



UMKHANYAKUDE DISTRICT MUNICIPALITY

**Annual Financial Statements
for the year ended 30 June 2015**

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

General Information

Executive Committee

Cllr Vilane SJ (Mayor)
Cllr Swartz CG (Deputy Mayor)
Cllr Mavimbela HGS (Speaker) - Ex Officio
Cllr Nxumalo SH (Exco Member)
Cllr Moodley GP (Exco Member)
Cllr Zungu MC (Exco Member)

Councillors

Cllr Gumbi DL
Cllr Hlabisa VF
Cllr Khumalo LV
Cllr Khumalo SR
Cllr Langa ML
Cllr Mabuyakhulu PJ
Cllr Mathenjwa S M
Cllr Mathonsi ZW
Cllr Mdaka SF
Cllr Mkhombo T S
Cllr Mkwanazi LX
Cllr Mkwanazi M Q (Appointed 01 June 2015)
Cllr Mngomezulu BZ
Cllr Mthethwa B N
Cllr Mthethwa SP
Cllr Msane M S
Cllr Msweli MCF
Cllr Ngema TN
Cllr Ntsele
Cllr Nxumalo MW
Cllr Nyawo I F
Cllr Nyawo ZE
Cllr Sangweni MB
Cllr Shobede M Z (Appointed 01 June 2015)
Cllr Zikhali AT

Grading of local authority

Grade 4

Chief Financial Officer (CFO)

Mabika T M (Acting CFO)

Accounting Officer

Mzimela E M

Business address

Harlingen No. 13433
Kingfisher Road
Mkuze
3965

Postal address

P.O. Box 449
Mkuze

Bankers

ABSA - Investment
First National Bank - Current & Investment
Nedbank - Investment
Ithala Bank - Savings

Auditors

Auditor-General South Africa

UMKHANYAKUDE DISTRICT MUNICIPALITY

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General Information

Legal Advisor

Zungu S

UMKHANYAKUDE DISTRICT MUNICIPALITY

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The reports and statements set out below comprise the annual financial statements presented to the Council and the Provincial Legislature:

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Abbreviations

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DC27	Umkhanyakude District Municipality
FMG	Financial Management Grant
EPWP	Extended Public Works Programme
MSIG	Municipal Systems Infrastructure Grant
IMFO	Institute of Municipal Finance Officers
SALGA	South African Local Government Association
DORA	Division of Revenue Act
VAT	Value-Added Tax
GEPF	Government Employee Pension Fund
COGTA	Department of Co-operative Governance & Traditional Affairs
SCM	Supply Chain Management

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the 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 were 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 on 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 places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets systems for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The systems 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 financial 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 deficiency.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

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

The annual financial statements set out on pages 6 to 64, which have been prepared on the going concern basis, were approved by Council on 31 August 2015 and were signed on its behalf by:

E.M. Mzimela
Municipal Manager

31 August 2015

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

Figures in Rands	Note(s)	2015	2014 Restated*
ASSETS			
Current Assets			
Inventories	2	86 984 553	86 841 625
Receivables from exchange transactions	3	4 473 680	13 570 787
Other receivables from exchange transactions	4	1 347 014	2 422 571
VAT receivable	5	24 081 615	28 012 670
Cash and cash equivalents	6	12 696 413	11 378 076
		129 583 275	142 225 729
Non-Current Assets			
Property, plant and equipment	7	1 575 260 096	1 474 840 289
Intangible assets	8	511 562	327 357
		1 575 771 658	1 475 167 646
Total Assets		1 705 354 933	1 617 393 375
LIABILITIES			
Current Liabilities			
Other current financial liabilities	9	5 161 463	9 682 103
Trade and other payables from exchange transactions	10	157 963 942	121 812 428
Consumer deposits	11	1 988 145	1 862 046
Unspent conditional grants and receipts	12	33 540 297	22 273 096
Current provisions	13	108 000	109 013
Current portion of borrowings	14	1 499 973	1 557 241
Current portion of finance lease liability	15	897 192	458 832
		201 159 012	157 754 759
Non-Current Liabilities			
Non - current provisions	13	4 779 000	4 079 987
Non - current borrowings	14	7 400 108	8 180 507
Non-current finance lease liability	15	628 858	425 193
		12 807 966	12 685 687
Total Liabilities		213 966 978	170 440 446
NET ASSETS		1 491 387 955	1 446 952 929
Accumulated surplus	46	1 491 387 955	1 446 952 929

* See Note 33

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance as at 30 June 2015

Figures in Rands	Note(s)	2015	2014 Restated*
REVENUE			
Revenue from exchange transactions			
Service charges	16	25 977 746	43 573 188
Rental of facilities and equipment	18	33 322	106 871
Interest received - investment & current bank accounts	19	1 377 989	6 708 719
Interest received - outstanding receivables	20	-	4 462 481
Other income	21	13 839 086	2 035 531
Revenue from non-exchange transactions			
Government grants & subsidies	17	391 167 606	513 803 245
Total revenue		432 395 749	570 690 035
EXPENDITURE			
Employee Related Costs	22	(119 493 189)	(109 914 637)
Remuneration of Councillors	24	(6 721 030)	(6 953 469)
Depreciation and Amortisation	25	(27 988 146)	(28 109 220)
Impairment loss/ Reversal of Impairments	26	(17 354 855)	(15 371 559)
Finance Costs	27	(999 738)	(977 908)
Debt Impairment		-	(21 105 575)
Repairs and Maintenance	28	(34 942 588)	(36 270 006)
Bulk Purchases	29	(69 403 132)	(77 569 516)
Contracted Services	30	(30 482 859)	(34 368 877)
General Expenses	31	(80 575 191)	(139 773 757)
Total expenditure		(387 960 728)	(470 414 524)
Operating surplus		44 435 021	100 275 511
Surplus for the year		44 435 021	100 275 511

* See Note 33

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 403 613 148	1 403 613 148
Adjustments		
Correction of prior period errors	(56 935 725)	(56 935 725)
Balance at 01 July 2013 as restated*	1 346 677 423	1 346 677 423
Changes in net assets		
Surplus for the 12 months as previously reported	100 852 897	100 852 897
Correction of prior period errors (refer to note 33)	(577 391)	(577 391)
Total changes	100 275 506	100 275 506
Restated* Balance at 01 July 2014	1 446 952 934	1 446 952 934
Changes in net assets		
Surplus for the year	44 435 021	44 435 021
Total changes	44 435 021	44 435 021
Balance at 30 June 2015	1 491 387 955	1 491 387 955

* See Note 33

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement for the year ended 30 June 2015

Figures in Rands	Note(s)	2015	2014 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		26 840 355	43 573 187
Grants		393 249 606	459 773 991
Interest income		1 377 989	2 203 647
Other receipts		13 892 629	796 160
		<u>435 360 579</u>	<u>506 346 985</u>
Payments			
Employee costs		(119 493 189)	(108 215 481)
Suppliers		(180 356 614)	(277 513 050)
Finance costs		(999 738)	(977 908)
Interest paid		-	-
		<u>(300 849 541)</u>	<u>(386 706 439)</u>
Net cash flows from operating activities	32	<u>134 511 038</u>	<u>119 640 546</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(128 176 148)	(262 275 158)
Proceeds from sale of property, plant and equipment	7	-	990 707
Purchase of other intangible assets	8	(300 271)	(397 523)
Net cash flows from investing activities		<u>(128 476 419)</u>	<u>(261 681 974)</u>
Cash flows from financing activities			
Repayment of other current financial liabilities		(4 520 640)	7 894 507
Movement in non - current borrowings		(837 667)	(815 811)
Movement in non-current finance lease liability		203 665	252 422
Movement in non-current finance lease liability		438 360	238 602
Interest income		-	4 522 085
Net cash flows from financing activities		<u>(4 716 282)</u>	<u>13 879 401</u>
Net (decrease)/increase in cash and cash equivalents		1 318 337	(130 378 695)
Cash and cash equivalents at the beginning of the year		<u>11 378 076</u>	<u>141 756 771</u>
Cash and cash equivalents for the 6 months	6	<u>12 696 413</u>	<u>11 378 076</u>

* See Note 33

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

				Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Comments
Figures in Rand									
Statement of Financial Performance									
Revenue									
Revenue from exchange transactions									
Service charges	44 804 000	50 000	44 854 000	25 977 746	(18 876 254)				The municipality changed the financial system (Abakus to Sage Evolution). The old financial system was able to average in the absence of meter readings but the new financial system can not average due to that there are no previous reading captured on it.
Rental of facilities and equipment	188 000	(92 000)	96 000	33 322	(62 678)				Government departments that rent the municipal offices did not pay the rent for 2014/2015, since the municipality did not sign new rental contracts.
Interest received - Outstanding Debtors	1 629 000	-	1 629 000	-	(1 629 000)				The municipality did not charge interest on debtors as we were changing financial system.
Other income	17 349 000	(16 000 000)	1 349 000	13 839 086	12 490 086				This funding came from Department of Water and Sanitation as a Disaster Relief and there was not enough time for it to be gazetted before it was allocated. This funding should reflect of the budget of the Department of Water and Sanitation.
Interest recieved - investment	18 245 000	(17 218 000)	1 027 000	1 377 989	350 989				In 2014-2015 the municipality did not have much investments as it was going through financial constrains
Total revenue from exchange transactions	82 215 000	(33 260 000)	48 955 000	41 228 143	(7 726 857)				
Revenue from non-exchange transactions									
	-	-	-	-	-				
Transfer revenue									
Government grants & subsidies	238 736 000	1 000 000	239 736 000	391 167 606	151 431 606				The municipality had an unspent conditional grant at the end of the year. The other portion of MIG was withheld by treasury. Furthermore, some grants were the unspent portion from the previous year's in which there was no further allocation.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

				Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Comments
Figures in Rand									
Total revenue from non-exchange transactions	238 736 000	1 000 000	239 736 000	391 167 606	151 431 606				
Total revenue	320 951 000	(32 260 000)	288 691 000	432 395 749	143 704 749				
Expenditure									
Employee Related Costs	(113 787 000)	1 814 000	(111 973 000)	(119 493 189)	(7 520 189)				Municipality filled some of the vacant posts in 2014-2015
Remuneration of councillors	(10 447 000)	3 000 000	(7 447 000)	(6 721 030)	725 970				During April and May 2015 some of the municipal councillors allowances were terminated
Depreciation and amortisation	(23 118 000)	-	(23 118 000)	(27 988 146)	(4 870 146)				Capital expenditure increased in the current year.
Debt Impairments	(36 366 000)	18 000 000	(18 366 000)	(17 354 855)	1 011 145				More payments from debtors were received during the year resulting in lower impairment.
Finance costs	(150 000)	(150 000)	(300 000)	(999 738)	(699 738)				Finance cost were paid as per amortisation table from DBSA.
Repairs and maintenance	(12 863 000)	(5 397 000)	(18 260 000)	(34 942 588)	(16 682 588)				Inflation related charges and depreciation of asset resulting in more maintenance charges but the municipality tried to keep as cost low as possible
Bulk purchases	(56 600 000)	(4 000 000)	(60 600 000)	(69 403 132)	(8 803 132)				Inflation related charges and bulk charges but the municipality tried to keep as cost low as possible
Contracted Services	(31 783 000)	(3 010 000)	(34 793 000)	(30 482 859)	4 310 141				Contract with First Auto was terminated before the end of the Financial year.
Grants and Subsidies Paid	(3 625 000)	-	(3 625 000)	-	3 625 000				
General Expenses	(32 211 000)	(1 904 000)	(34 115 000)	(80 575 190)	(46 460 190)				The municipality had to increase water supply to Mtubatuba Water Treatment works by drilling new borholes in the vicinity of the plant. We had also to supply water using water tankers .
Total expenditure	(320 950 000)	8 353 000	(312 597 000)	(387 960 727)	(75 363 727)				
(Surplus)/Deficit				1 000	(23 907 000)	(23 906 000)	44 435 022	68 341 022	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement				1 000	(23 907 000)	(23 906 000)	44 435 022	68 341 022	

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Comments
Figures in Rand						
Capital expenditure for the year ended 30 June 2014						
Capital Expenditure	206 285 000	8 000 000	214 285 000	263 819 189	49 534 189	Projects still committed and rolled over to the next year.
NET ASSETS	206 285 000	8 000 000	214 285 000	263 819 189	49 534 189	

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

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 (Act 56 of 2003).

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

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

Standard of GRAP

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash flow statements
GRAP 3	Accounting policies, changes in accounting estimates and errors
GRAP 5	Borrowing costs
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after reporting date
GRAP 17	Property, plant and equipment
GRAP 19	Provisions, contingent liabilities and contingent assets
GRAP 21	Impairment of non cash generating assets
GRAP 23	Revenue from non-exchange transactions
GRAP 24	Presentation of budget information in financial statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of cash-generating assets
GRAP 27	Agriculture
GRAP 31	Intangible Assets
GRAP 104	Financial instruments
GRAP 102	Intangible Assets

The accounting policies applied are consistent with those used to present the previous year's annual financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been nearly adopted by the Municipality:

Standard of GRAP

		Qualitative Impact	Quantitative Impact
GRAP 18	Segment Reporting	None	None
GRAP 20	Related party Disclosures	None	None
GRAP 32	Service Concession Arrangements: Grantor	None	None
GRAP 105	Transfers of functions between entities under common control	None	None
GRAP 106	Transfer of functions between entities not under common control	None	None
GRAP 107	Mergers	None	None
GRAP 108	Statutory Receivables	None	None
IGRAP 1	Applying the Probability Test on Initial Recognition of Revenue	None	None
IGRAP 16	Website Costs	None	None

1.1 Presentation currency

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

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

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 may be 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:

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

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments 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 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.

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 13 - Provisions.

1.4 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.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as 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 are depreciated on the straight line basis over their expected useful lives to their estimated residual values.

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

Land shall be recorded in the municipality's fixed asset register at is carried at cost

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

Item	Average useful life
Infrastructure	
• Electricity	25 – 50
• Water	25 – 55
• Sewerage	25 – 60
Community	
• Buildings	30
• Airport	20
• Security measures	5
Intangible Assets	
• Computer software	3 – 5
Other Assets	
• Emergency equipment	15
• Furniture and fittings	7 - 10
• Computer equipment	5
• Motor vehicles	7 - 10
• Plant and equipment	2 -10
• Office equipment	5
• Office machines	3 - 5
• Telecommunication	5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.4 Property, plant and equipment (continued)

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Intangible assets

Intangible assets are initially recognised at cost.

- 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 amortises all its intangible assets and none of these assets are regarded as having indefinite useful lives.

The useful lives of the intangible assets remain unchanged from the previous year.

No impairment losses have been recognized on the intangible of the municipality at the reporting date.

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

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	Useful life
Computer software	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.6 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.

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Accounting Policies

1.6 Financial instruments (continued)

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.

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

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

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

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

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

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

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

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

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

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

- 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.

UMKHANYAKUDE DISTRICT MUNICIPALITY

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1.6 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
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	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
Trade and other payables from exchange transactions	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.

Initial measurement of financial assets and financial liabilities

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

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Accounting Policies

1.6 Financial instruments (continued)

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.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

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

Financial liabilities

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

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

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Accounting Policies

1.6 Financial instruments (continued)

Presentation

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

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

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

Receivables from trade transactions

Trade receivables are measured at fair value and interest is charged on outstanding balances, resultantly no discounting is done.

Payables from exchange transactions

Trade payables are measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a non-amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.7 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.

Finance leases - lessee

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

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

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

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.

1.8 Inventory

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.

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Accounting Policies

1.8 Inventory (continued)

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

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

When inventory are sold, the carrying amounts of those inventory 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 inventory to net realisable value or current replacement cost and all losses of inventory are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventory, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

As at 30 June 2015 the municipality have inventory comprised of materials (i.e. water pipes not underground as yet); and water (i.e quantity of water on hand as at 30 June 2015).

1.9 Impairment of assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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

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

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:

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

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 test 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.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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.

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.

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

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:

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

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

After a reversal of an impairment loss is recognised, 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.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.11 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Pension Obligations

Umkhanyakude District Council and its employees contribute to the Natal Joint Municipal Pension Fund, Kwazulu-Natal Joint Municipal Provident Fund and GEPF which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No.24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956 Current contributions are charged against operating income on the basis of current service costs.

1.12 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.

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 deficits.

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.

1.13 Commitments

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

Disclosures are required in respect of unrecognised contractual commitments.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Accounting Policies

1.13 Commitments (continued)

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

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

1.14 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.

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.

Rendering of services

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

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

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

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

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.

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 arises 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.

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

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

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1.15 Revenue from non-exchange transactions (continued)

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

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 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits 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, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in the Statement Of Financial Performance as expenses.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Cost of sales (continued)

Contracted service costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis.

1.17 Investment income

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

1.18 Borrowing costs

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

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale.

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

1.19 Comparative figures

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

1.20 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.

1.21 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.

1.22 Irregular expenditure

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

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

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

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Accounting Policies

1.22 Irregular expenditure (continued)

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

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

1.23 Expenditure

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets.

An expense is recognised in the municipality's Statement of Financial Performance when, and only when, the following criteria are satisfied:

- The cost or value may involve estimation. Where an item possesses the essential characteristics of an expense but fails to meet the criteria for recognition it is disclosed in the note; and
- All expenditure has been dealt with in terms of the above definition and recognition criteria.

Where an outflow of economic benefits does not result in future benefits, it is disclosed as fruitless and wasteful expenditure. The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense. Where future economic benefits are consumed immediately or soon after acquisition, for example, repairs and maintenance expenditure, bulk purchases and general expenses, the expense is recognised in the reporting period in which the acquisition of the future economic benefit occurs. Where future economic benefits are expected to be consumed over several reporting periods e.g. non-current assets, expenses (depreciation) is allocated systematically to the reporting period during which the future economic benefits are expected to be consumed; where expenditure produces no future economic benefits e.g. fines paid, an expense is recognised immediately; and where a liability is incurred without the recognition of an asset an expense is recognised simultaneously with the recognition of the liability.

Generally, expenses are accounted for on an accrual basis at fair value. Under the accrual basis of accounting expenses are recognised when incurred usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

Major expenses include:

- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value.
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance.
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk electricity;
- Contracted services – included are debt collection costs, data cleansing costs, service level agreement costs, property valuation roll and asset register verification costs, software support costs and security services costs.
- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several expense items which are not individually significant.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

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1.25 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.26 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.27 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.

General purpose financial reporting by municipalities 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 functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 July 2014 to 30 June 2015.

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.

1.28 Related parties

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

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

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.

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

1.29 Changes accounting estimates and judgements

The municipality makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Assets Useful Lives

Plant and equipment is depreciated over its useful life. The actual useful lives of the assets are assessed annually and vary depending on a number of factors. In reassessing the assets' useful lives, factors such as technological innovation and maintenance programmes are taken into account.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.30 Presentation of currency

These annual financial statements are presented in South African Rand.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
2. INVENTORIES		
Materials	86 736 472	86 736 472
Water	248 081	105 153
	86 984 553	86 841 625
Inventories recognised as an expense during the year	-	-
Inventories recognised as an expense excludes materials purchased for immediate use.		
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Gross balances		
Electricity	3 723 192	2 812 135
Water	157 232 907	147 479 800
Sewerage	12 237 191	9 236 273
	173 193 290	159 528 208
Less: Allowance for impairment		
Electricity	(2 852 688)	(2 559 252)
Water	(156 510 502)	(140 411 354)
Sewerage	(9 354 874)	(8 392 603)
	(168 718 064)	(151 363 209)
Net balance		
Electricity	870 504	252 883
Water	722 405	7 068 446
Sewerage	2 880 771	843 670
Debtors Prepayments	-	5 405 788
	4 473 680	13 570 787
Electricity, Water and Sewerage: Ageing		
Current (0 -30 days)	2 549 248	2 341 488
31 - 60 days	5 818 749	5 344 529
61 - 90 days	6 626 549	6 086 495
91 - 120 days	3 806 413	3 496 196
121+ days	154 392 251	141 809 502
	173 193 210	159 078 210
Electricity		
Current (0 -30 days)	325 223	245 642
31 - 60 days	102 783	77 632
61 - 90 days	102 967	77 771
91 - 120 days	51 894	39 196
121+ days	3 140 325	2 371 894
	3 723 192	2 812 135
Water		
Current (0 -30 days)	1 016 006	950 076
31 - 60 days	5 559 354	5 198 598
61 - 90 days	6 356 005	5 943 553
91 - 120 days	3 626 444	3 391 118
121+ days	140 675 098	131 546 457
	157 232 907	147 029 802

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)		
Sewerage		
Current (0 -30 days)	545 778	411 559
31 - 60 days	90 486	68 299
61 - 90 days	86 342	65 171
91 - 120 days	87 284	65 882
121+ days	11 427 302	8 625 362
	12 237 192	9 236 273

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	402 660	402 660
31 - 60 days	2 720 391	2 720 391
61 - 90 days	1 623 174	1 623 174
91 - 120 days	1 541 191	1 541 191
121+ days	124 647 993	124 647 993
	<u>130 935 409</u>	<u>130 935 409</u>
Less: Allowance for impairment	(130 589 301)	(130 589 301)
	<u>346 108</u>	<u>346 108</u>
Industrial/ commercial		
Current (0 -30 days)	(465 851)	(465 851)
31 - 60 days	1 566 808	1 566 808
61 - 90 days	338 420	338 420
91 - 120 days	257 021	257 021
121+ days	19 934 780	19 934 780
	<u>21 631 178</u>	<u>21 631 178</u>
Less: Allowance for impairment	(20 773 908)	(20 773 908)
	<u>857 270</u>	<u>857 270</u>
National and provincial government		
Current (0 -30 days)	326 946	326 946
31 - 60 days	1 309 942	1 309 942
61 - 90 days	409 934	409 934
91 - 120 days	600 398	600 398
121+ days	3 864 403	3 864 403
	<u>6 511 623</u>	<u>6 511 623</u>
Total Debtors		
Current (0 -30 days)	2 341 488	2 341 488
31 - 60 days	5 344 529	5 344 529
61 - 90 days	6 086 495	6 086 495
91 - 120 days	3 496 196	3 496 196
121+ days	146 696 676	141 809 502
	<u>163 965 384</u>	<u>159 078 210</u>
Less: Allowance for impairment		
Current (0 -30 days)	(1 999 763)	(1 999 763)
31 - 60 days	(2 162 195)	(2 162 195)
61 - 90 days	(1 895 553)	(1 895 553)
91 - 120 days	(3 496 196)	(3 496 196)
121+ days	(141 809 502)	(141 809 502)
	<u>(151 363 209)</u>	<u>(151 363 209)</u>
Total		
Current (0 -30 days)	504 087	341 725
31 - 60 days	5 166 892	3 182 334
61 - 90 days	6 931 196	4 190 934
	<u>12 602 175</u>	<u>7 714 993</u>

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	135 991 650	135 991 650
Contributions to allowance	31 083 436	31 083 436
Debt impairment written off against allowance	(15 711 876)	(15 711 876)
	151 363 210	151 363 210

Receivables from exchange past due not impaired

Consumer debtors which are less than 3 months past due (2014) 1 month past due (2013) are not considered to be impaired. At 31 December 2014, R 12 602 175 (2014: R 7 714 993) were past due but not impaired.

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

1 month past due	504 087	341 725
2 months past due	5 166 892	3 182 334
3 months past due	6 931 196	4 190 934

Receivables from exchange impaired

As of 30 June 2015, consumer debtors of R 173 227 881.56 - (2014: R 150 028 774) were impaired and provided for.

4. Other receivables from exchange transactions

Avis loan - Mthombeni LM	242 792	242 792
Debtor Fraud	3 805 917	3 805 917
Debtor Shemula	2 730	2 730
Loan to Umhlabuyalingana	108 762	108 762
Ocliwane Water	1 553 317	1 553 317
Debtor Shemula	1 457 047	1 222 797
Pre - Paid Expense	7 856 696	9 166 503
Other Debtors	1 166 289	1 166 289
Housing loans	4 022 951	4 022 951
Sundry Debtors - Umhlathuze Water	345 633	345 633
Vehicle Loans	69 939	69 939
Provision for Bad Debts	(19 285 059)	(19 285 059)
	1 347 014	2 422 571

Concessionary Loans

Vehicle Loan

A vehicle was bought by the municipality on behalf of a councillor. The agreement was the instalment would be deducted on the salary. Mr Sibanda failed to settle the balance of R69 939.34 that is still reflecting in the municipality's financial statements. The outstanding amount has been fully provided.

Avis Loan LM Mthombeni

A vehicle was bought by the municipality on behalf of a councillor. The agreement was the instalment would be deducted on the salary. Mr LM Mthombeni failed to settle the balance of R242 792 that is still reflecting in the municipality's financial statements. The outstanding amount has been fully provided.

Other Loan Disclosure

Other receivables from exchange transactions

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

	2015	2014
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4. Other receivables from exchange transactions (continued)

The loan was granted by the UMkhanyakude council to UMhlabuyalinga Local Municipality under the local authorities loan fund act, 1984 act no 67 of 1984. This was granted for the period of two years starting on the 02/12/2009 to the 30/11/2011. The loan was granted for the purpose of re-instatement of Disaster services contract. The capital portion of the loan from time to time will bear interest at the prime bank rate. The balance of R 108 672 disclosed in the financial statement of UMkhanyakude is the interest portion that has been carried forward for the past five years where as the capital portion was settled at prescribed period of time.

5. VAT receivable

VAT	24 081 615	28 012 670
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VAT claimed to SARS is on payments basis. Amount claimable to SARS is disclosed in the VAT control account where the VAT 201s and VAT refunds are offset and the amount due or payable to SARS is disclosed.

VAT Input Accrual represents VAT that is receivable that accrued during the period and is transferred to the VAT control account once a VAT 201 is raised and submitted to SARS. VAT Output Accrual represents VAT payable accrued during the period and is transferred to the VAT control account once a VAT 201 is raised and submitted to SARS which is VAT payable.

VAT

VAT Control	19 311 550	25 820 959
Vat Input Accrual	14 422 421	9 652 186
VAT Output Accrual	(9 137 056)	(7 460 474)
Vat Output Debtors	(515 301)	-
	<u>24 081 614</u>	<u>28 012 671</u>

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	38 821	19 494
Bank balances	12 157 560	10 709 113
Other cash and cash equivalents	500 032	649 469
	<u>12 696 413</u>	<u>11 378 076</u>

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand 2015 2014

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
ABSA BANK - Mkuze Branch Account Number : 4053107423	9 990 451	6 845 143	154 281	9 990 451	6 845 143	154 281
First National Bank - Mkuze Branch Account Number : 62026865321	1 264 063	2 747 271	10 432 174	1 264 063	2 747 271	10 432 174
First National Bank - Mkuze Branch Account Number : 62092993809	261 126	539 141	520 440	261 126	539 141	520 440
First National Bank - Mkuze Branch Account Number : 62027696478	86 976	84 366	82 207	86 976	84 366	82 207
Nedbank Fixed Deposit - Branch Account Number 7881085762	-	-	96 627 046	-	-	96 627 046
Ithala Bank - Mkuze Branch Account Number - 23247671	541 799	480 047	411 844	541 799	480 047	411 844
ABSA BANK - Call Account Number : 91-1531-5268	469 586	380 805	346 989	469 586	380 805	346 989
First National Bank - Call Account Number : 62309788498	2 213	240 848	2 879 352	2 213	240 848	2 879 352
FNB Business Fixed Maturity - 74298425031	-	-	30 261 370	-	-	30 261 370
FNB Money Market Transactor - 62263733258	28 233	27 816	27 542	28 233	27 816	27 542
Total	12 644 447	11 345 437	141 743 245	12 644 447	11 345 437	141 743 245

7. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	35 875 018	(10 210 183)	25 664 835	35 875 018	(8 893 115)	26 981 903
Infrastructure	749 140 835	(102 458 122)	646 682 713	748 837 733	(80 901 632)	667 936 101
Other property, plant and equipment	44 964 010	(19 131 308)	25 832 702	36 786 340	(14 466 635)	22 319 705
Assets Under Construction	874 275 790	-	874 275 790	755 422 685	-	755 422 685
Leased Assets	2 995 329	(1 348 523)	1 646 806	1 737 323	(714 678)	1 022 645
Total	1 708 408 232	(133 148 136)	1 575 260 096	1 579 816 349	(104 976 060)	1 474 840 289

Fixed assets register is held at the municipal premises (refer to Appendix B for more detail on property, plant and equipment).

During 2013/14 financial year, the following assets were not found during the physical verification exercise which were subsequently written-off and removed from our fixed assets register and property, plant and equipment:

Infrastructure Assets	-	1 410 221
Movable	-	403 801
	-	1 814 022

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
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7. Property, plant and equipment (continued)

There is a Council Resolution in this regard.

During physical verification of fixed assets exercise for 2013/14 financial year, movable and immovable assets amounted to R5 310 405.16 were discovered on site and included in the fixed assets register and property, plant and equipment at fair value by Council Resolution. Subsequently, the fair value adjustment was processed as income in the Statement of Financial Performance.

Change in Accounting Estimate

GRAP17: Property, Plant and Equipment requires that the review of the remaining useful life of an item of property, plant and equipment to be conducted at least each financial year end. Such review has been completed and the following results were achieved:

Based on the condition assessment carried out during the physical verification, the remaining useful lives of 14 237 assets were adjusted in accordance with the "Local Government Capital Asset Management Guideline" as issued by National Treasury.

The impact of the adjustment is that depreciation charges on Property, Plant and Equipment during the 2014 financial period has increased by R5,268,449.25 from R20,508,004.00 to R25,776,453.26, should circumstances remain unchanged, the effect on future period's depreciation will be an estimated increase of R5,268,449.25 per annum.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2015

	Opening balance	Additions	Newly identified assets at fair value	Transfers received	Depreciation	Impairment loss	Total
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	26 981 903	-	-	-	(1 315 384)	(1 684)	25 664 835
Infrastructure	667 936 101	-	3 105	-	(20 646 017)	(610 475)	646 822 714
Other property, plant and equipment	22 319 705	7 235 463	696 547	245 659	(4 521 071)	(143 601)	25 832 702
Assets Under Construction	755 422 685	119 098 764	-	(245 659)	-	-	874 275 790
Leased Assets	1 022 646	1 258 005	-	-	(633 846)	-	1 646 805
	1 474 840 290	127 592 232	699 652	-	(27 116 318)	(755 760)	1 575 260 096

Reconciliation of property, plant and equipment - 30 June 2014

	Opening balance	Additions	Newly identified assets at fair value	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	1 157 250	-	-	-	-	-	-	1 157 250
Buildings	28 384 113	-	-	(2 574)	-	(1 351 927)	(47 709)	26 981 903
Infrastructure	681 742 840	-	-	(730 943)	9 647 734	(20 680 219)	(2 043 311)	667 936 101
Other property, plant and equipment	20 062 484	4 805 166	1 239 371	(154 011)	-	(3 490 058)	(143 247)	22 319 705
Assets Under Construction	509 882 714	255 187 705	-	-	(9 647 734)	-	-	755 422 685
Leased Assets	337 158	1 042 917	-	(103 179)	-	(254 250)	-	1 022 646
	1 241 566 559	261 035 788	1 239 371	(990 707)	-	(25 776 454)	(2 234 267)	1 474 840 290

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand 2015 2014

8. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	735 228	(223 666)	511 562	434 957	(107 600)	327 357

Reconciliation of intangible assets - 30 June 2015

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

Reconciliation of intangible assets - 30 June 2014

	Opening balance	Additions	Amortisation	Total
Computer software	29 626	397 523	(99 792)	327 357

9. Other financial liabilities

At amortised cost

Other financial liabilities	(507 954)	431 638
Debtors Prepayments	-	5 405 788
Other Accruals	5 669 418	3 844 677
Total other financial liabilities	5 161 464	9 682 103

Current liabilities

Other Financial Liabilities	5 161 463	9 682 103
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10. Trade and other payables from exchange transactions

Trade creditors	123 359 536	86 006 758
Accrued expenses	-	192 803
13th Cheque Accrual	2 792 236	2 371 083
Leave Pay Accrual	10 519 441	10 065 916
Retentions	21 292 729	23 175 868
Total creditors	157 963 942	121 812 428

The fair value of trade and other payables approximate their carrying amounts.

11. Consumer deposits

Electricity and Water	1 970 982	1 844 883
Unallocated Deposits	17 163	17 163
Total consumer deposits	1 988 145	1 862 046

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
12. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Councillors Training	11 300	11 300
Disaster Management	9 120	-
Environmental Management Grant	405 600	405 600
Expanded Public Works Programme (EPWP)	2 082 000	2 164 094
Ingwavuma	101 506	101 506
Kwadapha	578 891	578 891
Kwazibi National Lottery	122 667	122 667
Lake Tete	267 001	267 001
Mabibi National Lottery	166 667	166 667
Massification Grant	4 172 492	4 172 492
MIG Reserves	12 274 058	-
Municipal Water Infrastructure Grant	-	1 562 945
Mqobela National Lottery	166 666	166 666
Ndumo Groundnuts	749 347	749 347
Ndumo Learners Shelter	9 441 505	9 441 505
Nyezi Community HIV Centre	303 570	303 570
Other	1 224 658	254 290
PIMMS/ NDT Operational	300	300
Public Participation Customer Satisfaction Survey	154 000	750 000
Rural Transport Infrastructure and System Grant	4 695	-
Shared Services Grant	250 000	-
Umkhombe Tours	908 690	908 690
Waste Management	145 565	145 565
	33 540 298	22 273 096

Cash backing of 2013/14 conditional grants

Grant funds used for other purposes:	-	-
Kwadhapha	-	578 891
Lake Tete	-	267 001
Nyezi Community HIV Centre	-	303 750
Umkhombe	-	908 690
Retentions raised during the year	-	8 538 474
	-	10 596 806

During the financial year 2013/2014, the municipality had retentions amounting to R8 538 473.79 which will be settled in the next year when they are due.

Grants valued at R2 058 152 disclosed in 2013/14 above were not used for intended purposes in the previous years and an investigation is in progress and the findings will be tabled to Council.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand 2015 2014

13. Non - current provisions

Reconciliation of non - current provisions - 30 June 2015

	Opening Balance	Additions	Reversed during the year	Reduction due to re-measurement	Total
Transfer to Current Portion of Long Service Award	109 013	-	-	(1 013)	108 000
Provision for long service awards	4 079 987	1 018 000	(320 000)	1 013	4 779 000
	4 189 000	1 018 000	(320 000)	-	4 887 000

Reconciliation of non - current provisions - 30 June 2014

	Opening Balance	Additions	Reversed during the year	Total
Transfer to Current Portion of Long Service Award	210 326	-	(101 313)	109 013
Non-Current Provision for long service awards	3 259 674	1 030 639	(210 326)	4 079 987
	3 470 000	1 030 639	(311 639)	4 189 000

Long Service Awards

The municipality carries out a statutory valuation on an annual basis. ZAQEN Actuaries (Pty) Ltd performed an actuarial valuation of the liability in respect of the long service awards for the financial year ended 30 June 2015. The previous valuation was conducted by ZAQEN Actuaries (Pty) Ltd again as at 30 June 2014. The principal actuarial assumptions were used as follows:

Membership Data

According to the information provided, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of Active Employees	Salary Weighted average age (Years)	Salary Weighted past service (Years)
Male	242	43.31	6.45
Female	71	38.36	6.51
Total	313		

Long service Awards Liabilities

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

Completed Years of Service	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10	4%	(10/250)*Annual Salary
15	8%	(20/250)*Annual Salary
20,25,30,35,40 and 45	12%	(30/250)*Annual Salary

Valuation Assumptions - Key Financial Variables

Assumed value 30 June 2015 (Current Valuation)	Assumed value 30 June 2014 (Preceding Valuation)
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UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
13. Non - current provisions (continued)		
Discount rate per annum	Yield Curve	7.96%
CPI (Consumer Price Inflation)	Difference between the nominal and real yield curve	6.33%
Normal Salary Increase	Equal to CPI + 1%	7.33%
Net Effective Discount Rate	Yield Curve Based**	0.59%
Examples of mortality rates used were as follows:		
Average retirement age	63	63
Mortality during employment	SA 85-90	SA 85-90
Members withdrawn from services: (Average for males and females)		
Age 20 - 24	20%	20%
Age 25 - 29	15%	15%
Age 30 - 34	12.5%	12.5%
Age 35 - 39	9%	9%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 -59	1%	1%
Age 60+	0%	0%

The amounts recognised in the Statement of Financial Position were determined as follows:

Present value of funded obligations	4 887 000	4 189 000
Fair value of plan assets	-	-
Liability in the Statement of Financial Position	4 887 000	4 189 000

Movements in the defined benefit obligation is as follows:

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

Changes in the value of the obligation:

	Current Valuation Date 30 June 2015	Preceding Valuation Date 30 June 2015
PV of the obligation as at the previous valuation date	4 189 000	3 470 000
Current service Cost	662 000	846 000
Interest cost	350 000	-
Benefit payments	(320 000)	(210 326)
Actuarial (gains)/losses	6 000	83 326
Balance at end of year	4 887 000	4 189 000

In conclusion:

If we assume that the long service award benefit policy of the Municipality remains unchanged over the next 36 months, a projection of the Municipality's unfunded accrued liability and future service cost can be seen as follows:

Statement of Financial Position obligation for:

Long Service Award	4 887 000	4 189 000
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Statement of Financial performance obligation for:

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
13. Non - current provisions (continued)		
Long Service Award (Loss/ Gain)	6 000	83 326
14. Non - current borrowings		
DBSA Loans		
Opening Balance	9 737 748	10 553 559
Amount Due	734 088	713 756
Amount Paid	(1 571 755)	(1 529 567)
	8 900 081	9 737 748
Statement of Financial Performance		
Non-current portion of borrowings	7 400 108	8 180 507
Current portion of borrowings	1 499 973	1 557 241
	8 900 081	9 737 748

The loans from Development Bank South Africa are subject to interest at the average rate of 6.75% and are repayable over an average period of 13 years.

The municipality has not defaulted on its loan repayments and therefore there are no arrears in the DBSA loan accounts. The following is the status of the account as at 30 June 2015.

Loan Number	61000800
Original Loan Amount	R 47 000 000.00
Redemption date	30/09/2025
Period	15 years
Repayment Method	Equal Installments
Interest Repayment Frequency	6 months
Capital Repayment Frequency	6 months
Capital Balance (including interest capitalised)	R 1 225 735.99
Loan interest	R 20 627.63
Total Debt to DBSA	R 1 246 363.62

Loan Number	61000191
Original Loan Amount	R 14 996 798.00
Redemption date	30/03/2025
Period	20 years
Repayment Method	Equal Installments
Interest Repayment Frequency	6 months
Capital Repayment Frequency	6 months
Capital Balance (including interest capitalised)	R 7 498 399.00
Loan interest	R 155 315.06
Total Debt to DBSA	R 7 653 714.06

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

	2015	2014
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15. Non-current finance lease liability

30 June 2015	Minimum lease payments	Future Finance Charges	Present Value of minimum lease payments
Within one year	997 212	(100 020)	897 192
Within two to five years	697 747	(68 890)	628 857
	1 694 959	(168 910)	1 526 049

The average lease term is 3 years and the fixed borrowing rate is 15% (2015) 15% (2014). Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

30 June 2014	Minimum lease payments	Future Finance Charges	Present Value of minimum lease payments
Within one year	521 412	(62 580)	458 832
Within two to five years	448 753	(23 560)	425 193
	970 165	(86 140)	884 025

16. Service charges

Sale of electricity	5 255 863	5 669 415
Sale of water	19 874 054	36 646 758
Sewerage and sanitation charges	847 830	1 257 014
Total Services Charges	25 977 747	43 573 187

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
17. Government grants and subsidies		
Operating grants		
Equitable share	226 251 945	193 756 000
Rural Road & Transport Management	1 325 360	2 100 708
EPWP	1 208 094	-
Public Participation & Customer Survey	596 000	-
Rural Households Infrastructure Grant	3 996 002	3 996 002
ACIP	721 113	4 383 990
Disaster Management Grant	990 880	4 790 878
Mbazwana Thusong Centre	148 271	-
FMG	1 250 000	1 250 000
MSIG	934 000	890 000
Other Grants	-	69 421 304
	<u>237 421 665</u>	<u>280 588 882</u>
Capital grants		
MIG	153 745 942	233 214 362
	<u>153 745 942</u>	<u>233 214 362</u>
	<u>391 167 607</u>	<u>513 803 244</u>
Additional disclosure has been made for other grants in the current and prior financial year.		
Public Participation & Customer Satisfaction Survey		
Balance unspent at beginning of year	(750 000)	-
Current-year receipts	-	(750 000)
Conditions met - transferred to revenue	596 000	-
	<u>(154 000)</u>	<u>(750 000)</u>
PIMMS / NDT Operational		
Balance unspent at beginning of year	(300)	(300)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>(300)</u>	<u>(300)</u>
FMG		
Current-year receipts	(1 250 000)	(1 250 000)
Conditions met - transferred to revenue	1 250 000	1 250 000
	<u>-</u>	<u>-</u>
Capacity Building:Asset Management		
Balance unspent at beginning of year	-	(153 813)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	153 813
	<u>-</u>	<u>-</u>
Massification Grant		
Balance unspent at beginning of year	(4 172 492)	(18 043 888)
Conditions met - transferred to revenue	-	13 871 396
	<u>(4 172 492)</u>	<u>(4 172 492)</u>

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
17. Government grants and subsidies (continued)		
Debt Management Grant		
Balance unspent at beginning of year	-	(420 908)
Conditions met - transferred to revenue	-	420 908
	<u>-</u>	<u>-</u>
Umnqobokazi		
Balance unspent at beginning of year	-	(258 244)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	258 244
	<u>-</u>	<u>-</u>
Kwazibi National Lottery		
Balance unspent at beginning of year	(122 667)	(122 667)
Mqobela National Lottery		
Balance unspent at beginning of year	(166 666)	(166 666)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>(166 666)</u>	<u>(166 666)</u>
Mabibi National Lottery		
Balance unspent at beginning of year	(166 667)	(166 667)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>(166 667)</u>	<u>(166 667)</u>
Mtuba Water Conservation and Demand Management		
Balance unspent at beginning of year	-	(524 309)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	524 309
	<u>-</u>	<u>-</u>
Kwazibi Water Purification		
Balance unspent at beginning of year	-	(915 000)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	915 000
	<u>-</u>	<u>-</u>
Kwajobe Cezwane Water Purification		
Balance unspent at beginning of year	-	(787 880)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	787 880
	<u>-</u>	<u>-</u>

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
17. Government grants and subsidies (continued)		
Kwajobe Nongowoza Water Purification		
Balance unspent at beginning of year	-	(915 000)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	915 000
	<u>-</u>	<u>-</u>
Bazaneni River Water Purification		
Balance unspent at beginning of year	-	(756 400)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	756 400
	<u>-</u>	<u>-</u>
Disaster Management		
Balance unspent at beginning of year	-	(4 790 878)
Current-year receipts	(1 000 000)	-
Expenditure claimed in accordance with grant conditions	990 880	4 790 878
	<u>(9 120)</u>	<u>-</u>
Growth and Development Summit Grant		
Balance unspent at beginning of year	-	(458 944)
Conditions met - transferred to revenue	-	458 944
	<u>-</u>	<u>-</u>
Corridor Development		
Balance unspent at beginning of year	-	(269 717)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	269 717
	<u>-</u>	<u>-</u>
MSIG		
Current-year receipts	(934 000)	(890 000)
Conditions met - transferred to revenue	934 000	890 000
	<u>-</u>	<u>-</u>
Intergovernmental Relations Implementation Grant		
Balance unspent at beginning of year	-	(77 520)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	77 520
	<u>-</u>	<u>-</u>
Ndumo Groundnuts		
Balance unspent at beginning of year	(749 347)	(2 000 000)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	1 250 653
	<u>-</u>	<u>-</u>

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
17. Government grants and subsidies (continued)		
	(749 347)	(749 347)
Expanded Public Works Programme (EPWP)		
Balance unspent at beginning of year	(2 164 094)	(1 164 094)
Current-year receipts	(1 126 000)	(1 000 000)
Conditions met - transferred to revenue	1 208 094	-
	(2 082 000)	(2 164 094)
Lake Tete		
Balance unspent at beginning of year	(267 001)	(267 001)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	(267 001)	(267 001)
Kwadapha		
Balance unspent at beginning of year	(578 891)	(578 891)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	(578 891)	(578 891)
Nyezi Community Hiv Centre		
Balance unspent at beginning of year	(303 570)	(303 570)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	(303 570)	(303 570)
Umkhombe Tours		
Balance unspent at beginning of year	(908 690)	(908 690)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	(908 690)	(908 690)
Waste Management Grant		
Balance unspent at beginning of year	(145 565)	(145 565)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	(145 565)	(145 565)
Environmental Management Grant		
Balance unspent at beginning of year	(405 600)	(800 268)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	394 668
	(405 600)	(405 600)
Rural Transport Infrastructure and System Grant		

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
17. Government grants and subsidies (continued)		
Balance unspent at beginning of year	(291)	-
Current-year receipts	(2 440 000)	(2 101 000)
Conditions met - transferred to revenue	1 325 360	2 100 709
	(1 114 931)	(291)
Municipal Government Administration		
Balance unspent at beginning of year	-	(800 000)
Conditions met - transferred to revenue	-	-
Amount recalled by National Treasury	-	800 000
	-	-
Ndumo Learners Shelter		
Balance unspent at beginning of year	(9 441 505)	(19 473 271)
Conditions met - transferred to revenue	-	10 031 766
	(9 441 505)	(9 441 505)
MIG Grant		
Balance unspent at beginning of year	-	(17 917 372)
Current-year receipts	(166 020 000)	(215 297 000)
Conditions met - transferred to revenue	153 745 942	233 214 372
	(12 274 058)	-
Councillors Training		
Balance unspent at beginning of year	(11 300)	(200 000)
Conditions met - transferred to revenue	-	188 700
	(11 300)	(11 300)
Ingwavuma Prison Electrical Upgrade		
Balance unspent at beginning of year	(101 506)	(941 043)
Conditions met - transferred to revenue	-	839 537
	(101 506)	(101 506)
Municipal Water Infrastructure Grant		
Balance unspent at beginning of year	(1 562 945)	-
Current-year receipts	-	(27 074 001)
Conditions met - transferred to revenue	1 562 945	25 511 056
	-	(1 562 945)
Mtuba Bulk Water Supply		
Balance unspent at beginning of year	-	(13 197)
Conditions met - transferred to revenue	-	13 197
	-	-
Other Unspent Conditional Grants		
Balance unspent at beginning of year	(253 998)	(911 670)

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
17. Government grants and subsidies (continued)		
Current-year receipts		
Mbazwana Tusong Centre	-	(250 000)
Rural Households Infrastructure Grant	(4 000 000)	(3 998)
Shared Services Grant	(250 000)	-
ACIP Grant	(725 808)	-
Small Town Rehabilitation Grant	(4 800 000)	-
Conditions met - transferred to revenue		911 670
Mbazwana Tusong Centre	148 271	-
Rural Households Infrastructure Grant	3 996 002	-
ACIP Grant	721 113	-
Small Town Rehabilitation Grant	4 800 000	-
	(364 420)	(253 998)

Small Town Rehabilitation Grant amounting to R4 800 000 was transferred to Umhlosinga Development Agency.

Total Conditional And Other Grants

Balance unspent at beginning of year	(22 273 096)	(77 201 956)
Current-year receipts	(182 545 807)	(266 017 991)
Conditions met - transferred to revenue	169 715 661	320 146 851
Other Adjustment	1 562 945	800 000
	(33 540 297)	(22 273 096)

Equitable Share

In terms of the Section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it.

The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.

18. Rental of facilities

Rental of Buildings	33 322	106 871
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19. Interest Earned

Investments	100 146	4 495 735
Other Bank Balances	1 277 844	2 212 984
Total interest	1 377 990	6 708 719

20. Interest Earned -Outstanding Receivables

Interest received - outstanding receivables	-	4 462 481
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21. Other income

Connection Fees	30 260	17 665
Department of Water Refund	13 007 834	-
Fair Value Adjustment	699 652	1 239 371
Other income	12 538	708 892
Tender Sales	88 801	69 603
Total Other Income	13 839 085	2 035 531

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
22. Employee related costs		
Employee related costs- Salaries and Wages	90 551 619	81 426 389
Contributions for UIF, pensions and medical aids	16 003 644	14 475 466
Travel, motor car, accommodation, subsistence and other allowances	7 241 633	6 817 552
Housing benefits and allowances	1 495 239	1 159 981
Overtime payments	3 378 864	3 084 406
Other employee related costs	822 190	2 950 845
	119 493 189	109 914 639
Remuneration of Municipal Manager		
Annual Remuneration	727 288	455 885
Travel, motor car, accommodation, subsistence and other allowances	376 254	152 068
Contributions to UIF, Medical and Pension Funds	11 589	6 721
Backpay	-	11 517
Lumpsum Payout	-	820 000
	1 115 131	1 446 191
Remuneration of the Chief Finance Officer		
Annual Remuneration	500 137	449 832
Travel, motor car, accommodation, subsistence and other allowances	649 654	556 935
Contributions to UIF, Medical and Pension Funds	12 258	41 414
Acting Allowance	30 438	-
	1 192 487	1 048 181

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
22. Employee related costs (continued)		
Remuneration of General Manager - Corporate Services		
Annual Remuneration	648 833	587 578
Travel, motor car, accommodation, subsistence and other allowances	354 640	343 688
Contributions to UIF, Medical and Pension Funds	11 070	10 087
Back Pay	-	20 000
Total	1 014 543	961 353
Remuneration of General Manager - Community Services		
Annual Remuneration	771 550	662 285
Travel, motor car, accommodation, subsistence and other allowances	246 944	266 252
Contributions to UIF, Medical and Pension Funds	10 960	10 128
	1 029 454	938 665
Remuneration of General Manager -Technical Services		
Annual Remuneration	658 894	838 723
Travel, motor car, accommodation, subsistence and other allowances	369 376	146 786
Contributions to UIF, Medical and Pension Funds	11 117	10 684
Backpay	-	76 053
	1 039 387	1 072 246
Remuneration of General Manager - Planning & Economic Development (formerly SED)		
Annual Remuneration	705 487	744 630
Travel, motor car, accommodation, subsistence and other allowances	287 287	213 157
Contributions to UIF, Medical and Pension Funds	10 925	10 532
	1 003 699	968 319
23. Bad Debts		
Bad debts written off	-	21 105 575
During the 2014/15 financial there were no debtors written off.		
24. Remuneration of councillors		
Mayor	731 528	512 400
Deputy Mayor	621 714	681 955
Speaker	625 323	717 283
Executive Committee Members	920 667	1 149 637
Councillors	1 444 073	1 774 939
Allowances	2 377 725	2 117 256
	6 721 030	6 953 470

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand 2015 2014

24. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. The Mayor and the Speaker are provided with offices and secretarial support at the cost of the Council.

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

The Deputy Mayor and other Executive Committee Members each have an office and share secretarial support at the cost of the Council.

Only the Mayor has the use of Council owned vehicle for official duties.

The Mayor has two full-time bodyguards and 1 relief bodyguard.

25. Depreciation and amortisation

Property, plant and equipment	27 988 146	28 109 220
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26. Impairment loss/ Reversal of Impairments

Provision For Bad Debts	17 354 855	15 371 559
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27. Finance costs

Current borrowings	999 738	977 908
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28. Repairs and Maintenance

Repairs and Maintenance	34 942 588	36 270 006
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29. Bulk purchases

Electricity	31 572 417	27 593 001
Water	37 830 715	49 976 515
Total Bulk Purchases	69 403 132	77 569 516

Bulk purchases of electricity constitutes electricity purchases for resale as prepaid electricity, own consumption by the municipality for its buildings, offices and water schemes

Bulk purchases of electricity breakdown

Electricity purchases for resale	5 342 285	-
Own consumption	7 212 846	-
Water schemes	25 275 584	-
	37 830 715	-

30. Contracted services

Specialist Services	30 482 859	34 368 877
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Contracted services comprised of specialised services offered to the municipality as follows:

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand	2015	2014
30. Contracted services (continued)		
Insurance	2 541 167	-
Disaster Management	4 216 860	-
Advertisement	249 593	-
Internal Audit	1 111 148	-
Legal Services	200 073	-
Communication	3 863 967	-
Fixed Assets	741 917	-
Vehicle Hire	743 989	-
Cleaning services	66 251	-
Security Services	3 896 216	-
Telephone	1 444 045	-
Cellphones	722 157	-
Motor vehicles maintenance	7 605 134	-
Photocopiers	753 924	-
Information Technology	442 995	-
Debtors Data Cleansing	1 022 840	-
Other services	754 505	-
	30 376 781	-

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
31. General expenses		
Accommodation	2 238 317	2 350 206
Advertisement	50 000	-
Arts & Culture	329 531	451 026
Audit Committee fees	4 572	83 495
Audit Fees	2 497 984	2 841 084
Bank charges	325 860	555 717
Business Development & Support	201 770	946 515
Cleaning	2 169	271 057
Community development and training	163 945	914 056
Consulting and professional fees	3 913 092	6 857 617
Disability	228 445	488 014
Disaster Management	210 250	512 180
Esicabazini Development Youth Academy	-	2 649 745
Fuel and oil	530 438	786 084
Gender, Youth, Children & Senior Citizen	375 416	1 208 438
Hire of Plant & Equipment	22 756 969	23 005 327
HIV & AIDS Prevention	313 789	226 039
Inter-Governmental Relations	-	1 139 925
Internal Audit Fees	168 519	421 125
Licences	611 851	618 929
Other expenses	3 297 412	2 707 674
Mayoral Descretionary Fund	82 423	-
Medical expenses	29 559	67 583
Municipal Health	332 523	500 812
Operation Turn Around	-	2 014 376
Other expenses	34 283 312	16 632 863
Postage and courier	2 650	4 160
Publicity	751 409	5 130 010
Training	470 687	1 325 837
Printing and stationery	175 173	326 769
Sports DC27	4 017 186	3 271 648
Small tools	27 535	65 938
Systems Support	1 249 433	1 916 836
Telephone and fax	14 707	202 398
Transport and freight	540	-
Team Building	-	91 248
Tourism Projects	890 556	816 703
Uniforms	27 168	173 537
VIP Toilets	-	51 258 544
Water Operations Subsidy	-	6 940 242
	80 575 190	139 773 757

Further disclosure was made for other expenses line note as a result the prior balances were restated.

Additional disclosure on the nature of expenses reported above are as follows:

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Notes to the Annual Financial Statements

Figures in Rand	2015	2014
31. General expenses (continued)		
Accommodation - Relates to hotel bookings and meals for municipal officials on municipality business.		
Advertisements - Communicating to the public on municipal activities which include fighting tenders and reporting financial information.		
Arts and culture - Relates to cultural activities like Amarula Festival and the Royal Reed Dance.		
Audit Committee Fees - Allowances and fees for audit committee members.		
Audit Fees - External audit fees charged.		
Bank Charges - Relates to transactions processing fees for bank accounts held by the municipality.		
Business Development & Support - Relates to set up developmental projects for the benefit of the community.		
Cleaning - Relates to casual cleaning services offered to the municipality.		
Community development and training - Provision of community participation activities.		
Consulting and professional fees - VAT returns and preparation of annual financial statements professional services.		
Disability - Provision of activities for the disabled.		
Disaster Management - Provision of consumables for emergency services.		
Fuel and Oils - Provision of consumables for municipality motor vehicles and generators.		
Gender, Youth, Children & Senior Citizen - Provision of activities to gender, youth, children and senior citizen activities.		
Hire of plant and equipment - Relates to the hire of machinery and motor vehicles to ensure service delivery.		
HIV & AIDS Prevention - Conducting HIV and AIDS workshops and seminars.		
Internal Audit Fees - Related to the provision of internal audit services.		
Licences - Licencing for municipality motor vehicles.		
Other expenses - Bursaries, interview expenses, poverty alleviation, membership fees, council support and GIS expenses.		
Mayoral Discretionary Fund - Mayoral activities that include certification and funeral services.		
Medical Expenses - Medical examinations for municipal employees.		
Municipal Health - Health awareness campaigns and activities.		
Grants and subsidies - Grants and subsidies contributed by the municipality to enhance operations and service delivery and to its entity (Umhloosinga).		
Postage & Courier - Postage and courier of customer statements and municipal correspondence.		
Publicity - Provision of materials for municipal awareness campaigns and activities.		
Sports DC27 - Organizing and sponsoring municipal, inter-municipal and district sports activities.		
Small tools - Purchase of small tools to provide service delivery.		
Systems Support - Sage Evolution support, database and server management, networking and connectivity services.		
Telephone and Fax - Telephone and faxing services provided to the municipality.		
Transport and Freight - Transport and freight charges incurred by the municipality.		
Tourism Projects - Promoting and showcasing tourism activities within Umkhanyakude District.		
Uniforms - Protective clothing for designated municipal staff.		
32. Cash generated from operations		
Surplus	44 435 021	100 275 510
Adjustments for:		
Depreciation and amortisation	27 988 146	28 109 220
Interest income	-	(4 522 085)
Debt impairment	17 239 120	21 105 575
Movements in provisions	698 000	719 000
Other non-cash items	-	1 293
Changes in working capital:		
Inventory	(142 928)	(43 921 313)
Other receivables from exchange transactions	9 097 112	(20 639 251)
Other receivables from non-exchange transactions	(16 279 299)	49 657 633
Trade and other payables from exchange transactions	36 151 511	46 468 955
VAT Payable	3 931 056	(2 899 654)
Current portion of unspent conditional grants and receipts	11 267 201	(55 350 957)
Consumer deposits	126 098	636 620
	134 511 038	119 640 546

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand 2015 2014

33. Correction of Errors

Correction of Ndumo Learners Shelter unspent grant and grant revenue amounting to R422 094. During the year 2013/14 financial year Ndumo Learners Shelter unspent grant spent of R422 094 was duplicated on realisation to revenue resulting in overstatement of revenue and understatement of unspent conditional grants.

Correction of duplication on supplier with a debit balance of R82 079 on reallocation to prepayment. During the year 2013/14 financial year a supplier was over paid and on transfer of balance the debtors, the balance was duplicated resulting in an overstatement of prepaid expenses and trade and other payables from exchange transactions.

Correction of property, plant and equipment amounting to R155 302. During the 2013/14 financial year audit, there were assets that were written-off in the assets register but were not processed in the accounting system resulting in an imbalance between the fixed assets register and the general ledger.

The correction of the error(s) results in the adjustments to the 2013/14 final audited annual financial statements as follows:

	Note(s)	2013/14 As previously reported	2013/14 Re- Classific ation	2013/14 Correction of error	2013/14 Restated
Statement of Financial Position					
Other receivables from exchange transactions	4	2 504 650	(82 079)	-	2 422 571
Property, plant and equipment	7	1 474 995 592	-	(155 302)	1 474 840 297
Trade and other payables from exchange transactions	10	(121 894 507)	82 079	-	(121 812 428)
Unspent conditional grants and receipts	12	(21 851 002)	-	(422 094)	(22 273 096)
Accumulated surplus	46	1 447 530 320	-	577 391	(1 446 952 929)
Statement of Financial Performance					
Government grants & subsidies	17	(514 225 333)	-	422 094	(513 803 239)
Operating surplus		100 852 897	-	(577 391)	100 275 506
General expenses	31	139 618 456	-	155 302	139 773 758
Cash Flow Statement					
		-	-	-	-
		-	-	-	-
		(387 529 567)	-	-	(387 529 560)

34. Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	53 595 334	18 797 268
Unauthorised expenditure current year	124 952 895	34 798 066
	178 548 229	53 595 334

Unauthorised expenditure was incurred as a result of over expenditure on the approved budget and will be taken into account in the 2014/15 adjustment budget per Council Resolution.

35. Fruitless and wasteful expenditure

Reconciliation of fruitfulness and wasteful expenditure

Opening balance	2 649 882	2 048 373
Fruitless and wasteful expenditure current year	209 419	601 509
	2 859 301	2 649 882

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35. Fruitless and wasteful expenditure (continued)		
This expenditure incurred as a result of interest accrued due to late clearance of manual cheque payments. As corrective measure an electronic funds transfer (EFT) payment method has been introduced and is in operation.		
36. Irregular expenditure		
	-	-
Reconciliation of irregular expenditure		
Opening Balance	1 148 782 553	592 546 816
Irregular Expenditure - incurred current year	130 384 046	556 235 737
Condoned or written off by Council	-	-
Transfer to receivables for recovery (not condoned)	-	-
	-	-
Irregular expenditure awaiting condonment	1 279 166 599	1 148 782 553

The irregular expenditure submitted for the 2013/14 financial year was incomplete as other transactions were identified by Auditor General and the irregular expenditure was updated accordingly. This expenditure incurred as a result of non-compliance with SCM procedures. They are under investigation by both Provincial Treasury and COGTA.

Service providers in the service of the state

During the preparation of 2013/14 financial statements, all service providers engaged were verified and checked whether they are in service of the state. It was discovered that the following expenditure was incurred for service providers who are in service if the state and was regarded as irregular expenditure.

Total Expenditure	-	55 395 173
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An award of R228,080 was made to employees in the service of the municipality. Mr MS Msane (Councillor) was awarded R196,080 through Lucky Five Construction cc and Miss NS Mdletshe (Accountant: Budget & Reporting) was awarded R32,000 through Sthasthe Construction and Trading.

An award of R23,750 was made to Uzoyisholo Wena Trading who is a spouse to a person in the service of the state (Ms S Mabuza - Secretary to the Executive Director: Planning)

An award to partners or associate of employees or councillors not declared and employees that did not declare their interests (2013/14)

1. Mr P.M Mhlanzi (employee of the municipality) who is a business partner with Phindithemba Mpumelelo Manqele (former employee of the municipality) on PPN Building Construction and Services who was awarded R6 153.11 through Impumelelo Development Programme.
2. Mr M.E. Nxumalo (employee of the municipality) who is a business partner with Dokotela Jonathan Mthembu (employee of the municipality) on Maputaland Community radio who was awarded R5 972 117.80 through Joma Holdings cc.
3. Mr M.E. Gumbi (employee of the municipality) who is a business partner with Raymond Senzo Gumbi (not employee of the municipality) on Isinwazi Coop Ltd who was awarded R156 400 through Izigi Zethu Trading.
4. Mr E.S Mngoma (employee of the municipality) who is a business partner with Siyamthanda Gugulethu Zungu (not employee of the municipality) on Sezesuliwe Funeral Services who was awarded R267 000.00 through Gugulami Holdings (Pty) Ltd.
5. Mr M.E. Nxumalo (employee of the municipality) who is a business partner with Thandokuhle Danie Mathenjwa (not employee of the municipality) on Maputaland Community Radio who was awarded R781 763.76 through Nyala Development Solutions (Pty) Ltd.
6. Mr S.J. Vilane (councillor) who is a business partner with Gary Cason (not a councillor) on Umthombo Aqua Construction who was awarded R1 177 979.43 through Hydro Services and Fabrications cc.
7. Mr S.H. Nxumalo (councillor) who is a business partner with Maqavithi Samuel Gumede (not a councillor) on Men to Men Contractor who was awarded R33 000 through Lake Sibayi Community Services.

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36. Irregular expenditure (continued)		
Status of service providers in the service of the state disclosed		
An adhoc committee was appointed by Council to investigate the service providers in the service of the state disclosed above and the findings are not yet finalised.		
37. Additional disclosure in terms of Municipal Finance Management Act		
External Audit Fees		
Opening balance - external audit fees	-	129 280
Current year external audit fees	2 502 086	3 238 391
Amount paid - current year external audit fees	(2 497 984)	(3 238 391)
Amount paid - previous years external audit fees	-	(129 280)
	4 102	-
Opening balance - Internal audit fees	-	-
Current year internal audit fees	1 111 148	441 790
Amount paid - current year internal audit fees	(1 111 148)	(441 790)
Balance unpaid (included in payables)	-	-
Pension		
Opening balance	1 366 053	823 846
Current year pension fees	10 057 776	10 989 359
Amount paid - current year	(8 294 511)	(10 447 153)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	3 129 318	1 366 052
Medical Aid		
Opening balance	439 049	356 102
Current year pension fees	3 697 656	3 043 384
Amount paid - current year	(3 255 695)	(2 960 437)
	881 010	439 049
PAYE		
Opening balance	807 060	836 572
Current year PAYE	17 338 118	20 431 619
Amount paid - current year	(17 221 859)	(20 461 131)
Amount paid - previous years	-	-
	923 319	807 060

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37. Additional disclosure in terms of Municipal Finance Management Act (continued)		
SALGA Fees		
Current year SALGA fees	1 000 936	1 039 426
Amount paid - current year	-	(1 039 426)
	1 000 936	-

VAT

VAT output payables and VAT input receivables are shown in note 5. All VAT returns have been submitted by the due date throughout the year.

NON-COMPLIANCE WITH CHAPTER 11 OF THE MUNICIPAL FINANCE MANAGEMENT ACT:

Non-compliance with Supply Chain Management Procedures - There has been a material non-compliance with SCM procedures and hence irregular expenditure is disclosed above per note 35.

There were some service providers that were not paid within the stipulated 30 working days.

Non-compliance with MFMA Reporting Requirements:

The following MFMA returns have not been submitted on time to Provincial and National Treasury .

- Appendix B - Budget Returns i.e Asset Management.
- Signed copies of quarterly verifications for quarter 4.
- Mid-year Budget Performance Assessment.
- Not all of the required documents were updated on the National Treasury Website.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
	-	-	-
30 June 2014	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Gumbi DL	-	10 514	10 514
Councillor Nyawo Z	-	17	17
Councillor Zungu MC	-	22 526	22 526
Councillor Moodley GP	9 908	239 100	249 008
Councillor Vilane SJ	5 298	114 473	119 771
	15 206	386 630	401 836

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38. Capital Commitments		
Commitments in respect of capital expenditure		
Approved and contracted for		
• Infrastructure	259 866 544	335 265 433
• Non-capital commitments	-	20 904 828
	259 866 544	356 170 261
Approved but not yet contracted for		
• Infrastructure	-	73 543 318
Total capital commitments		
Already contracted for but not provided for	259 866 544	356 170 261
Not yet contracted for and authorised by accounting officer	-	73 543 318
	259 866 544	429 713 579

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

This expenditure was financed from:

Government Grants (MIG)	259 866 544	408 808 751
Government Grant (Equitable Share)	-	20 904 828

These commitments include commitments for outer years.

The municipality has commitments in which the following service providers were appointed without Rand values:

Rand Water, Neslife, Rural Pumps (Pvt) Ltd, Reniassance Joint Venture, Rennies Travel and Harvey World Travel.

39. IMPRACTICABILITY IN SUPPORTING COMPARATIVES

On 29 February 2012 the wing of finance department in the main offices of uMkhanyakude District Municipality were burnt which resulted in financial records being burnt down. In the previous years the municipality could not support some of the trade creditors/payables as follows:

Trade creditors that could not be supported in previous years	16 983 000	16 983 000
Less: Total creditors documents recovered during the year under review	(11 772 367)	(11 772 367)
Total creditors documents still outstanding	5 210 633	5 210 633

This issue is still under investigation by South African Police Service (SAPS).

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40. CONTINGENCIES

Contingent Liabilities

Contingent Liability as a result of Wage Curve Agreement:

The job evaluation was not conducted by the Municipality as per Wage Curve Agreement and employees were not paid according to their skills hence there is a possibility that the Municipality might be owing its employees.

The Municipality had the following contingent liabilities as at 30 June 2014.

	Source of Funding	Legal Fees	Amount
Umkhanykude District Municipality is in a matter over the eviction of Mr Spatt from the Mkuze Airport and the estimated cost is not to exceed to R150 000.	DC27	-	150 000
Legal fees due to the lawyers (Shepstone and Wylie).	DC27	46 608	-
Legal fees amounting to R57 944.41 are due to the lawyers (Shepstone and Wylie).	DC27	57 944	-
		104 552	150 000

41. Related parties

Relationships

Umhlosinga Development Agency (100% Ownership)

Umhlosinga Development agency is a subsidiary wholly owned by Umkhanyakude District Municipality to spearhead the economic development within the district.

Transfers paid to Umhlosinga Development Agency	3 300 000	8 330 842
Expenses paid on behalf of Umhlosinga Development Agency:	-	-
Small Town Rehabilitation	4 800 000	-

Disclosure of directors remuneration and councillors remuneration has been made in note(s) 22 & 24.]

42. Events after the reporting date

There was an event that occurred after the reporting date. A service provider appointed by the municipality requested for an escalation in the contract price as a result of transportation and offloading costs. No adjusting entries will be processed currently as the matter is still being handled by the municipality's attorneys (Shepstone & Wylie) and has not yet been resolved.

43. Key Sources of Estimation Uncertainty and Judgements

The following areas involve a significant degree of estimation uncertainty:

Impairment of assets.

Provision for long service awards.

Useful lives and residual values of property, plant, and equipment.

Water losses amounting to R36 560 649.21 and electricity losses amounting to R5 523 420.

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44. Risk management

Interest Rate Risk

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

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

FNB Bank Call deposits.

FNB Bank, Nedbank & ABSA Bank Notice deposits.

Loan from Development Bank of South Africa.

Liquidity risk

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

The 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.

The following liabilities were due within 1 month:

Consumer Deposits R1 988 145 (2015) R1 862 046 (2014) , Other current financial liabilities R5 535 639(2015) R9 682 103 (2014) Trade and other payables from exchange transactions R165 369 902 (2015) R121 812 429 (2014) .

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

Unspent Conditional Grants and Receipts R31 458 297 (2015) R22 273 096 (2014) , Provision R108 000 (2015) R109 013 (2014) , Borrowings R1 499 973 (2015) R1 557 241 (2014) and Finance Lease Liability R458 832 (2015) R458 832 (2014) .

Maximum credit risk exposure

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

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

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

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45. Water & Electricity Losses

Water Losses

The municipality incurred 62.3% (2015) 84.61% (2014) water losses for the 2014/15 financial year. The value of the losses incurred amounted to R36 560 649.21 (2015) R36 209 490.36 (2014) .

Electricity Losses

The municipality incurred 49% (2015) 56% (2014) electricity losses for the 2013/14 financial year . The value of the losses incurred amounted to R5 523 420 (2015) R9 332 446.33 (2014).

46. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2015

	Accumulated Surplus	Total
Current year balance	1 490 133 019	1 490 133 019
Items under investigation	3 804 788	3 804 788
	1 493 937 807	1 493 937 807

Ring-fenced internal funds and reserves within accumulated surplus - 2014

	Accumulated Surplus	Total
Current year balance	1 443 148 141	1 443 148 141
Items under investigation	3 804 788	3 804 788
	1 446 952 929	1 446 952 929

47. Revenue

Service charges	25 977 746	43 573 188
Rental of facilities and equipment	33 322	106 871
Interest received (trading)	-	4 462 481
Other income	13 839 086	2 035 531
Interest received - investment	1 377 989	6 708 719
Government grants & subsidies	391 167 606	513 803 245
	432 395 749	570 690 035

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	25 977 746	43 573 188
Rental of facilities and equipment	33 322	106 871
Interest received	-	4 462 481
Other income	13 839 086	2 035 531
Interest received - investment	1 377 989	6 708 719
	41 228 143	56 886 790

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation Revenue		
Grants Revenue		
Government grants & subsidies	391 167 606	513 803 245

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48. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated surplus of R 1 491 387 955 .The current liabilities exceeded its current assets by R68llion (2015) R5,67million (2014); certain unspent conditional grants are not cashed back, and large increase in the provision for doubtful debts due to debtors not collectable or indigent debtors.

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 continue funding for the ongoing operations for the municipality to restore the solvency of the municipality.