulated surplus of R 1,059,356,122 and that the municipality's total liabilities exceed its assets by R 1,093,946,308.		
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.		
The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.		
<b>41. Events after the reporting date</b>		
No events after the reporting date were identified by management that would affect the operations of the municipality or the results of those operations significantly.		
<b>42. Fruitless and wasteful expenditure</b>		
Opening balance	2,271,469	2,121,219
Interest and penalties	48,097	150,250
Less: Written off by council	2,121,219	2,121,219
Add: Awaiting condonation from National Treasury	(2,121,219)	(2,121,219)
	<u>2,319,566</u>	<u>2,271,469</u>
<b>43. Irregular expenditure</b>		
Opening balance	1,360,214	1,017,354
Add: Irregular Expenditure - current year	31,550,099	342,860
Less: Written off by Council	31,550,099	1,017,354
Add: Amounts still awaiting condonation by National Treasury	(31,550,099)	(1,017,354)
	<u>32,910,313</u>	<u>1,360,214</u>
<b>44. Deviation from supply chain management regulations</b>		
Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.		
Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.		
The municipality recorded deviations totalling to R 28 852 109 in the last financial year and R 28 733 958 during the current financial year, that was ratified by Full Council at the respective meetings held during the financial year ended 30 June 2018.		