



Umsobomvu Local Municipality
Annual Financial Statements
for the year ended 30 June 2019

These annual financial statements were prepared by:
Durcharme Consulting (Pty) Ltd
Published 30 August 2019

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Umsobomvu municipal area.
Mayoral committee	
Executive Mayor	MS Toto
Councillors	VP Harmse MR Kafi W Minnie MA Sestile NJ Batties SK Brown E Humphries JP Matthee CM Williams MJ Williams
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	DT Visagie
Accounting Officer	AC Mpela
Business address	21A Church Street Colesburg Northern Cape 9795
Postal address	Private Bag X6 Colesburg Northern Cape 9795
Bankers	ABSA Bank Limited Standard Bank of South Africa Limited
Auditors	Auditor General of South Africa (AGSA)
Telephone number	(051) 753 0777
Fax number	(051) 753 0574
Website	www.umsobomvumun.co.za

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Index

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

	Page
Accounting Officer's Responsibilities and Approval	3
Accounting Officer's Report	4 - 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
Accounting Policies	12 - 37
Notes to the Annual Financial Statements	38 - 77

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)

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 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 30 June 2020 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 annual financial statements are prepared on the basis that the municipality is a going concern and that the Umsobomvu Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:



AC Mpela
Accounting Officer

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the municipal area..

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 5 199 344 (2018: deficit R 15 762 003).

2. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 470 619 516 and that the municipality's total assets exceed its liabilities by R 470 619 516.

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 government will continue to fund the operations of the municipality through the provision of the equitable share, additionally the accounting officer will continue to tightly manage the cash flow of the municipality and where necessary procure funding for the ongoing operations of the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

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

6. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year were as follows:

There were no changes in the nature of the non-current assets of the municipality during the year.

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Internal audit

The municipality has outsourced its internal audit function to the Pixley-ka-Seme District Municipality (i.e. shared services). This is in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

8. Bankers

The municipality's bankers did not change during the year.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Officer's Report

9. Auditors

The Auditor General of South Africa (AGSA) will continue in office for the next financial period.

10. Non-compliance with applicable legislation

Significant non-compliance with various legislation have been properly disclosed in the notes to the annual financial statements.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018
Assets			
Current Assets			
Inventories	3	397 734	442 663
Other receivables from non-exchange transactions	4	2 546 357	2 286 760
Receivables from exchange transactions	5	38 684 983	20 837 560
Receivables from non-exchange transactions	5	8 003 334	3 768 183
Cash and cash equivalents	6	4 355 387	5 116 407
		53 987 795	32 451 573
Non-Current Assets			
Investment property	7	2 060 899	2 060 899
Property, plant and equipment	8	518 517 416	537 180 189
Intangible assets	9	122 044	216 262
Operating lease asset	10	430	448
		520 700 789	539 457 798
Total Assets		574 688 584	571 909 371
Liabilities			
Current Liabilities			
Other financial liabilities	11	-	13 570
Finance lease obligation	12	724 531	597 682
Payables from exchange transactions	13	26 159 057	24 007 808
Payables from non-exchange transactions	14	391 917	772 138
VAT payable	15	10 680 943	12 287 074
Consumer deposits	16	819 539	840 520
Employee benefit obligation	17	652 471	545 090
Unspent conditional grants and receipts	18	15 346 707	8 733 881
		54 775 165	47 797 763
Non-Current Liabilities			
Finance lease obligation	12	1 793 718	2 502 442
Employee benefit obligation	17	12 447 827	14 100 243
Provisions	19	35 052 358	31 685 045
		49 293 903	48 287 730
Total Liabilities		104 069 068	96 085 493
Net Assets		470 619 516	475 823 878
Accumulated surplus		470 619 516	475 823 878

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018
Revenue			
Revenue from exchange transactions			
Service charges	20	53 477 994	48 376 530
Rental of facilities and equipment	21	154 593	221 915
Agency services	22	1 334 998	-
Other income	23	948 102	1 370 633
Interest received	24	142 490	3 218 374
Gain on disposal of assets and liabilities		40 734	-
Total revenue from exchange transactions		56 098 911	53 187 452
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	10 119 357	9 861 205
Property rates - penalties imposed	25	-	202 782
Transfer revenue			
Government grants and subsidies	26	66 233 593	71 679 523
Fines, penalties and forfeits	27	6 138 526	7 398 277
Total revenue from non-exchange transactions		82 491 476	89 141 787
Total revenue		138 590 387	142 329 239
Expenditure			
Employee related costs	28	(42 388 419)	(42 633 899)
Remuneration of councillors	29	(4 046 900)	(3 845 166)
Depreciation and amortisation	30	(31 617 394)	(30 545 741)
Impairment loss	31	(1 871 116)	-
Finance costs	32	(4 660 147)	(4 371 582)
Debt Impairment	33	(6 400 672)	(23 190 660)
Bulk purchases	34	(24 284 327)	(22 455 038)
Loss on disposal of assets and liabilities		-	(36 925)
General expenses	35	(11 563 967)	(11 760 974)
Auditors remuneration		(3 247 991)	(2 642 251)
Consulting and professional fees		(4 701 999)	(3 913 117)
Fines and penalties		(531 153)	(7 135 200)
Repairs and maintenance		(5 611 238)	(2 959 785)
Travel and subsistence		(2 864 408)	(2 600 904)
Total expenditure		(143 789 731)	(158 091 242)
Deficit for the year		(5 199 344)	(15 762 003)

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	478 409 427	478 409 427
Adjustments		
Prior year adjustments (note 41)	13 176 454	13 176 454
Balance at 01 July 2017 as restated*	491 585 881	491 585 881
Changes in net assets		
Surplus for the year	(15 762 003)	(15 762 003)
Total changes	(15 762 003)	(15 762 003)
Balance at 01 July 2018	475 823 878	475 823 878
Changes in net assets		
Other	(5 018)	(5 018)
Net income (losses) recognised directly in net assets	(5 018)	(5 018)
Surplus for the year	(5 199 344)	(5 199 344)
Total recognised income and expenses for the year	(5 204 362)	(5 204 362)
Total changes	(5 204 362)	(5 204 362)
Balance at 30 June 2019	470 619 516	470 619 516

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018
Cash flows from operating activities			
Receipts			
Property Rates		5 884 207	6 204 870
Government Grant and Subsidies		72 846 419	64 723 229
Service Charges		38 099 471	38 861 825
Interest income		142 490	3 421 156
		<u>116 972 587</u>	<u>113 211 080</u>
Payments			
Employee costs		(45 179 695)	(42 095 830)
Remmuneration of Councillors		(4 046 900)	(3 845 166)
Suppliers paid		(52 806 418)	(53 370 040)
		<u>(102 033 013)</u>	<u>(99 311 036)</u>
Net cash flows from operating activities	38	<u>14 939 574</u>	<u>13 900 044</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(14 679 185)	(23 954 611)
Purchase of other intangible assets	9	(11 600)	(90 381)
Net cash flows from investing activities		<u>(14 690 785)</u>	<u>(24 044 992)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(13 722)	(1 034 724)
Finance lease payments		(996 087)	(2 584 525)
Finance lease receipts		-	1 766 450
Net cash flows from financing activities		<u>(1 009 809)</u>	<u>(1 852 799)</u>
Net increase/(decrease) in cash and cash equivalents		(761 020)	(11 997 747)
Cash and cash equivalents at the beginning of the year		5 116 407	17 114 154
Cash and cash equivalents at the end of the year	6	<u>4 355 387</u>	<u>5 116 407</u>

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts	Difference	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	62 863 484	(1 092 621)	61 770 863	53 477 994	(8 292 869)	Note 53
Rental of facilities and equipment	291 438	41 543	332 981	154 593	(178 388)	Note 53
Interest received	3 105 156	-	3 105 156	-	(3 105 156)	Note 53
Agency services	342 038	-	342 038	1 334 998	992 960	Note 53
Licences and permits	2 515 853	1 375	2 517 228	-	(2 517 228)	Note 53
Other income	5 618 661	962 894	6 581 555	948 102	(5 633 453)	Note 53
Interest received - investment	560 000	-	560 000	142 490	(417 510)	Note 53
Total revenue from exchange transactions	75 296 630	(86 809)	75 209 821	56 058 177	(19 151 644)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	10 446 602	615 820	11 062 422	10 119 357	(943 065)	
Transfer revenue						
Government grants and subsidies	73 056 000	4 581 000	77 637 000	66 233 593	(11 403 407)	Note 53
Fines, penalties and forfeits	7 311 764	60 001	7 371 765	6 138 526	(1 233 239)	
Total revenue from non-exchange transactions	90 814 366	5 256 821	96 071 187	82 491 476	(13 579 711)	
Total revenue	166 110 996	5 170 012	171 281 008	138 549 653	(32 731 355)	
Expenditure						
Personnel	(53 559 816)	(789 687)	(54 349 503)	(42 388 419)	11 961 084	Note 53
Remuneration of councillors	(4 129 563)	-	(4 129 563)	(4 046 900)	82 663	
Depreciation and amortisation	(25 827 264)	-	(25 827 264)	(31 617 394)	(5 790 130)	Note 53
Impairment loss	-	-	-	(1 871 116)	(1 871 116)	Note 53
Finance costs	-	-	-	(4 660 147)	(4 660 147)	Note 53
Debt Impairment	(11 387 767)	-	(11 387 767)	(6 400 672)	4 987 095	Note 53
Bulk purchases	(21 948 017)	(1 351 983)	(23 300 000)	(24 284 327)	(984 327)	
Contracted services	(1 191 016)	-	(1 191 016)	-	1 191 016	Note 53
General expenses	(37 797 354)	(880 450)	(38 677 804)	(28 520 756)	10 157 048	Note 53
Total expenditure	(155 840 797)	(3 022 120)	(158 862 917)	(143 789 731)	15 073 186	
Operating deficit	10 270 199	2 147 892	12 418 091	(5 240 078)	(17 658 169)	
Gain on disposal of assets and liabilities	(20 000)	-	(20 000)	40 734	60 734	Note 53
Deficit before taxation	10 250 199	2 147 892	12 398 091	(5 199 344)	(17 597 435)	

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts	Difference	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	464 962	-	464 962	397 734	(67 228)	Note 55
Other receivables from non-exchange transactions	2 957 939	-	2 957 939	2 546 357	(411 582)	Note 53
Consumer debtors	21 446 359	-	21 446 359	46 688 317	25 241 958	Note 53
Cash and cash equivalents	21 988 949	(7 082 908)	14 906 041	4 355 387	(10 550 654)	Note 53
	46 858 209	(7 082 908)	39 775 301	53 987 795	14 212 494	
Non-Current Assets						
Investment property	2 060 899	-	2 060 899	2 060 899	-	
Property, plant and equipment	549 879 229	-	549 879 229	518 517 416	(31 361 813)	Note 53
Intangible assets	5 039 376	-	5 039 376	122 044	(4 917 332)	Note 53
Operating lease asset	-	-	-	430	430	Note 53
	556 979 504	-	556 979 504	520 700 789	(36 278 715)	
Total Assets	603 837 713	(7 082 908)	596 754 805	574 688 584	(22 066 221)	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	724 531	724 531	Note 53
Payables from exchange transactions	18 116 660	-	18 116 660	26 159 058	8 042 398	Note 53
Payables from non-exchange transactions	-	-	-	391 917	391 917	Note 53
VAT payable	-	-	-	10 680 943	10 680 943	Note 53
Consumer deposits	1 051 000	-	1 051 000	819 539	(231 461)	Note 53
Employee benefit obligation	-	-	-	652 471	652 471	Note 53
Unspent conditional grants and receipts	-	-	-	15 346 707	15 346 707	Note 53
Provisions	1 274 083	-	1 274 083	-	(1 274 083)	Note 53
	20 441 743	-	20 441 743	54 775 166	34 333 423	
Non-Current Liabilities						
Finance lease obligation	-	-	-	1 793 718	1 793 718	Note 53
Employee benefit obligation	-	-	-	12 447 827	12 447 827	Note 53
Provisions	16 906 864	-	16 906 864	35 052 358	18 145 494	Note 53
	16 906 864	-	16 906 864	49 293 903	32 387 039	
Total Liabilities	37 348 607	-	37 348 607	104 069 069	66 720 462	
Net Assets	566 489 106	(7 082 908)	559 406 198	470 619 515	(88 786 683)	
Net Assets						
Reserves						
Accumulated surplus	566 489 106	(7 082 908)	559 406 198	470 619 515	(88 786 683)	

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

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, 2003 (Act No. 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.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

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 Significant judgements and sources of estimation uncertainty

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

Trade receivables and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On consumer debtors and trade receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.4 Investment property (continued)

Fair value

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

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

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

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, 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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

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.

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	20 - 25 years
Roads and paving	Straight line	10 - 15 years
Electricity	Straight line	5 - 50 years
Water	Straight line	15 - 100 years
Sewerage	Straight line	15 - 60 years
Landfill sites	Straight line	23 - 25 years
Recreational facilities	Straight line	20 - 25 years
Security measures	Straight line	20 - 25 years
Specialist vehicles	Straight line	1 - 5 years
Other vehicles	Straight line	1 - 5 years
Office equipment	Straight line	3 - 7 years
Furniture and fittings	Straight line	7 - 10 years
Plant and equipment	Straight line	2 - 10 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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.5 Property, plant and equipment (continued)

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

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

1.6 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.

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.

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.

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

Item	Depreciation method	Average useful life
Computer software	Straight line	3 - Indefinite
Website	Straight line	5 years

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.7 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.7 Financial instruments (continued)

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.

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.7 Financial instruments (continued)

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Operating lease receivable	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost
Bank Overdraft	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at 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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.7 Financial instruments (continued)

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.7 Financial instruments (continued)

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.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.7 Financial instruments (continued)

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

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

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.8 Leases (continued)

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

Operating leases - lessee

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

1.9 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.

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 first-in, first-out (FIFO) 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.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

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

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

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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

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

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

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

Identification

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

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

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

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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

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

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

Useful life is either:

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

Identification

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

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.12 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.

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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.12 Employee benefits (continued)

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.

Multi-employer plans

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

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.

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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.12 Employee benefits (continued)

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.

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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.12 Employee benefits (continued)

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-measures 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.

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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.12 Employee benefits (continued)

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.

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.

1.13 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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Provisions and contingencies (continued)

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 (deficit).

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.

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 41.

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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.13 Provisions and contingencies (continued)

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, a 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.

1.14 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.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 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; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.14 Revenue from exchange transactions (continued)

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 .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 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.

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.

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 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.

1.18 Comparative figures

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

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

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

1.22 Budget information

Municipalities 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.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.22 Budget information (continued)

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 an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

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.

1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.24 Events after reporting date

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

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

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

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Accounting Policies

1.25 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the Statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific Standard of GRAP;
- Approved but not yet contracted commitments, where expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date;
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources; or
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact

3. Inventories

Water	27 434	72 363
Property stock	370 300	370 300
	397 734	442 663

Inventories are held for own use and measured at the lower of cost or current replacement value.

The cost of water production for the year amounted to R5.44 (2018: R6.22) per kilolitre.

Inventory pledged as security

No inventory was pledged as security for overdraft facilities of the municipality.

4. Other receivables from non-exchange transactions

Salary control accounts	2 246 549	1 987 164
Sundry debtors	296 018	296 018
Payments made in advance	3 790	3 582
Rates	-	(4)
	2 546 357	2 286 760

Included in the other receivables from non-exchange transactions, is the salary control account which is the result of an ongoing investigation. The issue was reported to the South African Police Service and the Auditor-General of South Africa, as required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). The exact amount is still being determined.

5. Consumer debtors

Gross balances

Rates	19 099 861	14 046 287
Electricity	13 746 854	10 580 586
Water	72 281 688	62 622 221
Sewerage	34 690 280	29 565 871
Refuse	38 270 501	33 084 197
Other (exchange)	3 549 000	3 462 825
Other (non-exchange)	658 217	659 365
	182 296 401	154 021 352

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
5. Consumer debtors (continued)		
Less: Allowance for impairment		
Rates	(11 223 212)	(10 937 469)
Electricity	(8 362 886)	(3 338 226)
Water	(57 040 725)	(55 263 928)
Sewerage	(26 248 317)	(25 619 187)
Refuse	(29 528 891)	(31 661 104)
Other (exchange)	(2 672 521)	(2 595 695)
Other (non-exchange)	(531 532)	-
	(135 608 084)	(129 415 609)
Net balance		
Rates	7 876 649	3 108 818
Electricity	5 383 968	7 242 360
Water	15 240 963	7 358 293
Sewerage	8 441 963	3 946 684
Refuse	8 741 610	1 423 093
Other (exchange)	876 479	867 130
Other (non-exchange)	126 685	659 365
	46 688 317	24 605 743
Included in above is Receivables from exchange transactions		
Electricity	5 383 968	7 242 360
Water	15 240 963	7 358 293
Sewerage	8 441 963	3 946 684
Refuse	8 741 610	1 423 093
Other (exchange)	876 479	867 130
	38 684 983	20 837 560
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	7 876 649	3 108 818
Other (non-exchange)	126 685	659 365
	8 003 334	3 768 183
Net balance	46 688 317	24 605 743
Rates		
Current (0 -30 days)	371 858	482 700
31 - 60 days	193 111	185 859
61 - 90 days	7 041 695	144 424
91 - 120 days	269 985	2 295 835
	7 876 649	3 108 818
Electricity		
Current (0 -30 days)	988 175	2 098 097
31 - 60 days	556 791	419 323
61 - 90 days	3 760 091	324 520
91 - 120 days	78 911	4 400 420
	5 383 968	7 242 360

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
5. Consumer debtors (continued)		
Water		
Current (0 -30 days)	331 125	456 484
31 - 60 days	334 049	322 158
61 - 90 days	13 319 048	233 839
91 - 120 days	1 256 741	6 345 812
	15 240 963	7 358 293
Sewerage		
Current (0 -30 days)	312 178	422 849
31 - 60 days	211 501	230 001
61 - 90 days	7 491 514	188 203
91 - 120 days	426 770	3 105 631
	8 441 963	3 946 684
Refuse		
Current (0 -30 days)	175 272	193 887
31 - 60 days	134 158	109 264
61 - 90 days	7 868 356	84 592
91 - 120 days	563 824	1 035 350
	8 741 610	1 423 093
Other (exchange)		
Current (0 -30 days)	12 609	41 501
31 - 60 days	214	1 588
61 - 90 days	771 927	1 588
91 - 120 days	91 729	822 453
	876 479	867 130
Other (non-exchange)		
Current (0 -30 days)	73	16 884
31 - 60 days	69	12 439
61 - 90 days	146 198	12 422
91 - 120 days	(19 655)	617 620
	126 685	659 365
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	4 089 380	2 665 824
31 - 60 days	3 259 027	2 593 435
61 + days	165 333 534	131 779 800
	172 681 941	137 039 059
Less: Allowance for impairment	(131 586 094)	(120 951 805)
	41 095 847	16 087 254
Industrial / commercial		
Current (0 -30 days)	620 548	2 255 729
31 - 60 days	555 173	376 545
61 + days	5 766 795	5 913 313
	6 942 516	8 545 587
Less: Allowance for impairment	(4 022 214)	(4 128 682)
	2 920 302	4 416 905

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
5. Consumer debtors (continued)		
National and provincial government		
Current (0 -30 days)	12 075	2 386 674
31 - 60 days	12 265	368 926
61+ days	2 647 602	2 986 307
	<u>2 671 942</u>	<u>5 741 907</u>
Less: Allowance for impairment	-	(1 253 804)
	<u>2 671 942</u>	<u>4 488 103</u>
Total		
Current (0 -30 days)	4 722 004	7 308 227
31 - 60 days	3 826 466	3 338 906
61+ days	173 747 931	143 374 219
	<u>182 296 401</u>	<u>154 021 352</u>
Less: Allowance for impairment	(135 608 084)	(129 415 609)
	<u>46 688 317</u>	<u>24 605 743</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(129 415 609)	(106 640 888)
Contributions to allowance	(6 192 475)	(23 193 054)
Debt impairment written off against allowance	-	418 333
	<u>(135 608 084)</u>	<u>(129 415 609)</u>

Consumer debtors pledged as security

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

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

In determining the recoverability of Consumer debtors, the municipality has pledged strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the consumer debtors have been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment. Refer to details in the accounting policy for further details.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R 44 496 913 (2018: R 13 358 551) were past due but not impaired.

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

1 month past due	1 429 892	1 330 576
2 months past due	40 398 830	927 950
3 months past due	2 668 191	11 100 025

Consumer debtors impaired

As of 30 June 2019, consumer debtors of R 135 608 196 (2018: R 129 415 609) were impaired and provided for.

The amount of the provision was R 6 192 475 as of 30 June 2019 (2018: R 23 193 054).

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 700	3 700
Bank balances	3 440 428	4 252 253
Short-term deposits	911 259	860 454
	4 355 387	5 116 407

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:

Credit rating

AAA	5 535 929	5 112 707
-----	-----------	-----------

Cash and cash equivalents pledged as collateral

A bank guarantee as been issued to Eskom	8 000	8 000
--	-------	-------

In addition to the above, the municipality has issued a bank guarantee in favour of Eskom for an increased electricity demand to 40 MVA required to meet the consumers' increasing electricity demand.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA Bank - Current Account - 2440000005	1 249 542	1 707 092	5 986 787	1 227 929	1 674 143	5 798 880
ABSA Bank - Current Account - 4052875289	1 862 169	2 048 851	3 279 345	1 862 169	2 049 851	3 279 345
Standard Bank - Current Account - 280412835	229 864	61 979	3 346 939	229 563	59 988	3 346 269
ABSA Bank - Current Account - 4061642031	120 768	455 475	3 848 878	120 768	455 475	3 848 878
Standard Bank - Notice Deposit - 288901606001	83 637	83 637	83 637	83 637	83 637	83 637
Standard Bank - Notice Deposit - 288901541001	151 485	151 485	151 485	151 485	151 485	151 485
First National Bank - Notice Deposit - 74107295062	24 356	24 845	24 356	24 356	24 845	24 356
ABSA Bank - Notice Deposit - 2063506922	152 830	143 344	135 344	152 830	143 344	135 344
ABSA Bank - Notice Deposit - 2069495799	13 453	12 795	12 099	13 453	12 795	12 099
ABSA Bank - Notice Deposit - 2073468449	485 497	457 143	430 162	485 497	457 143	430 162
Total	4 373 601	5 146 646	17 299 032	4 351 687	5 112 706	17 110 455

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

7. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	2 060 899	-	2 060 899	2 060 899	-	2 060 899

Reconciliation of investment property - 2019

	Opening balance	Total
Investment property	2 060 899	2 060 899

Reconciliation of investment property - 2018

	Opening balance	Total
Investment property	2 060 899	2 060 899

Pledged as security

All of the municipality's investment property is held under freehold interests and investment property had been pledged as security for any liabilities for the municipality.

There are no restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on investment property.

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

7. Investment property (continued)

The effective date of the valuations was 30 June 2019. Valuations are performed by an independent valuer, Mr R Taylor, is not connected to the municipality and has recent experience in location and category of the investment property being valued.

The valuation, which conforms to International Valuation Standards, is arrived at by reference to market evidence of transaction prices for similar properties.

Amounts recognised in surplus or deficit

Rental revenue from Investment property - 221 914

8. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	40 072 505	-	40 072 505	40 072 505	-	40 072 505
Buildings	39 008 659	(14 915 703)	24 092 956	38 998 298	(13 809 847)	25 188 451
Infrastructure	933 476 293	(488 159 668)	445 316 625	919 339 195	(457 551 826)	461 787 369
Other property, plant and equipment	25 678 003	(16 642 673)	9 035 330	25 105 069	(14 973 205)	10 131 864
Total	1 038 235 460	(519 718 044)	518 517 416	1 023 515 067	(486 334 878)	537 180 189

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	40 072 505	-	-	-	40 072 505
Buildings	25 188 451	10 360	(1 081 070)	(24 785)	24 092 956
Infrastructure	461 787 369	14 137 097	(28 767 031)	(1 840 810)	445 316 625
Other property, plant and equipment	10 131 864	572 462	(1 663 474)	(5 522)	9 035 330
	537 180 189	14 719 919	(31 511 575)	(1 871 117)	518 517 416

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Other	Depreciation	Total
Land	39 572 505	500 000	-	-	-	40 072 505
Buildings	19 036 244	6 509 795	-	-	(357 588)	25 188 451
Infrastructure	473 363 217	16 395 821	-	-	(27 971 669)	461 787 369
Other property, plant and equipment	9 969 654	2 328 952	(36 925)	(546)	(2 129 271)	10 131 864
	541 941 620	25 734 568	(36 925)	(546)	(30 458 528)	537 180 189

Pledged as security

None of the tangible assets were pledged as security during the current and previous financial years.

Compensation received for losses on property, plant and equipment – included in operating profit.

Motor vehicles 25 300 -

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
8. Property, plant and equipment (continued)		
Property, plant and equipment in the process of being constructed or developed		
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Road Signs	7 887	7 887
Project development costs were incurred, but due to funding problems, the project was stopped.		
Noupoort Cemeteries	10 360	-
Project development costs were incurred, but due to funding problems, the project was stopped.		
Noupoort Electrification Project	3 335 856	-
The Noupoort Electrification Project is taking longer period of time due to the fact that the responsible department does not have the required funds to transfer to the municipality.		
	3 354 103	7 887

Reconciliation of work-in-progress 2019

	Included within Infrastructure	Included within Buildings	Total
Opening balance	13 269 887	-	13 269 887
Additions/capital expenditure	14 137 097	10 360	14 147 457
Transferred to completed items	(18 289 314)	-	(18 289 314)
	9 117 670	10 360	9 128 030

Reconciliation of work-in-progress 2018

	Included within Infrastructure	Included within Buildings	Total
Opening balance	42 971 302	4 690 515	47 661 817
Additions/capital expenditure	16 395 821	6 509 795	22 905 616
Transferred to completed items	(46 097 236)	(11 200 310)	(57 297 546)
	13 269 887	-	13 269 887

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in the Statement of Financial Performance:

Labour	-	2 959 785
--------	---	-----------

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

9. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 014 915	(1 892 871)	122 044	2 003 314	(1 787 052)	216 262

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software	216 262	11 600	(105 818)	122 044

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	205 779	90 381	(79 898)	216 262

Pledged as security

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

No restrictions apply to any of the intangible assets of the municipality.

Other information

The municipality amortises all its intangible assets and no intangible assets are regarded as having indefinite useful lives. The amortisation expense has been included in the line item depreciation and amortisation in the Statement of Financial Performance. Amortisation is charged on a straight-line basis over the intangible assets' useful lives.

No impairment losses have been recognised on intangible assets at the reporting date.

10. Operating lease asset (accrual)

Non-current assets	430	448
--------------------	-----	-----

11. Other financial liabilities

At amortised cost

ABSA Bank 84215231	-	13 570
--------------------	---	--------

The loan is repayable over 60 months at an annual interest rate of 10.00%. The loan is unsecured.

Current liabilities

At amortised cost	-	13 570
-------------------	---	--------

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
12. Finance lease obligation		
Minimum lease payments due		
- within one year	1 049 668	955 353
- in second to fifth year inclusive	2 070 389	3 180 745
	<u>3 120 057</u>	<u>4 136 098</u>
less: future finance charges	(601 808)	(1 036 000)
Present value of minimum lease payments	<u>2 518 249</u>	<u>3 100 098</u>
Present value of minimum lease payments due		
- within one year	724 531	541 115
- in second to fifth year inclusive	1 793 718	2 558 983
	<u>2 518 249</u>	<u>3 100 098</u>
Non-current liabilities	1 793 718	2 502 442
Current liabilities	724 531	597 682
	<u>2 518 249</u>	<u>3 100 124</u>
<p>The average lease term was 5 years (2018: 5 years) and the average effective borrowing rate was between 13% and 48% (2018: 13% and 48%).</p> <p>The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.</p>		
13. Payables from exchange transactions		
Trade payables	15 735 222	13 786 202
Accrued leave pay	3 164 641	2 986 012
Accrued bonus	888 462	720 737
Retentions	757 004	1 013 597
Other creditors	757 520	2 956 099
Performance bonus provision	644 019	598 943
Consumer debtors with credit balances (exchange)	4 080 159	1 800 260
Wellness programme	81 011	80 843
Sports programme	51 019	65 115
	<u>26 159 057</u>	<u>24 007 808</u>
14. Payables from non-exchange transactions		
Sundry deposits	145 514	145 514
Consumer debtors with credit balances (non-exchange)	246 403	626 624
	<u>391 917</u>	<u>772 138</u>
15. VAT payable		
VAT	10 680 943	12 287 074
16. Consumer deposits		
Electricity	367 381	570 338
Water	452 158	270 182
	<u>819 539</u>	<u>840 520</u>

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

16. Consumer deposits (continued)

No interest ts paid on consumer deposits held.

The management of the municipality is of the opinion that the carrying value of consumer deposits approximates their amortised cost. The fair value of consumer deposits was determined after considering the standard terms of conditions of agreemens entered into between the municipality and its consumers.

17. Employee benefit obligations

Defined benefit plan

Post retirement benefit plan

Post retirement medical aid plan

The municipality provides for certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to those employees.

The most recent actuarial valuation of the present value of the defined benefit obligation was carried out on 30 June 2019 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service and past service costs, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for medical aid to the following medical aid schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The members of the post-employment medical aid benefit obligation are made up as follows:

In-service members (employees)	27	40
In-service non-members (employees)	133	126
Continuation members (retirees, widowers and orphans)	5	4
	165	170

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

In-service members (employees)	4 132 793	6 964 000
In-service non-members (employees)	1 601 124	2 581 000
Continuation members (retirees, widowers and orphans)	5 142 152	3 475 000
	10 876 069	13 020 000

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
17. Employee benefit obligations (continued)		
Movements in the present value of the defined benefit obligation were as follows:		
Balance at the beginning of the year	12 944 556	11 326 955
Current service cost	745 350	711 087
Interest cost	1 246 835	1 110 963
Benefits paid	(266 616)	(220 842)
Actuarial gains (losses)	(3 794 056)	16 393
	10 876 069	12 944 556

The amounts recognised in the statement of financial performance are as follows:

Current service cost	745 350	711 087
Interest cost	1 246 835	1 110 963
Benefits paid	(266 616)	(220 842)
Actuarial gains (losses)	(3 794 056)	16 393
	(2 068 487)	1 617 601

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

Increase:		
Effect on the aggregate of the current service and interest cost	2 372 000	3 823 000
Effect on the defined obligation	12 646 000	15 217 000
Decrease:		
Effect on the aggregate of the current service and interest cost	1 687 400	3 172 000
Effect on the defined obligation	9 440 000	11 233 000

The current service cost of the year ending 30 June 2019 is estimated to be R745 350 (R711 087), whereas the cost for the ensuing year is estimated to be R432 149 (R819 724).

Long service award

The municipality operates an unfunded defined benefit plan for all of its employees. Under the plan, a long service award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter. The provision is an estimate of the log service award based on the historical staff turnover. No other long service benefits are provided to employees.

Movements in the long service award provision was as follows:

Balance at the beginning of the year	1 700 777	1 635 229
Current service cost	183 752	194 615
Interest cost	131 451	122 875
Actuarial gains (losses)	486 723	55 176
Expected employer benefit payments	(277 934)	(307 118)
	2 224 769	1 700 777

The amounts recognised in the statement of financial performance are as follows:

Current service cost	183 752	194 615
Interest cost	131 451	122 875
Benefits paid	(277 934)	(307 118)
Actuarial gains (losses)	486 723	55 176
	523 992	65 548

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
17. Employee benefit obligations (continued)		
The effect of a 1% movement in the assumed rate of long award cost inflation is as follows:		
Increase:		
Effect on the aggregate of the current service and interest cost	334 400	337 100
Effect on the defined obligation	2 357 000	1 806 000
Decrease:		
Effect on the aggregate of the current service and interest cost	297 700	299 600
Effect on the defined obligation	2 104 000	1 635 000
The current service cost of the year ending 30 June 2019 is estimated to be R183 752 (R194 615), whereas the cost for the ensuing year is estimated to be R233 956 (R192 365).		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Post-employment medical aid benefit liability	(10 876 069)	(12 944 556)
Long service award	(2 224 229)	(1 700 777)
	(13 100 298)	(14 645 333)
Non-current liabilities	(12 447 827)	(14 100 243)
Current liabilities	(652 471)	(545 090)
	(13 100 298)	(14 645 333)
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	(14 645 333)	(12 962 184)
Net expense recognised in the statement of financial performance	1 545 035	(1 683 149)
	(13 100 298)	(14 645 333)
Net expense recognised in the statement of financial performance		
Current service cost	(929 102)	(905 702)
Interest cost	(1 378 286)	(1 233 838)
Actuarial (gains) / losses	3 307 333	(71 569)
Benefits paid	545 090	527 960
	1 545 035	(1 683 149)
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used: Post employment medical aid benefit liability	9,49 %	8,67 %
Discount rate used: Long service award	8,08 %	8,47 %
Healthcare cost inflation rate	6,92 %	6,98 %
General salary inflation	5,51 %	6,29 %
Net discount rate: Post employment medical aid benefit liability	2,40 %	1,59 %
Net discount rate: Long service award	2,44 %	2,05 %
Maximum subsidy inflation rate	4,51 %	6,05 %
Net discount rate: Maximum subsidy inflation rate	2,44 %	2,22 %
Expected retirement age (in years)	60	60

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
18. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Department Housing	130 852	130 852
Department Safety	124 919	124 919
Department Water Affairs and Forestry	1 519 388	1 519 388
Department Water Affairs and Forestry (2)	942 072	942 072
Development Bank of South Africa	6 337	6 337
Electricity Efficiency Demand Side Management Grant (EEDSM)	1 258 581	1 553 581
Expanded Public Works Programme (EPWP)	200 131	200 131
Institutional Re-organisation Grant	226 712	226 712
Integrated National Electrification Programme (INEP)	2 771 112	2 771 348
Municipal Infrastructure Grant (MIG)	1 322 480	-
National Lottery Development Trust Fund (NLDTF)	280 258	280 258
Water Services Infrastructure Grant (WSIG)	6 563 865	978 283
	15 346 707	8 733 881

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

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

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

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

19. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	31 685 045	3 367 313	35 052 358

Reconciliation of provisions - 2018

	Opening Balance	Additions	Total
Environmental rehabilitation	29 055 521	2 629 524	31 685 045

Environmental rehabilitation provision

In terms of the licensing of the landfill sites, the municipality has estimated that it will incur costs of R35 052 358 (2018: R31 685 046) for the licensing and rehabilitation of the sites at the end of their useful lives.

The provision represents the net present value of the expected future cash flows and have been discounted at the South African Bond Rates.

The provision is based on 100% of the landfill site areas as the total area is used for dumping of waste and is not limited to a certain portion of the landfill sites. The entire site will have to be rehabilitated, therefore the provision was based on the the entire area.

Landfill operations is expected to continue until the available permitted airspace has been utilized, which has been estimated to be at the end of 2031. At the end of its useful life, each landfill site will be closed and capped with a layer of impermeable clay and a layer of top soil. Grass and other suitable vegetation types will be planted to stabilize the soil and approve its appearance. Environmental monitoring is expected to continue for a period of up to 30 years after the closure of the site.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
20. Service charges		
Sale of electricity	25 942 170	15 803 531
Sale of water	13 246 265	14 756 293
Sewerage and sanitation charges	10 754 784	10 296 343
Refuse removal	3 181 562	7 520 363
Other service charges	353 213	-
	53 477 994	48 376 530
21. Rental of facilities and equipment		
Premises		
Premises	-	51 420
Buildings	-	8 104
Land	-	88 305
	-	147 829
Facilities and equipment		
Halls	147 436	68 273
Machinery	7 157	5 532
	154 593	73 805
	154 593	221 634
Included in the above rentals are operating lease rentals at straight-lined amounts of R (18) (2018: R 18).		
22. Agency services		
Other	1 334 998	-
23. Other income		
Advertising boards	-	3 550
Brick oven sales	-	13 056
Building plan fees	14 164	9 898
Cemetery fees	27 331	20 496
Commission earned	200 400	430 417
Connection and re-connection fees	39 831	-
Dumping fees	-	6 635
Guest house registration fees	-	2 192
Insurance claims	141 371	165 475
Other income	481 265	547 322
Photocopies	3 216	3 824
Re-zoning fees	-	58 637
SDL claims (recoveries)	-	63 798
Sand, gravel and soil sales	19 872	45 333
Tender documents	20 652	-
	948 102	1 370 633
24. Investment revenue		
Interest revenue		
Bank	142 490	333 080
Consumer debtors	-	2 885 294
	142 490	3 218 374

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
25. Property rates		
Rates received		
Rates	10 812 097	10 162 668
Less: Income forgone	(692 740)	(301 463)
	<u>10 119 357</u>	<u>9 861 205</u>
Property rates - penalties imposed	-	202 782
	<u>10 119 357</u>	<u>10 063 987</u>
Valuations		
Residential	588 346 150	584 828 150
Commercial	222 958 140	221 097 240
State	78 323 400	78 324 000
Agricultural	1 336 668 090	1 336 668 090
	<u>2 226 295 780</u>	<u>2 220 917 480</u>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 1 July 2020.

26. Government grants and subsidies

Operating grants

Equitable share	44 259 000	36 565 000
Finance Management Grant (FMG)	1 970 000	1 900 000
Library Development Grant	1 292 926	1 679 000
	<u>47 521 926</u>	<u>40 144 000</u>

Capital grants

Expanded Public Works Programme (EPWP)	1 000 000	800 044
Municipal Infrastructure Grant (MIG)	8 025 520	14 970 475
Integrated National Electrification Programme (INEP)	3 000 236	3 100 346
Department of Water Affairs and Forestry	-	3 512 928
Electricity Efficiency Demand Side Management Grant (EEDSM)	-	2 404 125
Library Development Grant	186 077	-
National Lottery Development Fund Trust	-	3 689 677
Water Services Infrastructure Grant (WSIG)	4 414 418	3 057 928
Regional Bulk Infrastructure Grant (RBIG)	2 085 416	-
	<u>18 711 667</u>	<u>31 535 523</u>
	<u>66 233 593</u>	<u>71 679 523</u>

Equitable Share

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

All registered indigents receive a monthly subsidy of R 166 (2018: R 166), which is funded from the grant. All registered indigent households receive 6kl water and 50kWh electricity free every month. No funds have been withheld.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
26. Government grants and subsidies (continued)		
National: Expanded Public Works Programme (EPWP)		
Balance unspent at beginning of year	200 131	175
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(800 044)
	200 131	200 131

Conditions still to be met - remain liabilities (see note 18).

The Expanded Public Works Programme (EPWP) Grant is allocated to incentivise municipalities to expand work creation efforts through the use of labour incentive delivery methods in the identified focus areas on compliance with the EPWP guidelines.

No funds were withheld.

National: Finance Management Grant (FMG)

Current-year receipts	1 970 000	1 900 000
Conditions met - transferred to revenue	(1 970 000)	(1 900 000)
	-	-

The Finance Management Grant (FMG) is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). The FMG also pays for the cost of the Financial Management Internship Programme (e.g. salary costs).

All conditions attached to the grant were met.

No funds were withheld.

National: Integrated National Electrification Programme (INEP)

Balance unspent at beginning of year	2 771 348	3 871 694
Current-year receipts	3 000 000	2 000 000
Conditions met - transferred to revenue	(3 000 236)	(3 100 346)
	2 771 112	2 771 348

Conditions still to be met - remain liabilities (see note 18).

The grant is paid by National Treasury in order to implement the Integrated National Electrification Programme by addressing the electrification backlog of all existing and planned residential dwellings and the installation of relevant bulk infrastructure.

No funds were withheld.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
26. Government grants and subsidies (continued)		
National: Department of Water Affairs and Forestry		
Balance unspent at beginning of year	1 519 388	(43 391)
Current-year receipts	-	5 075 707
Conditions met - transferred to revenue	-	(3 512 928)
	1 519 388	1 519 388

Conditions still to be met - remain liabilities (see note 18).

The grant was used for the operation and maintenance of sewerage and water schemes transferred from the Department of Water Affairs and Forestry to the municipality, the refurbishment of water infrastructure, the Olifants River Water Resource Project and the payment of salaries of the staff transferred from the department.

No funds have been withheld.

National: Energy Efficiency and Demand Side Management Grant (EEDSM)

Balance unspent at beginning of year	1 553 581	3 957 693
Current-year receipts	-	(2 404 112)
Repayment (withheld from equitable share allocation)	(295 000)	-
	1 258 581	1 553 581

Conditions still to be met - remain liabilities (see note 18).

The Energy Efficiency and Demand Side Management Grant (EEDSM) is allocated to the municipality for the implementation of energy efficiency and demand side management initiatives within the municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

No funds were withheld.

Provincial: Library Development Grant

Current-year receipts	1 479 003	1 679 000
Conditions met - operating: transferred to revenue	(1 292 926)	(1 679 000)
Conditions met - capital: transferred to revenue	(186 077)	-
	-	-

Conditions still to be met - remain liabilities (see note 18).

The grant is paid to the municipality by the Provincial Department of Sports, Arts and Culture for the maintenance and operations of the libraries within its municipal area.

No funds were withheld.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
26. Government grants and subsidies (continued)		
National: Municipal Infrastructure Grant (MIG)		
Balance unspent at beginning of year	-	3 358 475
Current-year receipts	9 348 000	11 612 000
Conditions met - transferred to revenue	(8 025 520)	(14 970 475)
	1 322 480	-

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant (MIG) was allocated by National Treasury for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure.

The original amount allocated as per the Division of Revenue Act, 2018 (Act No. 2 of 2018) (DoRA) amounted to R11 348 000, but this was decreased by National Treasury by R2 000 000 to R9 348 000 due to slow spending.

National: Department of Water Affairs and Forestry (2)

Balance unspent at beginning of year	942 072	942 072
--------------------------------------	---------	---------

Conditions still to be met - remain liabilities (see note 18).

The grant was allocated to the municipality for the development of new, refurbish, upgrade and replace ageing water and sanitation infrastructure.

National: Regional Bulk Infrastructure Grant (RBIG)

Current-year receipts	2 085 416	-
Conditions met - transferred to revenue	(2 085 416)	-
	-	-

Conditions still to be met - remain liabilities (see note 18).

To develop new, refurbish, upgrade and replace ageing water and sanitation infrastructure of regional significance that connects water resources to infrastructure serving extensive areas across the municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area within the municipality.

No fund were withheld.

National: Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	978 283	-
Current-year receipts	10 000 000	4 000 000
Conditions met - transferred to revenue	(4 414 418)	(3 021 717)
	6 563 865	978 283

Conditions still to be met - remain liabilities (see note 18).

To facilitate the planning and implementation of various water projects water and on-site sanitation projects to accelerate backlog reduction and enhance the sustainability of services, especially in rural areas.

No funds were withheld.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
26. Government grants and subsidies (continued)		
Other: National Lottery Development Trust Fund		
Balance unspent at beginning of year	280 258	3 969 935
Current-year receipts	-	(3 689 677)
	280 258	280 258
Conditions still to be met - remain liabilities (see note 18).		
This grant was allocated to the municipality for the upgrading of the sport stadiums within the municipal area.		
No funds were withheld.		
Provincial: Department of Housing		
Balance unspent at beginning of year	130 852	130 852
Conditions still to be met - remain liabilities (see note 18).		
This grant was allocated to the municipality for the construction and maintenance of low cost housing in the district.		
No funds were withheld.		
Provincial: Department of Safety		
Balance unspent at beginning of year	124 919	124 919
Conditions still to be met - remain liabilities (see note 18).		
This grant was allocated to the municipality for the construction of a taxi rank.		
No funds were withheld.		
Other: Development Bank of South Africa		
Balance unspent at beginning of year	6 337	6 337
Conditions still to be met - remain liabilities (see note 18).		
This grant was allocated to the municipality for the purchase of water meters.		
No funds were withheld.		
Other: Institutional Re-organisational Grant		
Balance unspent at beginning of year	226 712	226 712
Conditions still to be met - remain liabilities (see note 18).		
This grant was allocated to the municipality to assist financially with the re-organisation of the municipality after 1994, for which the funds were used.		
No funds were withheld.		

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
27. Fines, Penalties and Forfeits		
Law enforcement (traffic) fines	6 091 833	7 379 157
Other	46 693	19 120
	6 138 526	7 398 277
28. Employee related costs		
Basic	32 355 027	30 652 192
Performance bonus	644 019	598 943
Bonus	2 483 287	1 946 185
Medical aid fund: Council contributions	930 182	864 982
Leave pay provision charge	50 772	-
Group scheme: Council contributions	19 543	5 342
Pension fund: Council contributions	4 572 837	4 363 246
Long-service awards	128 666	(57 327)
Allowances	1 101 448	1 002 303
Housing benefits and allowances	285 308	320 178
Skills development levy (SDL)	433 746	408 686
Unemployment insurance fund (UIF): Council contributions	285 445	281 801
Overtime payments	1 943 533	1 741 090
Other short term costs	77 927	-
Defined benefit plan expenses	(2 923 321)	506 638
	42 388 419	42 634 259
Remuneration of the Municipal Manager		
Annual remuneration	1 100 715	1 055 369
Performance bonus	154 516	162 337
Car and other allowances	144 000	32 563
Contributions to UIF, medical aid and pension funds	1 888	1 884
	1 401 119	1 252 153
Remuneration of the Chief Finance Officer		
Annual remuneration	981 881	921 566
Performance bonus	148 142	137 987
Car and other allowances	136 594	136 594
Contributions to UIF, medical aid and pension funds	1 888	1 884
	1 268 505	1 198 031
Remuneration of the Manager: Corporate Services		
Annual remuneration	970 632	910 317
Performance bonus	148 142	137 987
Car and other allowances	147 843	147 843
Contributions to UIF, medical aid and pension funds	1 785	1 884
	1 268 402	1 198 031

The Manager: Community Services resigned at the end of September 2012, whereafter the post was replaced with the Manager: Corporate Services. Mr. Kapp is acting as the manager in this post without any additional compensation.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
28. Employee related costs (continued)		
Remuneration of the Manager: Technical Services		
Annual remuneration	1 046 475	986 160
Performance bonus	148 142	137 987
Car and other allowances	72 000	72 000
Contributions to UIF, medical aid and pension funds	1 888	1 884
	1 268 505	1 198 031
29. Remuneration of councillors		
Major Councillors	826 395	787 414
	3 220 505	3 057 752
	4 046 900	3 845 166
30. Depreciation and amortisation		
Property, plant and equipment	31 511 575	30 465 843
Intangible assets	105 819	79 898
	31 617 394	30 545 741
31. Impairment of assets		
Impairments		
Property, plant and equipment	1 871 116	-
Property, plant and equipment (buildings, infrastructure - and movable assets) have been impaired due to condition assessments that indicated a decrease in the value in use since the last assessment.		
32. Finance costs		
Non-current borrowings	1 378 286	1 233 838
Overdue creditors	-	59 774
Finance leases	414 238	448 445
Current borrowings	126	-
Rehabilitation of landfill sites	2 867 497	2 629 525
	4 660 147	4 371 582
33. Debt impairment		
Debt impairment	6 400 672	23 190 660
34. Bulk purchases		
Electricity	23 674 693	21 842 053
Water	609 634	612 985
	24 284 327	22 455 038

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
35. General expenses		
Advertising	107 571	159 813
Bank charges	498 842	554 832
Cleaning	44 108	41 450
Computer expenses	1 510 127	-
Consumables	-	230 313
Entertainment	96 168	50 486
Insurance	924 900	843 261
Special programme - IT support	-	516 657
Fuel and oil	831 447	1 445 025
Ward committee meeting costs	-	350 488
Postage and courier	228 918	275 286
Printing and stationery	152 932	177 787
Library costs	-	362 181
License fees	-	116 746
Subscriptions and membership fees	934 733	527 383
Telephone and fax	827 016	796 446
Training	20 190	170 085
Title deed search fees	26 710	-
Uniforms	34 370	165 132
Indigent support	-	673 300
EPWP storm project	-	565 208
Special programme - Community participation	-	140 954
Local economic development	-	169 641
Valuations	-	26 930
Lease charges	-	60 480
Legal fees	6 820	-
Internal audit fees (shared services)	518 990	479 805
Other expenses	4 800 125	2 861 285
	11 563 967	11 760 974

36. Repairs and maintenance

Repairs and maintenance consists of the following:

Land and buildings	255 882	276 231
Infrastructure: Electricity	3 244 562	823 847
Infrastructure: Road transport	463 393	165 895
Infrastructure: Sanitation	-	20 232
Infrastructure: Water	90 380	314 582
Community assets	104 529	5 860
Other assets	1 387 490	1 296 640
Specialised vehicles	65 002	56 498
	5 611 238	2 959 785

37. Auditors' remuneration

Fees	3 247 991	2 642 251
------	-----------	-----------

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
38. Cash generated from operations		
Deficit	(5 199 344)	(15 762 003)
Adjustments for:		
Depreciation and amortisation	31 617 394	30 545 741
(Loss) gain on sale of assets and liabilities	(40 734)	36 925
Finance costs	414 364	448 445
Impairment deficit	1 871 116	-
Movements in operating lease assets and accruals	18	52
Movements in retirement benefit assets and liabilities	(1 545 035)	1 683 149
Movements in provisions	3 367 313	2 629 524
Other non-cash items	(5 018)	-
Changes in working capital:		
Inventories	44 929	(5 257)
Receivables from non-exchange transactions	-	466 992
Receivables from exchange transactions	(22 082 574)	(4 434 275)
Other receivables from non-exchange transactions	(259 597)	(2 286 760)
Payables from exchange transactions	1 771 028	3 755 900
VAT	(1 606 131)	3 750 650
Unspent conditional grants and receipts	6 612 826	(6 956 292)
Consumer deposits	(20 981)	27 253
	14 939 574	13 900 044

39. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	2 546 357	2 546 357
Consumer debtors	46 688 317	46 688 317
Cash and cash equivalents	4 355 387	4 355 387
	53 590 061	53 590 061

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	26 159 057	26 159 057
Payables from non-exchange transactions	391 917	391 917
Finance lease obligation	2 518 249	2 518 249
VAT payable	10 680 943	10 680 943
Consumer deposits	819 539	819 539
Unspent conditional grants and receipts	15 346 707	15 346 707
	55 916 412	55 916 412

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

39. Financial instruments disclosure (continued)

2018

Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	2 286 760	2 286 760
Consumer debtors	24 605 743	24 605 743
Cash and cash equivalents	5 116 407	5 116 407
	32 008 910	32 008 910

Financial liabilities

	At amortised cost	Total
Other financial liabilities	13 570	13 570
Payables from exchange transactions	24 007 808	24 007 808
Payables from non-exchange transactions	772 138	772 138
Finance lease obligation	3 100 124	3 100 124
VAT payable	12 287 074	12 287 074
Consumer deposits	840 520	840 520
Unspent conditional grants and receipts	8 733 881	8 733 881
	49 755 115	49 755 115

40. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	17 523 772	10 092 013
---------------------------------	------------	------------

Total capital commitments

Already contracted for but not provided for	17 523 772	10 092 013
---	------------	------------

This committed expenditure relates to plant and equipment and will be financed by government grants.

41. Contingencies

Litigation is in the process against the municipality relating to a dispute with a supplier who alleges that it suffered financial loss and stock on a housing project, and is seeking damages of R 7 070 000 (2018: R 7 070 000). The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

The following insurance claims is still pending at year end:

- Three children swam in the municipal query and drowned. Damages of R256 000 (2018: R256 000) is claimed by the family and is still in progress.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018		
42. Related parties				
Relationships				
NJ Batties (Councillor)		Bongata Trading 533 CC Mighty Warrior Transport Services (Pty) Ltd Living Word Spiritual Faith Ministries CBG Consultants (Pty) Ltd Sakhisizwe Colesberg Tours Sakhisizwe Tours and Events Manager (Pty) Ltd Meals on Wheels Birtus Kapp Beleggings CC Kapp Family Trust Umsobomvu Industrial Development (Pty) Ltd World Focus 684 CC Masilakhe Consulting CC Iviwe Engineering Solutions CC Uhamboluhle Construction CC Sida Engineering Solutions (Pty) Ltd S.E.A.T. Solutions		
JP Matthee (Councillor)				
MB Kafi (Councillor)				
BJ Kapp (Corporate anager)				
P Mosompha (Technical manager)				
S Nkoithiso (Bid evaluation committee)				
S Buka (Bid specification committee)				
Related party transactions				
Property rates levied against related parties				
Councillors	17 864	6 395		
Municipal manager and section 57 managers	10 737	24 256		
Service charges rendered to related parties				
Councillors	37 578	76 589		
Municipal manager and section 57 managers	40 753	55 886		
Other charges levied against related parties				
Councillors	(5 196)	7 152		
Municipal manager and section 57 managers	-	623		

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

42. Related parties (continued)

Remuneration of management

Councillors

2019

Name	Basic salary	Allowances	Other benefits	Total
MS Toto	581 297	44 400	200 698	826 395
SE Humphries	245 280	44 400	13 305	302 985
MA Sestile	314 776	44 400	14 626	373 802
MR Kafi	314 776	44 400	3 798	362 974
VP Harmse	314 776	44 400	46 830	406 006
W Minnie	314 776	44 400	12 940	372 116
ND Staffie	245 280	44 400	25 892	315 572
NJ Batties	245 280	44 400	256	289 936
JP Matthee	245 280	44 400	512	290 192
SK Brown	245 280	44 400	1 134	290 814
MJ Williams	39 308	7 400	-	46 708
CM Williams	145 018	23 870	512	169 400
	3 251 127	475 270	320 503	4 046 900

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

42. Related parties (continued)

2018

Name	Basic salary	Allowances	Total
MS Toto	558 940	228 474	787 414
SE Humphries	235 846	42 900	278 746
MA Sestile	302 669	42 900	345 569
MR Kafi	302 669	44 400	347 069
VP Harmse	302 669	42 900	345 569
W Minnie	302 669	42 900	345 569
ND Staffie	235 846	42 900	278 746
NJ Batties	235 846	42 900	278 746
JP Matthee	235 846	42 900	278 746
SK Brown	235 846	44 400	280 246
MJ Williams	235 846	42 900	278 746
	3 184 692	660 474	3 845 166

Executive management

2019

Name	Basic salary	Performance bonus	Allowances	Other benefits received	Total
AC Mpela	1 100 715	154 516	144 000	1 888	1 401 119
DT Visagie	981 881	148 142	136 594	1 888	1 268 505
P Mosompha	1 046 475	148 142	72 000	1 888	1 268 505
BJ Kapp	970 632	148 142	147 843	1 785	1 268 402
	4 099 703	598 942	500 437	7 449	5 206 531

2018

Name	Basic salary	Performance bonus	Allowances	Other benefits received	Total
AC Mpela	1 055 369	162 337	132 563	1 884	1 352 153
DT Visagie	921 566	137 987	136 594	1 884	1 198 031
P Mosompha	986 160	137 987	72 000	1 884	1 198 031
BJ Kapp	910 317	137 987	147 843	1 884	1 198 031
	3 873 412	576 298	489 000	7 536	4 946 246

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

43. Prior period adjustments

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

Statement of financial position

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Other receivables from non-exchange transactions		3 169 967	2 389 796	(3 273 003)	2 286 760
Receivables from exchange transactions		20 757 087	-	80 473	20 837 560
Receivables from non-exchange transactions		-	-	3 768 183	3 768 183
Property, plant and equipment		524 348 038	12 832 151	-	537 180 189
Provisions (current portion)		(3 412 587)	-	3 412 587	-
Payables from exchange transactions		(21 049 021)	(3 009 758)	50 971	(24 007 808)
Payables from non-exchange transactions		(145 514)	-	(626 624)	(772 138)
Unspent conditional grants		(7 755 597)	(978 285)	-	(8 733 882)
Other financial liabilities		-	-	(13 570)	(13 570)
Finance leases (current portion)		-	-	(597 682)	(597 682)
Employee benefit liabilities (current portion)		-	-	(545 090)	(545 090)
Long-term liabilities (current portion)		(597 682)	-	597 682	-
Finance leases (non-current portion)		-	-	(2 502 441)	(2 502 441)
Long-term liabilities (non-current portion)		(2 516 011)	-	2 516 011	-
Provisions (non-current portion)		(28 817 549)	-	(2 867 497)	(31 685 046)
Accumulated surplus		(464 589 974)	(11 233 904)	-	(475 823 878)
		19 391 157	-	-	19 391 157

Statement of financial performance

2018

	Note	As previously reported	Correction of error	Re-classification	Restated
Fines, penalties and forfeits		(270 958)	-	(7 127 319)	(7 398 277)
Agency fees		(2 363 287)	2 363 287	-	-
Other revenue		(1 417 163)	46 530	-	(1 370 633)
Employee related costs		42 917 511	(283 612)	-	42 633 899
Depreciation and amortisation		30 729 394	(183 653)	-	30 545 741
Other general expenses		2 861 285	-	(2 861 285)	-
Special programme: MFMA		3 853 713	-	(3 853 713)	-
General expenses		14 210 128	-	(2 449 154)	11 760 974
Auditors remuneration		-	-	2 642 251	2 642 251
Consulting and professional fees		-	-	3 913 117	3 913 117
Fines and penalties		-	-	7 135 200	7 135 200
Travel and subsistence		-	-	2 600 903	2 600 903
Surplus for the year		90 520 623	1 942 552	-	92 463 175

Errors

The following prior period errors adjustments occurred:

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

43. Prior period adjustments (continued)

Provision for performance bonuses

In the past, no provision was made at yearend for performance bonuses to be paid to section 57 managers. In order to correct this error, management has made the necessary adjustments retrospectively.

The effect of the correction is as follows:

Payables from exchange transactions	(598 943)	(598 943)
Accumulated surplus (opening balance)	598 943	576 297
Employee related costs	-	22 646
	<u>-</u>	<u>-</u>

Property, plant and equipment

Management performed a full asset verification and condition assessment on all property, plant and equipment items. A number of adjustments were made to the fixed asset register for previously unrecorded assets identified, as well as other errors identified.

The effect of the correction is as follows:

Property, plant and equipment	12 832 151	12 832 151
Accumulated surplus (opening balance)	(12 832 151)	(12 648 498)
Depreciation and amortisation	-	(183 653)
	<u>-</u>	<u>-</u>

Unspent conditional grants (Water Services Infrastructure Grant)

During the preparation of the 2019 annual financial statements it was found that the movement in the unspent conditional grant was incorrectly allocated to the receivables from non-exchange transactions.

The effect of the correction is as follows:

Other receivables from non-exchange transactions	978 285	978 285
Unspent conditional grant	(978 285)	(978 285)
	<u>-</u>	<u>-</u>

Investigation into irregularities

During the current year, a detailed investigation was performed into irregularities identified in respect to employee related cost. Management reported these irregularities to all applicable authorities in accordance with the legislation.

The effect of the correction is as follows:

Other receivables from non-exchange transactions	1 411 511	1 411 511
Accumulated surplus	(1 411 511)	(1 105 252)
Employee related costs	-	(306 259)
	<u>-</u>	<u>-</u>

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
43. Prior period adjustments (continued)		
Agency fees incorrectly classified		
Fees received on behalf of the Department of Transport was incorrectly accounted for as agency fees received.		
The effect of the correction is as follows:		
Payables from exchange transactions	(2 410 815)	(2 410 815)
Accumulated surplus	2 410 815	998
Agency fees	-	2 363 287
Other income	-	46 530
	<u>-</u>	<u>-</u>
Change in accounting policy		
No change in accounting policies occurred during the year under review.		
Reclassifications		
The following reclassifications adjustment occurred:		
Consumer debtors with credit balances (non-exchange)		
The consumer debtors with credit balances (non-exchange) was reclassified from the payables from exchange transactions to the payables from non-exchange transactions to ensure these represent the nature of the consumer debtor type.		
The effect of the reclassification is as follows:		
Payables from exchange transactions	626 624	626 624
Payables from non-exchange transactions	(626 624)	(626 624)
	<u>-</u>	<u>-</u>
Long-term liabilities		
For purposes of the presentation and disclosure of the long-term liabilities, the annuity loans and finance lease liabilities were separated into individual line items.		
The effect of the reclassification is as follows:		
Other financial liabilities (current portion)	(13 570)	(13 570)
Finance lease liabilities (i.e. long-term liabilities)	13 570	13 570
	<u>-</u>	<u>-</u>
Current portion of non-current provisions		
For purposes of the presentation and disclosure of the current portion of the non-current portions, the current portions of the non-current provisions and employee benefit liabilities were separated into individual line items.		
The effect of the reclassification is as follows:		
Provisions (current portion)	3 412 587	3 412 587
Employee benefit liabilities (current portion)	(545 090)	(545 090)
Provisions (non-current portion)	(2 867 497)	(2 867 497)
	<u>-</u>	<u>-</u>

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

43. Prior period adjustments (continued)

Receivables from exchange and non-exchange transactions

For purposes of the presentation and disclosure of the consumer and other debtors, the consumer debtors were separated from the other debtors to be disclosed individually.

The effect of the reclassification is as follows:

Receivables from non-exchange transactions	80 473	80 473
Receivables from exchange transactions	3 768 183	3 768 183
Other receivables from non-exchange transactions	(3 848 656)	(3 848 656)
	<u>-</u>	<u>-</u>

Presentation of material line items in terms of GRAP 1

For purposes of the presentation and disclosure of the annual financial statements, certain expenditure line items were reclassified to separately disclose these items in accordance with GRAP 1.

The effect of the reclassification is as follows:

Auditors remuneration	-	2 642 251
Other general expenses	-	(2 861 285)
Fines and penalties	-	7 135 200
Special programme: MFMA	-	(3 853 713)
Travel and subsistence	-	2 600 903
General expenses	-	(2 449 154)
Consulting and professional fees	-	3 913 117
Fines and penalties (revenue from non-exchange transactions)	-	(7 127 319)
	<u>-</u>	<u>-</u>

Salary control account reclassified

For purposes of the presentation and disclosure of the annual financial statements, the salary control account (which had a debit balance at yearend) was reclassified.

The effect of the reclassification is as follows:

Other receivables from non-exchange transactions	-	575 653
Payables from exchange transactions	-	(575 653)
	<u>-</u>	<u>-</u>

44. Comparative figures

Certain comparative figures have been reclassified.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

45. Risk management

Financial risk management

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

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

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

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

Further quantitative disclosures are included throughout these annual financial statements.

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

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial environment.

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

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

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

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

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

45. Risk management (continued)

Credit risk

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

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

Cash and cash equivalents:

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank.

Receivables from exchange and non-exchange transactions:

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

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

The application of section 118(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.

A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.

The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.

The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.

Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

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

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

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

Long-term receivables and other debtors are individually evaluated annually at reporting date for impairment or discounting.

A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment /discounting, where applicable.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
-----------------	------	------

45. Risk management (continued)

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

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

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

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

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

Consumer debtors (included in Receivables from exchange and non-exchange transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

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

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

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

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

Price risk

The municipality does not hold any shares.

46. Unauthorised expenditure

Opening balance	-	5 599 814
Add: Unauthorised expenditure - current year	6 979 433	-
Less: Amounts approved by council and written off	-	(5 599 814)
	6 979 433	-

47. Fruitless and wasteful expenditure

No fruitless and wasteful expenditure has been identified for the current or previous financial years.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
48. Irregular expenditure		
Opening balance	7 310 817	11 928 290
Add: Irregular expenditure - current year	5 100 109	6 537 511
Add: Irregular expenditure - current year (additionally identified)	2 864 199	-
Less: Amounts approved by council and written off	(9 828 649)	(11 154 984)
	5 446 476	7 310 817
Details of irregular expenditure not recoverable		
During the special council meeting held on 30 August 2019, the following resolutions were taken:		
<ul style="list-style-type: none">Irregular expenditure amounting to R9 828 649 be approved and written off;No disciplinary charges be laid against officials or any political office bearers; andNo criminal charges be laid against officials or any political office bearers.		
49. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year membership fee	527 880	527 383
Amount paid - current year	(527 880)	(527 383)
	-	-
Audit fees		
Current year audit fee	3 735 190	3 038 588
Amount paid - current year	(3 735 190)	(3 038 588)
	-	-
PAYE, UIF and SDL		
Current year employee tax	7 191 137	5 760 541
Amount paid - current year	(7 191 137)	(5 760 541)
	-	-
Pension and medical aid deductions		
Current year deductions	8 302 862	8 082 379
Amount paid - current year	(8 302 862)	(8 082 379)
	-	-
VAT		
VAT payable	10 680 943	12 287 074

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

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

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

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

Distribution losses

Electricity	7 237 122	3 983 428
Water	2 242 055	4 794 150
	9 479 177	8 777 578

Electricity losses

The municipality purchased 23 676 130 (2018: 24 342 556) units during the financial year. It sold / billed 16 459 283 (2018: 20 768 372) units during the year and has calculated its distribution losses to be an estimated 30.48% (2018: 14.68%) at an average cost of R1.0028 (2018: R1.1145) per unit.

The main reasons for incurring electricity losses relates to the dissipation when electricity flows through the conductors, illegal connections, meter tampering and incorrect metering. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced / repaired as soon as they are reported.

Water losses

The municipality pumped 2 305 218 (2018: 1 996 376) units during the financial year. It sold / billed 1 079 124 (2018: 1 250 553) units during the year and has calculated its distribution losses to be an estimated 53.19% (2018: 37.36%) at an average cost of R1.8286 (2018: R6.4280) per unit.

These losses occur due to inter alia, leakages, the tampering of meters, incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced / repaired as soon as they are reported.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MS Toto	1 969	77	2 046
E Humphries	1 236	463	1 699
MA Sestile	1 143	-	1 143
MR Kafi	1 226	3 636	4 862
VP Harmse	1 313	796	2 109
NJ Batties	2 118	22 080	24 198
SK Brown	331	-	331
MJ Williams	2 570	-	2 570
	11 906	27 052	38 958

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand 2019 2018

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

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MS Toto	77	-	77
E Humphries	1 082	-	1 082
MA Sestile	449	-	449
MR Kafi	11 278	-	11 278
VP Harmse	543	-	543
W Minnie	2 524	-	2 524
NJ Batties	15 730	-	15 730
JP Matthee	1 665	-	1 665
SK Brown	348	-	348
MJ Williams	705	-	705
	34 401	-	34 401

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2019	Highest outstanding amount	Aging (in days)
MS Toto	643	90
E Humphries	869	90
MA Sestile	371	90
MR Kafi	11 278	90
VP Harmse	1 082	90
NJ Batties	22 080	90
JP Matthee	1 875	90
MJ Williams	4 348	90
	42 546	720

Supply chain management regulations

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

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

The expenses incurred as listed hereunder have been condoned.

Incident

Exceptional cases	615 849	2 197 037
Sole provider	802 279	683 794
Emergency cases	720 629	575 817
	2 138 757	3 456 648

50. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	-	13 570
Used to finance property, plant and equipment	-	(13 570)
	-	-

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

51. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E for the comparison of actual operating expenditure versus budgeted expenditure.

52. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E for the comparison of actual capital expenditure versus budgeted expenditure.

53. Budget differences

Material differences between budget and actual amounts

Material differences are deemed material where the differences differ with 10% or more of the final budget.

Statement of financial performance

Service charges: The municipality billed less services than budgeted for. Management anticipated an increase in comparison with the previous year due to the increase in tariffs, but due to a decrease in consumer usage, the revenue decreased.

Rental in facilities and equipment: No specific reason exists and the fluctuation is due to an unanticipated increase.

Interest received: Due to the implementation of the Mscoa financial system, consumer accounts were delivered late and the municipality could not charge interest on outstanding consumer accounts. This was approved by the council.

Agency services: Agency services were budgeted for under licences and permits. Although a material difference does exist between the budgeted and actual amount, this is attributable to less licences taken out by users.

Other income: The budgeted figure was accurate as management anticipated more other income. No single reason exists.

Government grants and subsidies: Due to slow spending on projects, the municipality did not realise the expected revenue (from qualifying expenditure). This can also be seen in the increase in the unspent conditional grants

Fines, penalties and interest: Less fine revenue was received through the TVS system than expected.

Employee related costs: The underspending is mainly due to a decrease in the employee benefit liabilities (post-employment medical aid liability), as well as the fact that the budgeted interest portion of the aforementioned actuarial valuations are included in this line item, whilst it is disclosed as finance cost.

Depreciation and amortisation: During the preparation of the 2019 fixed asset register, certain assets were identified which was never accounted for. The necessary prior period error adjustment was made and this resulted in an increase which was not anticipated by management.

Impairment loss: During the preparation of the 2019 fixed asset register, damaged assets were identified and impaired, which was not budgeted for.

Contracted services: During the preparation of the 2019 statements, certain costs were reclassified as contracted services, which was previously included in general expenses and therefore budgeted for as such.

General expenses: Due to cost cutting measures and the reclassification of certain expenditure, less was spent than anticipated.

Umsobomvu Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

53. Budget differences (continued)

Statement of financial position

Inventory: Due to a decrease in the water stock at yearend (volume and price).

Receivables from non-exchange transactions: Due to the reclassification of certain debtors previously disclosed as such.

Consumer debtors: Management expected an increase debtor recoverability rate, but due to the fact that the billing was done late during the year, this recovery rate was not achieved.

Cash and cash equivalents: Management expected an increase debtor recoverability rate, but due to the fact that the billing was done late during the year, this recovery rate was not achieved.

Property, plant and equipment: Due to an increase in the depreciation expense and slow project spending.

Intangible assets: Management anticipated capital expenditure for intangible assets, which did not occur.

Operating lease asset: Immaterial balance and therefore not budgeted for.

Finance lease liabilities: Management did not budgeted for the finance lease liability.

Payables from exchange transactions: Due to the fact that the desired debtor recovery rate was not achieved, it could not settle the creditors as planned and budgeted for.

Payables from non-exchange transactions: Not budgeted for separately.

Unspent conditional grants: Management planned to exhaust all grant funding, but due to slow spending, this was not realised.

VAT payable: Not budgeted for separately.

Consumer deposits: The expected number of new accounts did not realise.

Provisions: Due to the fact that this provision is a non-cash flow entry, management did not budget enough for the provision at yearend.

Employee benefit liabilities: Not budgeted for separately.

54. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2019.

55. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 470 619 516 and that the municipality's total assets exceed its liabilities by R 470 619 516.

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.

Umsobomvu Local Municipality

Financial Statement for the year ended 30 June 2019

Appendix A: Schedule of External Loans

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2018	Received during the Period	Redeemed / Written off during Period	Balance at 30 June 2019	Other costs in accordance with MFMA
	R				R	R	R	R	R
ANNUITY LOANS									
ABSA Bank	716,585	11.00%	84215231	2018/07/31	13,570	-	(13,570)	-	-
FINANCE LEASES									
Nashua	3,545,962	13.23%	Various	2022/10/01	4,136,098	-	(1,016,041)	3,120,057	-
Total Annuity Loans	4,262,547.00				4,149,668	-	(1,029,611)	3,120,057	-

ANNUITY LOANS:

ABSA Bank Loan (84215231)

The ABSA Bank loan had a 5 year repayment period at a 11% interest rate and monthly instalments of R13 791.60.

FINANCE LEASES:

Nashua (various):

The Municipality entered into a finance lease agreement with Thepa Trading on 30 November 2016. In terms of the agreement, Nashua provided the municipality with copiers and a telephone system. The finance lease obligation is repayable over 36-months at a monthly instalment of R36 471, which escalates 10% per annum. The effective interest rate is 13.23% per annum.

Note: The rates of interest payable on the above structured loans are based on certain underlying assumptions relating to the lenders' statutory costs and the allowability of deductions by the lenders for income tax purposes in connection with these loans. In the event of changes to, or interpretation of, the Income Tax Act or any other relevant legislation which impact on the loan structure costs, the lenders have the right to increase or decrease the future rates of interest payable on the loans over their remaining lives, in order to absorb the increase or decrease in costs.

Umsobomvu Local Municipality

Financial Statement for the year ended 30 June 2019

Appendix B: Property, Plant and Equipment as at 30 June 2019

PROPERTY, PLANT AND EQUIPMENT						
Description	2018			2019		
	Closing Cost	Closing Depreciation / Impairment	Closing Carry	Closing Cost	Closing Depreciation / Impairment	Closing Carry
Infrastructure	903,242,207	456,089,649	447,152,559	921,531,522	486,592,375	434,939,147
Electricity	61,079,511	30,458,229	30,621,283	61,079,511	32,355,444	28,724,067
Roads (Roads, Pavements and Bridges)	341,417,598	215,366,923	126,050,675	358,296,576	222,626,644	135,669,932
Sewerage	111,834,338	55,746,863	56,087,475	111,834,338	60,006,305	51,828,032
Storm Water	8,902,583	4,820,117	4,082,465	10,312,919	5,027,621	5,285,297
Water	380,008,178	149,697,517	230,310,661	380,008,178	166,576,359	213,431,818
Land and Buildings	79,070,803	13,809,848	65,260,955	79,070,803	14,915,702	64,155,101
Buildings	38,998,298	13,809,848	25,188,450	38,998,298	14,915,702	24,082,596
Land	40,072,505	-	40,072,505	40,072,505	-	40,072,505
Other Assets	25,105,614	14,973,204	10,132,410	25,678,004	16,642,200	9,035,804
Computer Equipment	3,924,494	2,162,494	1,762,001	3,955,690	2,697,363	1,258,327
Furniture and Office Equipment	5,500,243	3,318,770	2,181,473	5,645,627	3,835,646	1,809,981
Other Machinery and Equipment	7,838,888	5,468,756	2,370,132	7,845,074	5,895,355	1,949,719
Transport Assets	7,841,988	4,023,184	3,818,805	8,231,613	4,213,836	4,017,777
Solid Waste	2,827,101	1,462,178	1,364,923	2,827,101	1,567,293	1,259,808
Landfill Site	2,827,101	1,462,178	1,364,923	2,827,101	1,567,293	1,259,808
Total	1,010,245,726	486,334,879	523,910,847	1,029,107,429	519,717,569	509,389,860

INVESTMENT PROPERTY						
Description	2018			2019		
	Closing Cost	Closing Depreciation / Impairment	Closing Carry	Closing Cost	Closing Depreciation / Impairment	Closing Carry
Investment Property	2,060,900	-	2,060,900	2,060,900	-	2,060,900
Total	2,060,900	-	2,060,900	2,060,900	-	2,060,900

INTANGIBLE ASSETS						
Description	2018			2019		
	Closing Cost	Closing Depreciation / Impairment	Closing Carry	Closing Cost	Closing Depreciation / Impairment	Closing Carry
Intangible Assets	2,003,314	1,787,052	216,262	2,014,914	1,892,871	122,043
Total	2,003,314	1,787,052	216,262	2,014,914	1,892,871	122,043
Grand Total	1,014,309,940	488,121,931	526,188,009	1,033,183,244	521,610,440	511,572,804

Umsobomvu Local Municipality

Financial Statement for the year ended 30 June 2019

Appendix D: Segmental Statement of Financial Performance

Description	2019 Actual Income	2019 Budgeted Income	2019 Actual Expenditure	2019 Budgeted Expenditure	2019 Surplus/ (Deficit)
	R	R	R	R	R
Executive and council	44,820,176	44,665,315	(17,193,976)	(16,378,688)	27,626,200
Finance and administration	12,929,271	20,127,739	(25,374,456)	(31,412,301)	(12,445,185)
Internal audit	-	-	-	-	-
Community and social services	1,512,848	1,517,478	(3,272,986)	(4,476,205)	(1,760,138)
Sport and recreation	51,785	50,000	(2,641,708)	(3,109,111)	(2,589,923)
Public safety	-	9,988,854	-	(9,770,387)	-
Housing	-	-	(802,319)	(2,735,294)	(802,319)
Health	-	-	-	-	-
Planning and development	-	-	-	-	-
Road transport	8,560,388	1,091,570	(10,237,953)	(13,714,034)	(1,677,565)
Environmental protection	-	-	-	-	-
Energy sources	28,977,035	38,384,462	(26,985,129)	(28,531,543)	1,991,906
Water management	23,360,091	30,128,343	(13,712,207)	(27,069,069)	9,647,884
Waste water management	12,799,889	18,834,113	(35,753,333)	(12,156,789)	(22,953,445)
Waste management	5,578,900	6,493,135	(7,815,665)	(9,529,500)	(2,236,765)
Total	138,590,383	171,281,009	(143,789,731)	(158,882,921)	(5,199,348)

Umsobomvu Local Municipality (NC072)

Financial Statement for the year ended 30 June 2019

Appendix E(1): Budgeted Financial Performance (revenue and expenditure by standard classification)

Description	2019								
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Unauthorised	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
REVENUE - STANDARD									
Governance and Administration:									
Executive and council	44,259,000	406,315	44,665,315	44,665,315	44,820,176	154,861	-	100.35%	101.27%
Finance and administration	18,966,177	1,161,562	20,127,739	20,127,739	12,929,271	(7,198,468)	-	64.24%	68.17%
Community and Public Safety:									
Community and Social Services	1,517,478	-	1,517,478	1,517,478	1,512,848	(4,630)	-	99.69%	99.69%
Sport and Recreation	-	50,000	50,000	50,000	51,785	1,785	-	103.57%	0%
Public Safety	9,927,478	61,376	9,988,854	9,988,854	-	(9,988,854)	-	-	-
Economic and Environmental Services:									
Planning and Development	-	-	-	-	-	-	-	-	-
Road Transport	1,091,570	-	1,091,570	1,091,570	8,560,388	7,468,818	-	784.23%	784.23%
Environmental protection	-	-	-	-	-	-	-	-	-
Trading Services:									
Electricity	37,592,603	791,859	38,384,462	38,384,462	28,977,035	(9,407,427)	-	75.49%	77.08%
Water	26,531,363	3,596,980	30,128,343	30,128,343	23,360,091	(6,768,252)	-	77.54%	88.05%
Water Waste Management	19,413,062	(578,949)	18,834,113	18,834,113	12,799,889	(6,034,224)	-	67.96%	65.93%
Waste Management	6,812,264	(319,129)	6,493,135	6,493,135	5,578,900	(914,235)	-	85.92%	81.89%
Total Revenue - Standard	166,110,995	5,170,014	171,281,009	171,281,009	138,590,383	(32,690,626)	-	80.91%	83.43%
EXPENDITURE - STANDARD									
Governance and Administration:									
Executive and council	16,077,138	301,550	16,378,688	16,378,688	17,193,976	815,288	-	104.98%	106.95%
Finance and Administration	31,595,704	(183,403)	31,412,301	31,412,301	25,374,456	(6,037,845)	-	80.78%	80.31%
Community and Public Safety:									
Community and Social Services	3,945,095	531,110	4,476,205	4,476,205	3,272,986	(1,203,219)	-	73.12%	82.96%
Sport and Recreation	3,067,231	41,880	3,109,111	3,109,111	2,641,708	(467,403)	-	84.97%	86.13%
Public Safety	9,694,103	76,284	9,770,387	9,770,387	-	(9,770,387)	-	-	-
Housing	2,746,735	(11,441)	2,735,294	2,735,294	802,319	(1,932,975)	-	29.33%	29.21%
Health	-	-	-	-	-	-	-	-	-
Economic and Environmental Services:									
Road Transport	12,991,866	722,168	13,714,034	13,714,034	10,237,953	(3,476,081)	-	74.65%	78.80%
Trading Services:									
Electricity	26,988,844	1,542,699	28,531,543	28,531,543	26,985,129	(1,546,414)	-	94.58%	99.99%
Water	27,426,327	(357,258)	27,069,069	27,069,069	13,712,207	(13,356,862)	-	50.66%	50.00%
Waste Water Management	11,893,213	263,576	12,156,789	12,156,789	35,753,333	23,596,544	-	294.10%	300.62%
Waste Management	9,433,870	95,630	9,529,500	9,529,500	7,815,665	(1,713,835)	-	82.02%	82.85%
Other	-	-	-	-	-	-	-	-	-
Total Expenditure - Standard	155,860,126	3,022,795	158,882,921	158,882,921	143,789,731	(15,093,190)	-	90.50%	92.26%
Surplus/(Deficit) for the year	10,250,869	2,147,219	12,398,088	12,398,088	(5,199,348)	(17,597,436)	-	(41.94)%	(50.72)%

Umsobomvu Local Municipality

Financial Statement for the year ended 30 June 2019

Appendix E(2): Budgeted Financial Performance (revenue and expenditure by municipal vote)

Description	2019								
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Unauthorised	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
REVENUE BY VOTE									
Vote 1 - EXECUTIVE & COUNCIL	44,259,000	406,315	44,665,315	44,665,315	44,820,176	154,861	-	100.35%	101.27%
Vote 2 - FINANCE & ADMIN	18,966,177	1,161,562	20,127,739	20,127,739	12,929,271	(7,198,468)	-	64.24%	68.17%
Vote 3 - COMMUNITY SERVICES	11,444,956	111,376	11,556,332	11,556,332	1,564,633	(9,991,699)	-	13.54%	13.67%
Vote 4 - TECHNICAL SERVICES	91,440,862	3,490,761	94,931,623	94,931,623	79,276,303	(15,655,320)	-	83.51%	86.70%
Total Revenue by Vote	166,110,995	5,170,014	171,281,009	171,281,009	138,590,383	(32,690,626)	-	80.91%	83.43%
EXPENDITURE BY VOTE									
Vote 1 - EXECUTIVE & COUNCIL	16,077,138	301,550	16,378,688	16,378,688	17,193,976	815,288	-	104.98%	106.95%
Vote 2 - FINANCE & ADMIN	31,595,704	(183,403)	31,412,301	31,412,301	25,374,456	(6,037,845)	-	80.78%	80.31%
Vote 3 - COMMUNITY SERVICES	19,453,164	637,833	20,090,997	20,090,997	6,717,013	(13,373,985)	-	33.43%	34.53%
Vote 4 - TECHNICAL SERVICES	88,734,120	2,266,815	91,000,935	91,000,935	94,504,287	3,503,352	-	103.85%	106.50%
Total Expenditure by Vote	155,860,126	3,022,795	158,882,921	158,882,921	143,789,731	(15,093,190)	-	90.50%	92.26%
Surplus/(Deficit) for the year	10,250,869	2,147,219	12,398,088	12,398,088	(5,199,348)	(17,597,436)	-	-41.94%	-50.72%

Umsobomvu Local Municipality

Financial Statement for the year ended 30 June 2019

Appendix E(3): Budgeted Financial Performance (revenue and expenditure)

Description	2019								
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Unauthorised	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
Revenue by Source									
Property Rates	10,446,602	615,820	11,062,422	11,062,422	10,119,358	(943,064)	-	91.48%	96.87%
Property Rates - Penalties Imposed	-	-	-	-	-	-	-	-	-
Government Grants and Subsidies	73,056,000	4,581,000	77,637,000	77,637,000	66,233,593	(11,403,407)	-	85.31%	90.66%
Fines, Penalties and Forfeits	7,311,764	60,001	7,371,765	7,371,765	6,138,526	(1,233,239)	-	83.27%	83.95%
Service Charges	62,863,484	(1,092,621)	61,770,863	61,770,863	53,477,994	(8,292,869)	-	86.57%	85.07%
Rental of Facilities and Equipment	291,438	41,543	332,981	332,981	154,593	(178,388)	-	46.43%	53.04%
Agency Services	342,038	-	342,038	342,038	1,334,998	992,960	-	-	-
Licenses and Permits	2,515,853	1,375	2,517,228	2,517,228	-	(2,517,228)	-	-	-
Other Income	5,618,661	962,894	6,581,555	6,581,555	948,102	(5,633,453)	-	14.41%	16.87%
Interest Received	3,665,156	-	3,665,156	3,665,156	142,490	(3,522,666)	-	3.89%	3.89%
Gains on Disposal of Assets and Liabilities	-	-	-	-	40,734	40,734	-	-	-
Total Revenue	166,110,996	5,170,012	171,281,008	171,281,008	138,590,387	(32,690,621)	-	83.43%	83.43%
Expenditure									
Employee Related Costs	53,559,816	789,687	54,349,503	54,349,503	42,388,419	(11,961,084)	-	77.99%	79.14%
Remuneration of Councillors	4,129,563	-	4,129,563	4,129,563	4,046,900	(82,663)	-	98.00%	98.00%
Depreciation and Amortisation	25,827,264	-	25,827,264	25,827,264	31,617,394	5,790,130	-	100.00%	100.00%
Impairment Loss	-	-	-	-	1,871,116	1,871,116	-	-	-
Finance Cost	-	-	-	-	4,660,147	4,660,147	-	-	-
Debt Impairment	11,387,767	-	11,387,767	11,387,767	6,400,672	(4,987,095)	-	100.00%	100.00%
Bulk Purchases	21,948,017	1,351,983	23,300,000	23,300,000	24,284,327	984,327	-	104.22%	110.64%
Contracted Services	1,191,016	-	1,191,016	1,191,016	-	(1,191,016)	-	-	-
Loss on Disposal of Assets and Liabilities	20,000	-	20,000	20,000	-	(20,000)	-	-	-
General Expenses	37,797,354	880,450	38,677,804	38,677,804	28,520,756	(10,157,048)	-	73.74%	75.46%
Total Expenditure	155,860,797	3,022,120	158,882,917	158,882,917	143,789,732	(15,093,185)	-	92.26%	92.26%
Surplus/(Deficit)	321,971,793	8,192,132	330,163,925	330,163,925	282,380,119	(47,783,806)	-	85.53%	87.70%
Transfers Recognised - Capital	-	-	-	-	-	-	-	-	-
Surplus/(Deficit) for the Year	10,250,199	2,147,892	12,398,091	12,398,091	(5,199,345)	(17,597,436)	-	-41.94%	-50.72%

Appendix E(4): Budgeted Capital Expenditure by vote, standard classification and funding

Description	2019								
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Unauthorised	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
CAPITAL EXPENDITURE - VOTE									
Multi-year Expenditure									
Vote 1 - EXECUTIVE & COUNCIL	-	-	-	-	-	-	-	-	-
Vote 2 - FINANCE & ADMIN	1,485,400	-	1,485,400	1,485,400	-	(1,485,400)	-	-	-
Vote 3 - COMMUNITY SERVICES	-	248,000	248,000	248,000	-	(248,000)	-	-	-
Vote 4 - TECHNICAL SERVICES	10,780,600	4,745,000	15,525,600	15,525,600	-	(15,525,600)	-	-	-
Total Capital Expenditure - Multi-year	12,266,000	4,993,000	17,259,000	17,259,000	-	(17,259,000)	-	-	-
Single-year Expenditure									
Vote 1 - EXECUTIVE & COUNCIL	-	-	-	-	-	-	-	-	-
Vote 2 - FINANCE & ADMIN	49,376	-	49,376	49,376	572,389	523,013	-	1159.25%	1159.25%
Vote 3 - COMMUNITY SERVICES	342,100	-	342,100	342,100	-	(342,100)	-	-	100.00%
Vote 4 - TECHNICAL SERVICES	13,000,000	836,000	13,836,000	13,836,000	14,147,530	311,530	-	102.25%	100.00%
Total Capital Expenditure - Single-year	13,391,476	836,000	14,227,476	14,227,476	14,719,919	492,443	-	103.46%	109.92%
Total Capital Expenditure - Vote	25,657,476	5,829,000	31,486,476	31,486,476	14,719,919	(16,766,557)	-	46.75%	57.37%
CAPITAL EXPENDITURE - STANDARD									
Governance and Administration:									
Executive and council	-	-	-	-	-	-	-	-	-
Finance and administration	1,534,776	-	1,534,776	1,534,776	572,389	(962,387)	-	37.29%	100.00%
Community and Public Safety:									
Community and social services	142,100	220,000	362,100	362,100	10,360	-	-	-	-
Sport and recreation	200,000	-	200,000	200,000	-	-	-	-	-
Public safety	-	28,000	28,000	28,000	-	-	-	-	-
Economic and Environmental Services:									
Planning and development	-	-	-	-	-	-	-	-	-
Road transport	-	5,907,554	5,907,554	5,907,554	5,027,314	(880,240)	-	85.10%	100.00%
Trading Services:									
Energy sources	3,000,000	836,000	3,836,000	3,836,000	3,335,856	(500,144)	-	86.96%	111.20%
Water management	10,780,600	(1,162,554)	9,618,046	9,618,046	5,773,927	(3,844,119)	-	60.03%	53.56%
Waste water management	10,000,000	-	10,000,000	10,000,000	-	(10,000,000)	-	-	-
Total Capital Expenditure - Standard	25,657,476	5,829,000	31,486,476	31,486,476	14,719,846	(16,186,890)	-	57.37%	46.75%
FUNDED BY:									
National Government	23,780,600	5,581,000	29,361,600	29,361,600	-	(29,361,600)	-	-	-
Provincial Government	-	-	-	-	-	-	-	-	-
Transfers Recognised - Capital	23,780,600	5,581,000	29,361,600	29,361,600	-	(29,361,600)	-	-	-
Internally generated funds	1,876,876	248,000	2,124,876	2,124,876	14,719,846	12,594,970	-	692.74%	784.27%
Total Capital Funding	25,657,476	5,829,000	31,486,476	31,486,476	14,719,846	(16,766,630)	-	46.75%	57.37%

Appendix E(5): Budgeted Cash Flows

Description	2019							
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
CASH FLOW FROM OPERATING ACTIVITIES								
Receipts								
Property rates	8,357,282	50,159	8,407,441	8,407,441	5,884,207	(2,523,234)	69.99%	70.41%
Service charges	47,392,291	(725,305)	46,666,986	46,666,986	38,099,471	(8,567,515)	81.64%	80.39%
Other revenue	14,506,529	796,203	15,302,732	15,302,732	-	(15,302,732)	-	-
Government - operating	49,275,400	(1,000,000)	48,275,400	48,275,400	25,324,493	(22,950,907)	52.46%	51.39%
Government - capital	23,780,600	5,581,000	29,361,600	29,361,600	47,521,926	18,160,326	161.85%	199.83%
Interest	2,795,712	-	2,795,712	2,795,712	142,490	(2,653,222)	5.10%	5.10%
Payments								
Suppliers and employees	(115,741,297)	(5,906,589)	(121,647,886)	(121,647,886)	(102,033,013)	19,614,873	83.88%	88.16%
Finance charges	-	-	-	-	-	-	(100.00)%	(100.00)%
Transfers and Grants	-	-	-	-	-	-	-	-
NET CASH FROM / (USED) OPERATING ACTIVITIES	30,366,517	(1,204,532)	29,161,985	29,161,985	14,939,574	(14,222,411)	51.23%	49.20%
CASH FLOWS FROM INVESTING ACTIVITIES								
Receipts								
Proceeds on disposal of PPE	-	-	-	-	-	-	-	-
Decrease (Increase) in non-current debtors	-	-	-	-	-	-	-	-
Decrease (increase) other non-current receivables	-	-	-	-	-	-	-	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	-	-
Payments								
Capital Assets	(25,657,476)	(5,829,000)	(31,486,476)	(31,486,476)	(14,690,785)	16,795,691	46.66%	57.26%
NET CASH FROM / (USED) INVESTING ACTIVITIES	(25,657,476)	(5,829,000)	(31,486,476)	(31,486,476)	(14,690,785)	16,795,691	46.66%	57.26%
CASH FLOWS FROM FINANCING ACTIVITIES								
Receipts								
Short term loans	-	-	-	-	-	-	-	-
Borrowing long term/refinancing	-	-	-	-	-	-	-	-
Increase (decrease) in consumer deposits	140,000	-	140,000	140,000	-	(140,000)	-	-
Payments								
Proceeds of borrowing	-	-	-	-	-	-	-	-
Repayment of borrowing	-	-	-	-	(1,009,809)	(1,009,809)	(100.00)%	(100.00)%
NET CASH FROM / (USED) FINANCING ACTIVITIES	140,000	-	140,000	140,000	(1,009,809)	(1,149,809)	100.00%	100.00%
NET INCREASE / (DECREASE) IN CASH HELD	4,849,041	-	4,849,041	4,849,041	(761,020)	(2,299,618)	-15.69%	-15.69%
Cash / Cash Equivalents at the Year begin:	17,090,532	-	17,090,532	17,090,532	5,116,407	(11,974,125)	29.94%	29.94%
Cash / Cash Equivalents at the Year end:	21,939,573	-	21,939,573	21,939,573	4,355,387	(17,584,186)	19.85%	19.85%

Umsobomvu Local Municipality

Financial Statement for the year ended 30 June 2019

Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act

2019									
Name of Grant	Name of Organ of State or Municipal Entity	Opening Balance	Repayment	Total Receipts	Total Expenses	Net Grant	Reason for Delay / Withholding of Funds	Compliance to Revenue Act	Reason for Non-compliance
Equitable Share	Nat Treasury	-	-	44,259,000	(44,259,000)	-		Yes	N/a
Expanded Public Works Programme (EPWP)	Nat Treasury	200,131	-	1,000,000	(1,000,000)	200,131		Yes	N/a
National Lottery Development Trust Fund	Other	280,258	-	-	-	280,258		Yes	N/a
Institutional Re-organisational Grant	Other	226,712	-	-	-	226,712		Yes	N/a
Development of Bank of South Africa	Other	6,337	-	-	-	6,337		Yes	N/a
Department of Safety	Provincial	124,919	-	-	-	124,919		Yes	N/a
Department of Housing	Provincial	130,852	-	-	-	130,852		Yes	N/a
Water Service Infrastructure Grant (WSIG)	National	978,283	-	10,000,000	(4,414,418)	6,563,865		Yes	N/a
Regional Bulk Infrastructure (RBIG)	National	-	-	2,085,416	(2,085,416)	-		Yes	N/a
Library Development Grant	Provincial	-	-	1,479,003	(1,479,003)	-		Yes	N/a
Energy Efficiency Demand Side Management Grant (EEDSM)	Provincial	1,553,581	(295,000)	-	-	1,258,581		Yes	N/a
Municipal Infrastructure Grant (MIG)	Nat Treasury	-	-	9,348,000	(8,025,520)	1,322,480		Yes	N/a
Finance Management Grant (FMG)	Nat Treasury	-	-	1,970,000	(1,970,000)	-		Yes	N/a
Department of Water affairs and forestry (DWAF) (2)	Nat Treasury	942,072	-	-	-	942,072		Yes	N/a
Department of Water affairs and forestry (DWAF) (2)	Nat Treasury	1,519,388	-	-	-	1,519,388		Yes	N/a
Integrated National Electrification Programme (INEP)	Nat Treasury	2,771,346	-	3,000,000	(3,000,236)	2,771,110		Yes	N/a
Total Grants and Subsidies Received		8,733,879	(295,000)	73,141,419	(66,233,593)	15,346,705			

Umsobomvu Local Municipality

Financial Statement for the year ended 30 June 2019

Appendix G: Statement of Remuneration of Management
30 June 2019

Incumbent	Fees for Services	Basic Services	Bonuses	Allowances	Contributions to Funds	Other Short-term Benefits	Total Remuneration
	R	R	R	R	R	R	R
Mayor							
M.S. Toto	-	581,297	-	44,400	-	200,698	826,395
Councillors							
N.J. Batties	-	245,280	-	44,400	-	256	289,936
C.M. Williams	-	145,018	-	23,870	-	512	169,400
M.J. Williams	-	39,308	-	7,400	-	-	46,708
S.K. Brown	-	245,280	-	44,400	-	1,134	290,814
J.P. Matthee	-	245,280	-	44,400	-	512	290,192
N.D. Stafa	-	245,280	-	44,400	-	25,892	315,572
V.P. Harmse	-	314,776	-	44,400	-	46,830	406,006
M.B. Kafi	-	314,776	-	44,400	-	3,798	362,974
M.A. Sestile	-	314,776	-	44,400	-	14,626	373,802
S.E. Humphries	-	245,280	-	44,400	-	13,305	302,985
W. Minnie	-	314,776	-	44,400	-	12,940	372,116
Total for Councillors	-	3,251,127	-	475,270	-	320,503	4,046,900
Municipal Manager							
A.C. Mpela	-	1,100,715	154,516	144,000	1,888	-	1,401,119
Chief Financial Officer							
D.T. Visagie	-	981,881	148,142	136,594	1,888	-	1,268,505
Manager: Technical Services							
P. Mosompha	-	1,046,475	148,142	72,000	1,888	-	1,268,505
Manager: Corporate Services							
B. Kapp	-	970,632	148,142	147,843	1,785	-	1,268,402
Total for Senior Managers	-	4,099,703	598,942	500,437	7,449	-	5,206,531
Total for Management	-	7,350,830	598,942	975,707	7,449	320,503	9,253,431

30 June 2018

Incumbent	Fees for Services	Basic Services	Bonuses	Allowances	Contributions to Funds	Other Short-term Benefits	Total Remuneration
	R	R	R	R	R	R	R
Mayor							
M.S. Toto	-	558,940	-	228,474	-	-	787,414
Councillors							
N.J. Batties	-	235,846	-	42,900	-	-	278,746
M.J. Williams	-	235,846	-	42,900	-	-	278,746
S.K. Brown	-	235,846	-	44,400	-	-	280,246
J.P. Matthee	-	235,846	-	42,900	-	-	278,746
N.D. Stafa	-	235,846	-	42,900	-	-	278,746
V.P. Harmse	-	302,669	-	42,900	-	-	345,569
S.E. Humphries	-	235,846	-	42,900	-	-	278,746
W. Minnie	-	302,669	-	42,900	-	-	345,569
Total for Councillors	-	2,579,354	-	573,174	-	-	3,152,528
Municipal Manager							
A.C. Mpela	-	1,055,369	162,337	132,563	1,884	-	1,352,153
Chief Financial Officer							
D.T. Visagie	-	921,566	137,987	136,594	1,884	-	1,198,031
Manager: Technical Services							
P. Mosompha	-	986,160	137,987	72,000	1,884	-	1,198,031
Manager: Corporate Services							
B. Kapp	-	910,317	137,987	147,843	1,785	-	1,197,932
Total for Senior Managers	-	3,873,412	576,298	489,000	7,437	-	4,946,147
Total for Management	-	6,452,766	576,298	1,062,174	7,437	-	8,098,675