



**Umhlabuyalingana Local Municipality
Annual Financial Statements
for the year ended 30 June 2016**

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	Municipality KZN 271
Nature of business and principal activities	The main purposes of the municipality is to engage in local governance activities, which include planning and promotions of integrated development planning, economic and environmental development and supplying of the following services to the community. Rates and general services all types of services rendered by the municipality includes services for refuse removal.
Mayoral committee	
Mayor	Cllr. T.S. Mkhombo
Speaker	Cllr. M.N Nxumalo
Grading of local authority	Medium capacity municipality
Accounting Officer	Mr S.E Bukhosini
Chief Finance Officer (CFO)	Mr NPE Myeni
Exco Members	Cllr N.S. Mthethwa Cllr. B.T. Tembe Cllr T.A.X Zikhali Cllr M. J. Ntsele
Registered office	Municipal Building Kwangwanase 3973
Postal address	Private Bag X 901 Kwangwanase 3973
Bankers	First National Bank of South Africa
Auditors	Auditor General of South Africa Registered Auditors
Attorneys	Maseko Mbatha Attorneys

Umhlabuyalingana Local Municipality

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General Information

List of Councilors

Cllr. KO Tembe
Cllr. BN Ntsele
Cllr. QI Nhlozi
Cllr. JS Mkhabela
Cllr MR Mthembu
Cllr. Cllr. DM Mhlongo
Cllr. BH Ngubane
Cllr. TM Gumede
Cllr. CB Mhlangu
Cllr. JB Gwala
Cllr. NL Mlambo
Cllr. NC Mdletshe
Cllr. EG Mhlongo
Cllr. SN Tembe
Cllr. SP Mthethwa
Cllr. FG Mlambo
Cllr NR Mthethwa
Cllr. SK Phyffer
Cllr. SX Mabika
Cllr. RN Mthembu
Cllr. TF Zikhali
Cllr. TA Fakude
Cllr. BE Biyela
Cllr. GA Mathenjwa
Cllr. GN Gumede
Cllr. LT Nsele

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Abbreviations

CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipality Systems Infrastructure Grant

Umhlabuyalingana Local Municipality

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the uMhlabuyalingana Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are 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 and their report is presented on page 5.

The annual financial statements set out on pages 5 to 67, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Accounting Officer
Mr SE Bukhosini

31 August 2016

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Receivables from non-exchange transactions	6	7,038,520	6,091,429
VAT receivable	7	4,479,478	2,174,640
Receivables from exchange transactions	8	385,778	369,851
Cash and cash equivalents	9	62,188,345	77,653,673
		74,092,121	86,289,595
Non-Current Assets			
Property, plant and equipment	3	252,658,195	200,815,396
Intangible assets	4	553,072	451,448
		253,211,267	201,266,844
Total Assets		327,303,388	287,556,439
Liabilities			
Current Liabilities			
Finance lease obligation	10	-	25,704
Payables from exchange transactions	13	10,162,715	7,322,149
Unspent conditional grants and receipts	11	9,125,630	2,357,052
		19,288,345	9,704,905
Non-Current Liabilities			
Provisions	12	11,420,724	10,757,370
Total Liabilities		30,709,069	20,462,275
Net Assets		296,594,319	267,094,164
Accumulated surplus		296,594,319	267,094,164

* See Note 36

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
REVENUE			
Revenue from exchange transactions			
Service charges	16	201,968	79,766
Interest received - Debtors		747,244	1,209,815
Licences and permits		3,798,350	3,818,790
Rental income	19	252,125	79,652
Other income	20	364,767	234,205
Interest received - investment	26	6,958,873	4,973,842
Total revenue from exchange transactions		12,323,327	10,396,070
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	15	17,183,838	29,543,512
Transfer revenue			
Government grants & subsidies	17	182,286,022	130,714,060
Public contributions and donations	18	30,085	32,303
Fines, Penalties and Forfeits		2,076,550	968,200
Total revenue from non-exchange transactions		201,576,495	161,258,075
Total revenue	14	213,899,822	171,654,145
EXPENDITURE			
Employee related costs	22	(37,484,073)	(32,162,557)
Remuneration of councilors	23	(9,501,582)	(8,075,830)
Repairs and maintenance	24	(26,345,024)	(8,008,171)
Depreciation and amortisation	27	(16,586,843)	(11,647,072)
Impairment loss	28	(1,597,196)	(471,063)
Finance costs	29	(824,605)	(844,244)
Debt Impairment	25	(8,563,669)	(24,223,102)
General Expenses	21	(83,432,651)	(45,056,158)
Total expenditure		(184,335,643)	(130,488,197)
Operating surplus		29,564,179	41,165,948
Loss on write off/disposal of assets		(64,023)	(996,604)
Cash losses written off		-	(37,600)
		(64,023)	(1,034,204)
Surplus for the year		29,500,156	40,131,744

* See Note 36

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	247,007,925	247,007,925
Changes in net assets		
Surplus for the year	40,131,744	40,131,744
Prior year adjustments	(20,045,505)	(20,045,505)
Total changes	20,086,239	20,086,239
Restated* Balance at 01 July 2015	267,094,163	267,094,163
Changes in net assets		
Surplus for the year	29,500,156	29,500,156
Total changes	29,500,156	29,500,156
Balance at 30 June 2016	296,594,319	296,594,319
Note(s)		

* See Note 36

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers and other		11,088,846	12,601,644
Grants		182,286,022	130,714,060
Interest income		6,958,873	4,973,842
Other receipts		4,197,717	5,025,649
		<u>204,531,458</u>	<u>153,315,195</u>
Payments			
Employee costs		(46,985,655)	(38,358,836)
Suppliers		(95,261,030)	(56,431,952)
Interest Paid		(20,320)	(844,244)
		<u>(142,267,005)</u>	<u>(95,635,032)</u>
Net cash flows from operating activities	31	<u>62,264,453</u>	<u>57,680,163</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(77,572,280)	(50,828,050)
Proceeds from sale of assets		190,134	-
Purchase of other intangible assets	4	(321,931)	(148,344)
Net cash flows from investing activities		<u>(77,704,077)</u>	<u>(50,976,394)</u>
Cash flows from financing activities			
Finance lease payments		(25,704)	(99,755)
Net increase in cash and cash equivalents		<u>(15,465,328)</u>	<u>6,604,014</u>
Cash and cash equivalents at the beginning of the year		77,653,673	71,049,659
Cash and cash equivalents at the end of the year	9	<u>62,188,345</u>	<u>77,653,673</u>

* See Note 36

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Final budget and actual amounts note 48.1 to 48.15) (Adjustment to approved budget note 48.16 to 48.22)
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	81,302	120,666	201,968	201,968	-	(48.2) (48.16)
Interest received	690,714	(86,886)	603,828	747,244	143,416	(48.1) (48.17)
Licences and permits	3,959,720	(140,930)	3,818,790	3,798,350	(20,440)	48.18
Rental income	306,834	-	306,834	252,125	(54,709)	(48.3)
Other income	82,351	229,939	312,290	364,767	52,477	(48.4) (48.19)
Interest received - investment	4,910,595	695,188	5,605,783	6,958,873	1,353,090	(48.5) (48.20)
Total revenue from exchange transactions	10,031,516	817,977	10,849,493	12,323,327	1,473,834	

Revenue from non-exchange transactions

Taxation revenue

Property rates	20,018,950	(2,826,112)	17,192,838	17,183,838	(9,000)	(48.6) (48.21)
Donations	-	-	-	30,085	30,085	(48.12)
Government grants	175,555,000	10,279,311	185,834,311	182,286,022	(3,548,289)	(48.13) (48.22)

Transfer revenue

Fines	400,000	400,000	800,000	2,076,550	1,276,550	(48.7) (48.23)
Total revenue from non-exchange transactions	195,973,950	7,853,199	203,827,149	201,576,495	(2,250,654)	
Total revenue	206,005,466	8,671,176	214,676,642	213,899,822	(776,820)	

Expenditure

Personnel	(38,793,155)	(4,542,163)	(43,335,318)	(37,484,073)	5,851,245	(48.13) (48.24)
Remuneration of councilors	(9,954,775)	(17,221)	(9,971,996)	(9,501,582)	470,414	(48.25)
Depreciation and amortisation	(12,000,000)	-	(12,000,000)	(16,586,843)	(4,586,843)	(48.14)
Impairment loss	-	-	-	(1,597,196)	(1,597,196)	(48.15)
Finance costs	(105,600)	80,000	(25,600)	(824,605)	(799,005)	(48.8) (48.26)
Debt Impairment	(4,000,000)	(1,448,000)	(5,448,000)	(8,563,669)	(3,115,669)	(48.9) (48.27)
Repairs and maintenance	(24,225,828)	(3,807,240)	(28,033,068)	(26,345,024)	1,688,044	48.28
General Expenses	(59,693,144)	(28,909,501)	(88,602,645)	(83,432,651)	5,169,994	(48.10 and Note 21) (48.29)

Total expenditure	(148,772,502)	(38,644,125)	(187,416,627)	(184,335,643)	3,080,984	
Operating surplus	57,232,964	(29,972,949)	27,260,015	29,564,179	2,304,164	
Loss on disposal of assets	-	-	-	(64,023)	(64,023)	
Surplus before taxation	57,232,964	(29,972,949)	27,260,015	29,500,156	2,240,141	
Surplus for the year excluding capital expenditure	57,232,964	(29,972,949)	27,260,015	29,500,156	2,240,141	
Capital Expenditure	84,954,364	10,000,000	94,954,364	74,904,676	(20,049,688)	(48.11) (48.30)

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Final budget and actual amounts note 48.1 to 48.15) (Adjustment to approved budget note 48.16 to 48.22)
Figures in Rand						
Comparison of Budget and Actual amounts	142,187,328	(19,972,949)	122,214,379	104,404,832	(17,809,547)	

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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. They are presented in South African Rand.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Useful lives of property plant and equipment and intangible assets

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

Effective interest rate

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

1.4 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.

Recognition

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.

Measurement

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings	Straight line	20 -30 years
Borehole	Straight line	20 years
Clinics	Straight line	30 years
Furniture and fixtures	Straight line	7 - 10 years
Motor vehicles	Straight line	5 years
Office equipment	Straight line	3 - 7 years
IT equipment	Straight line	3 years
Creche	Straight line	30 years
Infrastructure	Straight line	30 years
Roads and Paving	Straight line	20 years
Roads and Water	Straight line	3 - 10 years
Gravel Surface	Straight line	10 years
Recreational Facility	Straight line	20 -30 years
Security	Straight line	5 years
Community Halls	Straight line	30 years
Bins and containers	Straight line	15 years
Libraries	Straight line	30 years
Park facilities	Straight line	10 years
Landfil sites	Straight line	18 years
Leased Office Equipment	Straight line	5 years
Specialised vehicles	Straight line	10 years
Special Plant and Equipment	Straight line	10 - 15 years

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 entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

Derecognition.

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

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

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

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Property, plant and equipment (continued)

Asset Under Construction (WIP)

Progress Payment

The contract will normally make provision for monthly payment to the contractor base on the estimate of the value of the work completed (sometimes including certain other costs. The contractor delivers the monthly statement for payment to the engineer (or another representative) who certifies work completed, where after the municipality pays the contractor within the time period specified in the contract.

Measurement

Cost is the amount of cash or cash equivalent paid, or the fair value of the other consideration given, to acquire an asset at the time of its acquisition or construction. Any certified work are accounted for under "Work in Progress / Assets Under Construction" and are not depreciated until the asset is completed and available for use.

Disclosure

Asset under construction are separately disclosed as a line item in the form of note in the annual financial statements.

1.5 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.5 Intangible assets (continued)

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software, other	5 years

1.6 Financial instruments

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

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

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

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

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

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 municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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Accounting Policies

1.6 Financial instruments (continued)

Classification

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

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

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

Class	Category
Unspent conditional grants	Financial liability measured at amortised cost
Consumer deposit	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial measurement of financial assets and financial liabilities

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

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

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

Umhlabuyalingana Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

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

Gains and losses

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

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

Umhlabuyalingana Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial liabilities

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

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

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

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.

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

Operating Leases

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

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

Finance leases - lessee

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

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

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

Operating leases - lessor

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

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

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

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

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

Umhlabuyalingana Local Municipality

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Accounting Policies

1.7 Leases (continued)

Operating leases - lessee

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

1.8 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

- (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.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also test 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.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

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

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.

1.9 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.

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.

Umhlabuyalingana Local Municipality

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Accounting Policies

1.10 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Provisions and contingencies (continued)

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

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

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

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

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

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

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

1.11 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Umhlabuyalingana Local Municipality

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Accounting Policies

1.11 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

1.12 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

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

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

Recognition

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

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

Measurement

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

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

Transfers

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.

Property Rates

Bequests that satisfy the definition of an asset 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.

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.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related 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.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.13 Investment income

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

1.14 Value Added Tax (VAT)

The municipality has registered VAT on cash basis but account for VAT on accrual basis

1.15 Comparative figures

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

1.16 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.

1.17 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.

1.18 Irregular expenditure

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

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.18 Irregular expenditure (continued)

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

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

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

1.19 Budget information

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

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

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

The approved budget covers the fiscal period from 01 Jul 2015 to 30 Jun 2016.

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

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

1.20 Related parties

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

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

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.

1.21 Events after reporting date

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

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

Umhlabuyalingana Local Municipality

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Accounting Policies

1.21 Events after reporting date (continued)

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

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

1.22 Commitments

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

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- Approved and contracted commitments;
- Where the expenditure has been approved and the contract has been awarded at the reporting date; and
- Where disclosure is required by specific GRAP standard.

1.23 Retention

Retention is also commonly called retainage and is a term referring to the percentage of payment held back from a construction contract. This is a financial term and the owners of a building, or those who are paying for its work to be done, take the lead in drawing up and enforcing the retention plan. General contractors sometimes have retention plans as well

Retention is a percentage of the amount certified as due to the contractor on an interim certificate, that is deducted from the amount due and retained by the client. The purpose of retention is to ensure that the contractor properly completes the activities required of them under the contract. Retention can also be applied to nominated sub-contractors, and the main contractor may also apply retention to domestic sub-contractors.

- Often the percentage of retention ranges from 5% to 10% depending on:
 - a) The risk of the project, if the risk of failure is high then the percentage will be at maximum 10%.
 - b) The experience of the awarded contractor, if the contractor has minimum experience of the work to be executed then the percentage will be maximum 10%.
- Half of the amount retained is released on certification of practical completion ('substantial completion' for Institution of Civil Engineers (ICE) contracts) and the remainder is released upon certification of making good defects (or 'final statement' for design and build contracts such as Joint Contracts Tribunal (JCT)).
- Interim certificates should make clear the amount of retention and a statement should also be prepared showing retention for nominated sub-contractors. The contract may require that retention is kept in a separate bank account and that this is certified to contractors. In this case, the client will generally keep any interest paid on the account.

Umhlabuyalingana Local Municipality

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2. New standards and interpretations

2.1 Standards and Interpretations issued but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	01 April 2017	The impact of the amendment is not material.
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material.
• GRAP 108: Statutory Receivables	01 April 2016	The impact of the amendment is not material.
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material.

3. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	128,457,995	(18,738,723)	109,719,272	95,011,737	(14,746,207)	80,265,530
Plant and machinery	8,255,110	(4,557,227)	3,697,883	7,971,962	(3,746,762)	4,225,200
Motor vehicles	6,807,285	(2,088,484)	4,718,801	4,831,145	(1,392,901)	3,438,244
Work in progress	28,227,341	-	28,227,341	41,265,152	-	41,265,152
Bins and containers	602,679	(122,849)	479,830	446,100	(89,220)	356,880
Leased Assets	386,090	(386,089)	1	386,090	(371,501)	14,589
Roads and Water	151,681,380	(45,866,313)	105,815,067	106,472,882	(35,223,081)	71,249,801
Total	324,417,880	(71,759,685)	252,658,195	256,385,068	(55,569,672)	200,815,396

Umhlabuyalingana Local Municipality

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Write offs	Depreciation	Impairment loss	Total
Buildings	80,265,530	14,000	31,557,960	-	(3,981,437)	-	107,856,053
Plant and machinery	4,225,200	520,889	-	(64,023)	(986,987)	2,804	3,697,883
Motor vehicles	3,438,244	1,976,142	-	-	(695,582)	-	4,718,804
Community assets	-	4,766,943	-	-	(60,009)	-	4,706,934
Work in progress	41,265,152	70,137,730	(81,575,542)	-	-	(1,600,000)	28,227,340
Bins and containers	356,880	156,579	-	-	(33,629)	-	479,830
Leased Assets	14,589	-	-	-	(14,589)	-	-
Roads and Water	71,249,804	-	42,315,850	-	(10,594,302)	-	102,971,352
	200,815,399	77,572,283	(7,701,732)	(64,023)	(16,366,535)	(1,597,196)	252,658,196

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Write Offs and impairments	Impairment	Depreciation	Prior year error correction	Disposal Accumulated Depeciation	Total
Buildings	75,919,673	539,335	-	7,708,194	(1,094,474)	-	(2,747,368)	(59,830)	-	80,265,530
Plant and machinery	3,420,623	1,704,769	-	-	(67,852)	9,635	(841,975)	-	-	4,225,200
Motor vehicles	3,618,676	556,085	(628,481)	-	-	-	(656,891)	-	548,854	3,438,243
Work in progress	49,511,827	48,027,860	-	(36,205,637)	-	-	-	(20,068,898)	-	41,265,152
Bins and containers	386,620	-	-	-	-	-	(29,740)	-	-	356,880
Leased Assets	83,554	-	-	-	-	-	(68,965)	-	-	14,589
Roads and Water	50,521,265	-	-	28,497,443	-	(477,742)	(7,146,101)	(145,060)	-	71,249,805
	183,462,238	50,828,049	(628,481)	-	(1,162,326)	(468,107)	(11,491,040)	(20,273,788)	548,854	200,815,399

Umhlabuyalingana Local Municipality

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3. Property, plant and equipment (continued)

Community assets

This is an exceptional case for Mhlabuyalingana municipality. uMhlabuyalingana local municipality was declared as a disaster area during 2015/16 financial period, emergency relief funds was made available by the municipality from its current budget to ameliorate the effects of the disaster as declared by the Premier of KZN. There was a provision of short term relief to the affected communities through buying Jojo Tanks, Hiring Water Tanks, and construction of Boreholes. Through further engagement with the new district Mayor of Mkhanyakude municipality there is now consensus that these assets will be transferred to the district. In addition, communities had a dire need for mobile clinics and creches. Taking into account the volatility of the situation and non-responsiveness of the district municipality to both these issues (boreholes, clinics and creches) due to financial constraints and maladministration (hence Section 139(b) intervention by the KZN cabinet), uMhlabuyalingana intervened after seeking advice from COGTA and obtaining resolution from the council to assist in this regard to avert imminent hostility and possible property vandalism by angry communities. Details of the Infrastructure constructed is listed below.

Borehole Ward 1	54,000	-
Borehole Ward 2	202,000	-
Borehole Ward 3	421,519	-
Borehole Ward 4	213,674	-
Borehole Ward 5	134,450	-
Borehole Ward 7	90,500	-
Borehole Ward 8	193,350	-
Borehole Ward 9	187,000	-
Borehole Ward 10	80,238	-
Borehole Ward 11	365,274	-
Borehole Ward 12	62,500	-
Water Tank Ward 14	100,000	-
Borehole Ward 15	65,000	-
Borehole Ward 16	115,710	-
Borehole Ward 17	607,434	-
	2,892,649	-

Community Assets Creche

Creche Ward 2	194,500	-
Creche Ward 6	119,000	-
Creche Ward 12	283,123	-
Creche Ward 14	98,815	-
Bridge Causeway	194,958	-
Market Stalls	114,930	-
	1,005,326	-

Community Assets Clinic

Clinic Ward 4	198,500	-
Clinic Ward 7	130,000	-
Clinic Ward 3	170,000	-
Clinic Ward 2	180,467	-
Clinic Ward 6	190,000	-
	868,967	-

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

4. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1,670,804	(1,117,732)	553,072	1,348,872	(897,424)	451,448

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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4. Intangible assets (continued)

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software, other	451,448	321,931	(220,307)	553,072

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Other changes, movements	Amortisation	Impairment loss	Total
Computer software, other	462,924	148,344	(4,226)	1,499	(157,531)	438	451,448

5. Employee benefit obligations

Long Service Awards

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at 30 June 2016 by Independent Actuarial One Pangaea Financial ('OPF'), Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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Figures in Rand	2016	2015
5. Employee benefit obligations (continued)		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Current service & interest cost	384,267	227,165
Benefit payments	(102,578)	(61,290)
Actuarial (gains)/ losses	(422,622)	328,303
	(140,933)	494,178
Key assumptions used:		
Assumptions used at the reporting date:		
Discount rates used	9.31%	8.51%
Real Rate	7.36 %	7.36 %
General Inflation Rate	7.25 %	6.36 %
Examples of mortality rates were used 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	12.00 %	12.00 %
Age 25	6.60 %	7.00 %
Age 30	5.10 %	5.00 %
Age 35	3.60 %	4.00 %
Age 40	2.60 %	3.00 %
Age 45	1.80 %	2.00 %
Age 50	1.10 %	1.00 %
	-	-
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	1,295,165	800,987
Current service & Interest cost	384,267	227,165
Benefits paid	(102,578)	(61,290)
Actuarial (gain)/losses	(422,622)	328,303
	1,154,232	1,295,165
Net expense recognised in the statement of financial performance		
Long service award	375,459	494,178
6. Receivables from non-exchange transactions		
Rates Debtors	34,216,885	28,231,097
Fines	2,556,151	910,901
Less: Provisions for the year - Rates	(27,715,432)	(22,329,589)
Less: Provisions Fines	(2,019,084)	(720,980)
	7,038,520	6,091,429
Rate Debtors		

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
6. Receivables from non-exchange transactions (continued)		
Rates Debtors Ageing		
Current (0 - 30 days)	1,195,600	1,368,997
31 -60 days	1,151,338	1,133,605
61- 90 days	948,211	1,254,208
91 - 120 days	546,242	1,242,285
121 -365 days	30,375,495	23,232,002
	34,216,886	28,231,097
Fines		
Ageing		
Current (0 -30 days)	155,150	85,300
31 - 60 days	117,150	82,600
61 -90 days	193,700	94,800
91 120 days	183,400	63,400
121 - 365 days	1,906,751	584,801
	2,556,151	910,901
7. VAT		
VAT Receivables		
VAT Control	4,482,186	2,174,640
VAT Input	(2,832)	-
VAT Output	124	-
	4,479,478	2,174,640
VAT is accounted for on an accrual basis but claimed / paid over to SARS on a cash basis.		
8. Receivables from exchange transactions		
Gross balances		
Creditors Overpayment	149,877	12,216
Other Debtors - MIG	-	200,380
Debtor PMU	58,448	96,782
Debtors Employee Overpayment	19,678	12,496
Refuse	58,341	3,789
Debtors - Rentals	99,434	35,660
Other Debtors	-	8,528
	385,778	369,851
Creditors Overpayment		
Current (0 -30 days)	137,661	12,216
> 365 days	12,216	-
	149,877	12,216

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
8. Receivables from exchange transactions (continued)		
Rental		
Current (0 -30 days)	25,377	22,679
31 - 60 days	20,548	9,000
61 - 90 days	15,629	1,500
91 - 120 days	8,800	-
121 - 365 days	6,650	-
> 365 days	22,430	2,481
	99,434	35,660
Refuse		
Current (0 -30 days)	58,341	3,789
Debtors PMU		
Current (0 -30 days)	58,448	96,782
Debtors MIG		
Current (0 -30 days)	-	200,380
Debtors employee overpayment		
Current (0 -30 days)	19,678	20,404
Other (specify)		
Current (0 -30 days)	-	621
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	47	66
Bank balances	8,336,188	8,311,074
Short-term deposits	53,786,325	69,293,629
Other cash and cash equivalents	65,785	48,904
	62,188,345	77,653,673

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Current Account First National Bank Hluhluwe - 62025236408	8,336,188	8,311,074	5,516,810	8,336,188	8,311,074	5,516,810
Call Account First National Bank Hluhluwe - 62025236408	997,903	962,969	935,624	997,903	962,969	935,624
Call Account First National Bank Hluhluwe - 62217154351	1,395,792	1,331,959	1,279,006	1,395,792	1,331,959	1,279,006
Call Account First National Bank Hluhluwe - 62266899825	788,193	752,804	723,149	788,193	752,804	723,149
Call Account First National Bank Hluhluwe - 74275256516	3,846,009	13,033,415	12,272,721	3,846,009	13,033,415	12,272,721
Call Account Standard Bank Empangeni Branch - 068824491	17,111	16,638	16,109	17,111	16,638	16,109
Call Account Nedbank Richards Bay Branch - 28702097	29,627	28,195	26,920	29,627	28,195	26,920
Call Account First National Bank Hluhluwe - 624240086785	46,711,753	19,377,877	18,391,150	46,711,753	19,377,877	18,391,150
Fixed Deposit First National Bank - 7440651041	-	33,789,770	31,887,999	-	33,789,770	31,887,999
Total	62,122,576	77,604,701	71,049,488	62,122,576	77,604,701	71,049,488

10. Finance lease obligation

Minimum lease payments due

- within one year	-	26,903
	-	26,903
less: future finance charges	-	(1,199)
Present value of minimum lease payments	-	25,704

Present value of minimum lease payments due

- within one year	-	25,704
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It is municipality policy to lease certain photocopiers under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 2% (2015: 2%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The leases came to an end during the current financial period ending 30 June 2016.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
DOS Sports Field	-	97,742
COGTA - Small Town Rehabilitation	162,260	162,260
Spatial Development	100,000	100,000
Manguzi Road Project	17,307	17,307
Library Grant	-	181,569
Urban Development	907,195	907,195
Manzengwenya Project	7,500	7,500
M A P	251,168	251,168
Phelandaba Development Grant	178,600	178,600
Nhlange Lake Restaurant	5,600	5,600
KwaTembe Concrete Project	86,111	86,111
Mbazwana and Munguzi Hubs	160,000	160,000
Community Participation Grant	-	2,000
Tourism and Environmental Affairs Grant	200,000	200,000
Cogta energy electrification	3,549,889	-
Smalltown rehabilitation	3,500,000	-
	9,125,630	2,357,052

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

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

See note 17 for reconciliation of grants from National/Provincial Government.

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

12. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Environmental rehabilitation	9,462,205	804,287	10,266,492
Employee benefit cost	1,295,165	(140,933)	1,154,232
	10,757,370	663,354	11,420,724

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Environmental rehabilitation	8,720,926	741,279	9,462,205
Employee benefit cost	800,987	494,178	1,295,165
	9,521,913	1,235,457	10,757,370

Environmental rehabilitation provision

The municipality operates three Landfill sites, which are Thandizwe, Mbazwana and Skhemelele.

The Municipality estimated rehabilitation cost are R10 266 492 (2015: R9 462 205) to restore the landfill site at the end of its useful life, estimated to be 18 year from the date of revaluation. The amount of rehabilitation is dependent on future costs technology, inflation and site consumption. The discount rate of the provision was 8.5% (2015: 8.5%).

The financial implication of rehabilitating the landfill site was determined by the independent practitioner engineer Mpume Naleli Technologies.

The date on which Mpume Naleli Technologies valued landfill sites was 12 November 2012. The landfill sites are revalued every four year.

Long service award provision

Long services award are payable after ten years of continuous services and every five years thereafter to employees.

A provision is an estimate of the long service award base on historic staff turnover, taking into account management estimate of the likelihood that staff may leave before long services become due. No other long services benefit are provided to employees.

For key assumptions and values please refer to note 5.

13. Payables from exchange transactions

Trade payables	2,079,693	2,002,693
Accrued leave pay	2,084,243	1,306,569
Accrued bonus	735,550	606,470
Accrued expense	22,357	32,601
Retention Creditors	5,206,461	3,345,074
Payroll related creditors	28,589	18,624
Debtors with credit balance	5,822	10,118
	10,162,715	7,322,149

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
13. Payables from exchange transactions (continued)		
Ageing trade and other payables		
Current (0 - 30 days)	2,079,693	2,002,694
14. Revenue		
Service charges	201,968	79,766
Interest received (trading)	747,244	1,209,815
Licences and permits	3,798,350	3,818,790
Rental income	252,125	79,652
Other income	364,767	234,205
Interest received - investment	6,958,873	4,973,842
Property rates	17,183,838	29,543,512
Government grants & subsidies	182,286,022	130,714,060
Public contributions and donations	30,085	32,303
Fines, Penalties and Forfeits	2,076,550	968,200
	213,899,822	171,654,145
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	201,968	79,766
Interest received (trading)	747,244	1,209,815
Licences and permits	3,798,350	3,818,790
Rental income	252,125	79,652
Other income	364,767	234,205
Interest received - investment	6,958,873	4,973,842
	12,323,327	10,396,070
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	17,183,838	29,543,512
Transfer revenue		
Government grants & subsidies	182,286,022	130,714,060
Public contributions and donations	30,085	32,303
Fines, Penalties and Forfeits	2,076,550	968,200
	201,576,495	161,258,075

Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
15. Property rates		
Rates received		
Commercial	4,294,373	7,134,355
State	9,322,449	11,183,595
Property trust	7,445,286	12,361,333
Hospitality	389,943	603,500
Less: Income forgone	(4,268,213)	(1,739,271)
	17,183,838	29,543,512
Valuations		
Residential / Hospitality	92,900,000	87,500,000
Commercial	399,075,000	352,270,000
State	685,280,000	610,550,000
State trust Land	572,400,000	880,900,000
Other	174,740,000	4,300,000
	1,924,395,000	1,935,520,000

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.0025 (2015: R 0,02) is applied to property valuations of ITB to determine assessment rates. The billing decrease at an discretion of council

Business Properties are billed at R0.01 (2015: R0,02) per rand for a period of seven months per council discretion. Hospitality will be included in this category
The new general valuation will be implemented on 01 July 2019.

16. Service charges

Services charges	201,968	79,766
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Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
17. Government grants and subsidies		
Operating grants		
Equitable share	121,138,000	87,707,000
Financial Management Grant	1,800,000	1,800,000
EPWP Grant	1,294,000	1,355,000
Library Grant	1,747,169	1,617,544
Municipal Systems Improvement Grant	930,000	1,066,825
Electrification grant	6,450,111	-
Community participation grant	2,000	-
	<u>133,361,280</u>	<u>93,546,369</u>
Capital grants		
Municipal Infrastructure Grant	33,827,000	32,490,000
Intergrated electrification grant	15,000,000	2,675,433
Sports grant	97,742	2,002,258
	<u>48,924,742</u>	<u>37,167,691</u>
	<u>182,286,022</u>	<u>130,714,060</u>
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	61,148,022	43,007,063
Unconditional grants received	121,138,000	87,707,000
	<u>182,286,022</u>	<u>130,714,063</u>
MSIG		
Balance unspent at beginning of year	-	132,825
Current-year receipts	934,000	934,000
Conditions met - transferred to revenue	(934,000)	(1,066,825)
	<u>-</u>	<u>-</u>
Department of Sport		
Balance unspent at beginning of year	97,742	525,000
Current-year receipts	-	1,575,000
Conditions met - transferred to revenue	(97,742)	(2,002,258)
	<u>-</u>	<u>97,742</u>
Small Town Rehabilitation		
Balance unspent at beginning of year	162,260	162,260
Arts and Culture Grant		
Balance unspent at beginning of year	100,000	100,000
Conditions still to be met - remain liabilities (see note 11).		

Umhlabuyalingana Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
17. Government grants and subsidies (continued)		
Project Consolidate Manguzi		
Balance unspent at beginning of year	17,307	17,307
Library Grant		
Balance unspent at beginning of year	181,569	323,113
Current-year receipts	1,476,000	1,476,000
Conditions met - transferred to revenue	(1,657,569)	(1,617,544)
	-	181,569
Urban Development Grant		
Balance unspent at beginning of year	907,195	907,195
Department of energy		
Balance unspent at beginning of year	-	175,433
Current-year receipts	8,657,622	2,500,000
Conditions met - transferred to revenue	(8,657,622)	(2,675,433)
	-	-
Manzengwenya Project		
Balance unspent at beginning of year	7,500	7,500
Municipal Assistance Program		
Balance unspent at beginning of year	251,168	251,168
Phelandaba Development Grant		
Balance unspent at beginning of year	178,600	178,600
Nhlange Lake Restaurant		
Balance unspent at beginning of year	5,600	5,600

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Figures in Rand	2016	2015
17. Government grants and subsidies (continued)		
Kwa Tembe Concrete Project		
Balance unspent at beginning of year	86,111	86,111
Mbazwana and Manguzi Hubs		
Balance unspent at beginning of year	160,000	160,000
IDP Community Participation		
Balance unspent at beginning of year	2,000	2,000
Conditions met - transferred to revenue	(2,000)	-
	-	2,000
MIG		
Balance unspent at beginning of year	-	-
Current-year receipts	32,490,000	32,490,000
Conditions met - transferred to revenue	(32,490,000)	(32,490,000)
	-	-
FMG		
Balance unspent at beginning of year	-	-
Current-year receipts	1,800,000	1,800,000
Conditions met - transferred to revenue	(1,800,000)	(1,800,000)
	-	-
EPWP		
Balance unspent at beginning of year	-	-
Current-year receipts	1,355,000	1,355,000
Conditions met - transferred to revenue	(1,355,000)	(1,355,000)
	-	-
Tourism and Environmental Affairs Grant		
Balance unspent at beginning of year	200,000	200,000
Conditions still to be met - remain liabilities (see note 11).		
INEG Electrification Grant		
Current-year receipts	15,000,000	-
Conditions met - transferred to revenue	(15,000,000)	-

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17. Government grants and subsidies (continued)		
	-	-
Conditions still to be met - remain liabilities (see note 11).		
Provide explanations of conditions still to be met and other relevant information.		
Cogta electrification grant		
Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(6,450,111)	-
	3,549,889	-
Conditions still to be met - remain liabilities (see note 11).		
18. Public contributions and donations		
Public contributions and donations	30,085	32,303
19. Rental Income		
Rental income	252,125	79,652
20. Other income		
Business Licensing	2,600	800
Sundry income	84,037	64,490
Library Income	20,584	25,405
Tender Documents	257,546	143,510
	364,767	234,205

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21. General expenses		
Audit Committee fees	241,078	209,732
Advertising	542,457	386,196
Auditors remuneration	1,619,143	1,493,323
Bank charges	175,590	104,967
Cleaning	250,802	322,662
Poverty alleviation	3,855,042	4,236,116
Computer expenses	827,507	1,337,286
Consulting and professional fees	5,101,001	3,727,850
Strategic planning	571,071	1,081,568
Disability programme	127,210	72,450
Internal Audit fee	2,998,717	1,482,829
Card Production costs	410,605	338,989
Legal fees	193,600	-
Insurance	303,316	345,163
Festive support	1,025,731	425,131
Indigent support	1,215,588	601,890
Electrification projects	7,701,728	-
Transit costs	53,095	52,648
News letter	292,000	205,750
Marketing	2,848,848	1,090,751
School support programmes	1,090,483	554,262
Promotion and sponsorship	104,590	72,855
Bursary support	538,979	381,130
Office and website rental	182,729	160,306
Fuel and oil	2,019,331	1,536,267
Agricultural projects (Ref note)	21.1 1,193,831	1,410,346
Postage and courier	662,873	486,865
Printing and stationery	1,491,946	1,203,229
Gender Awareness	302,350	-
IDP Review (Ref note)	21.2 5,532,816	1,974,698
Disaster management	220,556	4,691
Security (Guarding of municipal property)	3,167,472	1,943,195
Software expenses	257,114	202,873
Staff welfare	3,367,390	1,040,024
Subscriptions and membership fees	519,059	500,983
Sdf & Nodal Plan (Ref note)	21.3 1,173,755	-
Woman summit	9,000	144,396
Training	1,799,371	1,220,658
Youth programmes	1,014,775	592,000
SMME Development	34,319	662,107
Sports and Recreation (Ref note)	21.4 3,740,562	1,945,706
Electricity	420,959	329,300
Waste management plan	681,670	697,358
Refuse	958,522	681,986
Uniforms	57,710	87,362
Tourism development	295,224	26,900
Accommodation	1,462,526	867,762
Community participation (Ref note)	21.5 7,226,287	3,630,181
Leave pay	864,453	543,530
HIV/AIDS Programme	231,283	619,200
Ward committees	2,056,336	2,335,362
Arts and culture	2,061,929	956,157
Community upliftment (Ref note)	21.6 7,945,165	386,342
Other expenses	393,157	342,826
	83,432,651	45,056,158

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21. General expenses (continued)

21.1 Agricultural projects

These are agricultural projects initiated to develop community gardens. Four agricultural projects namely, Vimbukhalo, Mboza Community Gardern, Hlokohloko Community Gargens and Lulwane Community Gardens. Expenditure was incurred to prepare site, buying ploughing seeds, gardening tools, fencing of site, connecting of irrigation system and buying of uniforms.

Access gates	19 380
Boreholes	209 159
Conti - suits	43 749
Fencing	407 493
Stationery	192 860
Site clearing	291 620
Liquid chemical	29 570

21.2 IDP review

This is an expenditure for specific IDP programmes review which will include amongst other transportation of ward committes, catering for participants in the meeting, hiring of tents and chairs sound system and providing of T-shirts.

Sound system and video	750 453
Catering	1 061 077
Tent and chair hire	1 247 539
Advertising	4 237
T-shirts	959 468
Transport	1 510 042

21.3 Sdf and Nodal

Expenditure was incurred in developing Spacial Development Framework (Sdf) report for Mbazwana Precinct Plan, Phumobala Precinct Plan, Housing Sector Plan and Skhemelele Precinct Plan.

21.4 Sports and Recreation

This vote was used to promote sports and recreation in the community of Mhlabuyalingana for sevenien wards. All sporting codes were sponsored including Mayoral Cup promotion where soccer legends were invited to participate on mayoral cup.

Transport	178 585
Catering	240 050
Soccer kits	1 121 401
Netbal kits	1 130 838
Soccer balls	78 600
Netballs	185 463
Volleyballs	82 715
Volleyball kits	192 130
Printing	331 500
Soccer boots	199 330

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21. General expenses (continued)

21.5 Community participation

There was an increase in attack of people with Albinism around Mhlabuyalingana area, the believe on attack is that they can use human body to develop muthi especially with organs from people with Albinism. Mayor conducted awareness campaigns all over Mhlabuyalingana and covered sevenien wards, where catering, hiring of tents, toilets and chairs, hiring sound system, transportation and t-shirts were provided to spread positive message to curb such barbaric act.

Highjacking of SUV vehicle was on the rife as well, as its a known fact that Mhlabuyalingana is in the border post to Mozambique. Awareness campaign were conducted and community policing forum were establish to try and tame the raise of unatical act.

T-shirts	629 300
Catering	1 718 422
Tent and chair hire	4 046 735
Transportation	196 250
Sound system and video hire	278 330
Toilet hire	357 250

21.6 Community upliftment

Mhlabuyalingana is a poverty stricken area and high level of unemployment is visible. Ward Committes identified the need to provide food parcels to the community to try and eliminate poverty.

Office of the mayor also utilised this vote to address water crisis as a disaster relief through Integrated Disaster Management Plan that we sharing with Mkhanyakude Destrict Municipality.

Boreholes were drilled for different communities to provide water.

Catering	3 026 969
Tent and chair hire	3 081 768
Food parcels	1 836 428

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Figures in Rand	2016	2015
22. Employee related costs		
Basic	27,685,686	23,721,108
Commissions	722,820	708,715
Bonus	1,748,292	1,385,373
Medical aid - company contributions	900,780	668,992
UIF	224,672	193,056
SDL	325,819	276,349
Travel, motor car, accommodation, subsistence and other allowances	1,663,771	1,212,076
Overtime payments	779,470	534,625
Long-service awards	(36,728)	494,178
Car allowance	985,464	974,244
Standby Allowance	445,500	360,000
GroupLife Insurance	317,240	368,032
NJMPF Contribution	1,712,268	1,258,392
SALGBC - Levies	9,019	7,417
	37,484,073	32,162,557
Remuneration of Municipal Manager		
Annual Remuneration	838,637	821,998
Car Allowance	139,020	139,020
Performance Bonuses	87,267	91,332
Contributions to UIF, Medical and Pension Funds	24,875	19,950
Reimbursive Travel	43,344	52,652
Cell phone Allowance	30,000	30,000
	1,163,143	1,154,952
Remuneration of Chief Finance Officer		
Annual Remuneration	673,531	640,184
Car Allowance	122,616	122,616
Performance Bonuses	72,733	54,415
Contributions to UIF, Medical and Pension Funds	88,800	78,212
Reimbursive Travel	43,369	22,260
Cell phone Allowance	25,200	25,200
	1,026,249	942,887
Remuneration of Director - Community Services		
Annual Remuneration	651,530	552,183
Car Allowance	122,616	122,616
Performance Bonuses	94,734	17,489
Contributions to UIF, Medical and Pension Funds	20,227	14,014
Cell phone Allowance	25,200	25,200
Reimbursive Travel	4,805	-
	919,112	731,502
Remuneration Corporate and Human Resources (Corporate Services)		
Annual Remuneration	657,830	577,384
Car Allowance	122,616	122,616
Performance Bonuses	88,434	-
Contributions to UIF, Medical and Pension Funds	68,680	116,651
Cell phone Allowance	25,200	25,200
Reimbursive Travel	18,904	21,580
	981,664	863,431

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Figures in Rand	2016	2015
22. Employee related costs (continued)		
Remuneration of Director Technical Services		
Annual Remuneration	593,333	590,119
Car Allowance	122,616	122,616
Performance Bonuses	54,567	42,136
Contributions to UIF, Medical and Pension Funds	105,896	89,203
Reimbursive Travel	107,190	61,095
Cellphone allowance	25,200	25,200
	1,008,802	930,369
23. Remuneration of Councillors		
Councillors	5,080,076	4,259,353
Travel Allowance	1,621,315	1,333,672
Cell phone Allowance	49,831	75,849
Data Allowance	122,400	115,578
	6,873,622	5,784,452

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Figures in Rand	2016	2015
23. Remuneration of Councillors (continued)		
Mayor		
Annual Remuneration	280,480	249,960
Travel Allowance	93,493	83,320
Cellphone Allowance	20,172	19,825
Data Allowance	3,480	3,420
Performance bonus	45,725	18,239
	443,350	374,764
Deputy Mayor		
Annual Remuneration	224,384	199,969
Travel Allowance	74,795	66,656
Reimbursive Allowance	26,763	36,176
Cellphone Allowance	20,172	19,825
Data Allowance	3,480	3,420
Performance bonus	39,375	14,590
	388,969	340,636
Speaker		
Annual Remuneration	224,384	199,968
Travel Allowance	74,794	66,656
Reimbursive Allowance	56,940	88,187
Cellphone Allowance	20,172	19,825
Data Allowance	3,480	3,420
Performance bonus	40,918	14,591
	420,688	392,647
Exco Member (CIlr N.S Mthethwa)		
Annual Remuneration	210,362	187,470
Travel Allowance	70,120	62,490
Reimbursive Allowance	44,158	39,178
Cellphone Allowance	20,172	19,825
Data Allowance	3,480	3,420
Performance bonus	34,501	13,679
	382,793	326,062
Exco Member (CIlr T.A Zikhali)		
Annual Remuneration	210,362	187,470
Travel Allowance	70,120	62,490
Reimbursive Allowance	4,795	1,157
Cellphone Allowance	20,172	13,679
Data Allowance	3,480	3,420
	308,929	268,216
Exco Member (CIlr B.T Tembe)		
Annual Remuneration	210,362	187,470
Travel Allowance	70,121	62,489
Cellphone Allowance	20,172	19,825
Data Allowance	3,480	3,420
Performance bonus	34,501	13,679
	338,636	286,883
Exco Member (CIlr M.J Ntsele)		
Annual Remuneration	210,362	187,470

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Figures in Rand	2016	2015
23. Remuneration of Councillors (continued)		
Travel Allowance	70,121	62,489
Reimbursive Allowance	15,959	15,287
Cellphone Allowance	20,172	19,825
Data Allowance	3,480	3,420
Performance bonus	34,501	13,679
	354,595	302,170

In-kind benefits

1.1 Mayor and Speaker

The Mayor and Speaker are provided with an office and secretarial support at the cost of the Council. The Mayor has a Council owned vehicles for official duties with a driver and bodyguard at the cost of the Council.

1.2 Traffic Department

The municipality has also a principal/agency relationship with Department of Transport, whereby department provides computer equipment, machinery and and computer software to the municipality to render service of providing licences to the public. The Traffic Station has been established and runned on the full time basis by municipality where municipality has provided building where traffic station is situated, human resource and pays for day to day running cost to run the traffic station.

Memorandum of Agreement has been entered into between municipality and the department where it states that all the proceeds generated in rendering the service be held by municipality, no portion to be paid to the department

The benefit received by municipality in considered not to be material

24. Repairs and maintenance

Repairs and maintenance	26,345,024	8,008,171
Repairs and maintenance		
Furniture and fittings	20,066	-
Computers	-	8,894
Buildings	2,100,483	824,220
Contracted services	3,027,616	809,766
Municipal access roads	19,576,037	5,073,200
Vehicles	1,620,822	1,292,091
	26,345,024	8,008,171

Repairs and maintenance mainly are for furniture and office equipment, computers, vehicle and machinery

Municipal access roads had a huge expenditure in the current year as number of access roads was maintained during the financial period

25. Debt impairment

Contributions to debt impairment provision	6,683,947	18,620,127
Bad debts written off	1,879,722	5,602,975
	8,563,669	24,223,102

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Figures in Rand	2016	2015
26. Investment revenue		
Interest revenue		
Bank	6,958,873	4,973,842
27. Depreciation and amortisation		
Property, plant and equipment	16,366,535	11,489,541
Intangible assets	220,308	157,531
	16,586,843	11,647,072
28. Impairment of assets		
Impairments		
Impairment Fixed Assets	1,600,000	471,063
During the financial period verification was conducted to all the assets and Infrastructure assets of the municipality. Through verification it was identified that certain assets are no longer in condition where it was during their initial construction. Through comparison to similar assets we arrived to the conclusion that certain assets need to be impaired as its condition has depleted and is no longer in the usable condition.		
Impairment loss of an asset is an amount by which the carrying amount of an asset exceed its recoverable amount		
Carrying amount	R6 225 727	
The recoverable amount of the asset was based on its fair value less costs to sell or its value in use.		
Recoverable amount	R4 625 727	
Reversal of impairments		
Property, plant and equipment	(2,804)	-
Certain property, plant and equipment useful life were revised and it was previously impaired and they are still in use.		
Total impairment losses (recognised) reversed	1,597,196	471,063
29. Finance costs		
Other interest paid	824,605	844,244
30. Auditors' remuneration		
Fees	1,619,143	1,493,323

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Figures in Rand	2016	2015
31. Cash generated from operations		
Surplus	29,500,156	40,131,744
Adjustments for:		
Depreciation and amortisation	16,586,843	11,647,072
Loss on sale of property, plant and equipment	64,023	996,604
Cash losses - written off	-	37,600
Impairment deficit	1,597,196	471,063
Movements in provisions	663,354	1,235,457
Non cash item - Electrification	7,701,728	-
Other non-cash items	(140)	426,637
Changes in working capital:		
Receivables from exchange transactions	103,293	(471,063)
Receivables from non-exchange transactions	(1,256,446)	5,396,131
Other receivables from non-exchange transactions	(5,072)	-
Payables from exchange transactions	2,845,640	(1,218,780)
VAT	(2,304,700)	(490,374)
Unspent conditional grants and receipts	6,768,578	(677,059)
Cash losses written off	-	37,600
Impairment - intangibles	-	157,531
	62,264,453	57,680,163
32. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Nyamazane Sportfield	-	7,164
• Mboza Electrification	-	4,521,212
• Bhekabantu Sportfield	-	402,642
• Ntshongwe Electrification	886,194	5,800,784
• Nsukumbi Bridge	-	171,592
• Municipal Gate	-	20,267
• Welcome Community Centre	1,183,899	-
• Lulwane Community Centre	2,615,597	-
• Ward 8 Electrification	3,124,302	-
• Mboza Electrification Phase 2	2,903,165	-
• Manguzi Multi Purpose Centre	22,951,859	-
	33,665,016	10,923,661
Operational Commitments		
• Outstanding Orders	755,141	1,439,511
Total capital commitments		
Already contracted for but not provided for	33,665,016	10,923,661
Authorised by accounting officer	755,141	1,439,511
	34,420,157	12,363,172

This committed expenditure will be financed by available bank facilities, existing cash resources, funds internally generated, or grants.

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33. Contingencies

Natal Joint Municipal Pension Fund (NJMPF) has a claim in terms of Regulation 1 (xxi)(h) of the Regulations to the Natal Joint Municipal Pension Fund (Superannuation). NJMPF have been granted Default Judgment. A warrant of execution has been issued, they have attached municipal movable property. Financial exposure including disbursement amounts to R192 832.38

Ngubane and Co Partnership has instituted a claim against municipality for breach of contract and subsequent damage as a result thereof. Settlement amount is R301 599.73

34. Related parties

Refer to note 22 for Key Management information and their remuneration.

35. Change in estimate

Property, plant and equipment

The useful life of certain assets was estimated at acquisition to be depreciated over various years. In the current period management have revised their estimate. The effect of this revision has decreased the depreciation charges for the current and future periods by R -17 045

Effect on statement of financial performance

Depreciation decrease R17 045

Effect on statement of financial position

Accumulated depreciation decrease R17 045

There was no impact on the cash flow statement.

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36. Prior period errors

Current assets	2015 Audited Annual Financial Statements	2016 Annual Financial Statements	Restatement	Reference
Cash and cash equivalents	77,638,254	77,653,673	(15,419)	35.2
Subtotal	77,638,254	77,653,673	(15,419)	
	77,638,254	77,653,673	(15,419)	
Non current assets				
Property, plant and equipment	221,089,195	200,815,397	20,273,798	36.3
Subtotal	221,089,195	200,815,397	20,273,798	
Liabilities				
Payables from exchange transactions	7,535,024	7,322,150	212,874	35.4
Subtotal	7,535,024	7,322,150	212,874	
Net Assets				
Accumulated surplus	291,192,425	271,146,920	20,045,505	
Subtotal	291,192,425	271,146,920	20,045,505	
	291,192,425	271,146,920	20,045,505	
Statement of financial position	2015 Audited annual financial statements	2016 Annual financial statements	Restatement s	Reference
Other expenses	44,994,336	45,014,595	20,259	36.1
Subtotal	44,994,336	45,014,595	20,259	

The effect of these adjustments on the prior year is as follows:

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36. Prior period errors (continued)

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

36.1 Other Expenditure

Invoice raised on the system was not cleared when paid as a result of system error, subsequently cleared.

The effect on statement financial performance has resulted in recognition of the expenditure in the current year.

Audited annual financial statements were not adjusted while the invoice was subsequently updated on the system.

36.2 Cash and cash equivalents

The amount received from LGSITA was incorrectly allocated to cashiers collection instead of Sundry Income.

36.3 Property Plant and Equipment

The adjustments are as a results of transfer Electrification Projects from Municipality to Eskom.

Assets under Construction (WIP) was reduced and expensed for projects that related to current period Some projects relate to prior period and were adjusted on Accumulated Surplus.

The other adjustments relate to correction of Retention which resulted in adjustment of depreciation, and cost to Qongweni/Mtanenkosi and Parking Shelters.

Other adjustment relate to depreciation on unbundling of assets.

36.4 Payables for exchange transactions

Retention creditors adjusted to correct Qongweni/Mtanenkosi and Parking Shelters.

37. Risk management

Financial risk management

Liquidity risk

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.

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37. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
Receivables from exchange transactions	266,558	390,109
Receivables from non - exchange transactions	7,038,520	6,091,429
Cash and cash equivalents	62,188,345	77,638,254

Refer to note 6 and note 8 for ageing of receivables as well as note 9 for further disclosure of cash and cash equivalents.

Market risk

Interest rate risk

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

38. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had surplus of R 29,500,156 and that the municipality's total assets exceed its liabilities by R 296,594,319.

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.

39. Events after the reporting date

The following matter took place since the end of the financial year

Subsequent to year end the new Councilors were inaugurated following the local government elections that took place on 3 August 2016.

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

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40. Unauthorised expenditure

Unauthorised expenditure relates to the provision of water boreholes and temporary clinics, these do not lie within the functions of the municipality but that of the district. Due to the fact that municipality was declared as disaster area municipality provided the temporary relief.

Boreholes	2,892,649	-
Clinics	1,005,326	-
Creche	868,967	-
Ndwangu causeway	76,420	-
	4,843,362	-

41. Fruitless and wasteful expenditure

Opening balance	5,942,581	5,938,497
Add: Fruitless and wasteful expenditure	3,147	4,084
Less: amount written off current year	(5,942,581)	-
	3,147	5,942,581

42. Irregular expenditure

Opening balance	80,642,075	78,117,624
Add: Irregular expenditure	6,439,830	2,524,451
Less: Amounts written off current year	(80,642,075)	-
	6,439,830	80,642,075

Details of irregular expenditure - In Service of the State

	Reason for Irregular Expenditure	
Repeat Suppliers identify by CAATs	Procurement from these suppliers was done prior to receiving report that lists suppliers in service of the state in the financial year audit 2014/15, however municipality has stopped procuring any goods or services from these suppliers. These suppliers were investigated by municipality and various reasons were provided to clarify members that were picked to be in service of the state.	841,157
Newly Identified Suppliers by CAATs	These are newly identified suppliers who were identified as in services of the state by CAATS system audit for financial period 2015/16, municipality will conduct further investigation to recover any amounts paid to these particular suppliers, and further more municipality will seek to procure detection system that will prevent and flag procurement from suppliers who are in service of the state.	3,693,937
Bids advertised	The invitation of competitive bids is done by inviting prospective bidders by means of public advertisement in newspapers, the website or any appropriate means. Advertisement was put on the website and approval to place advertisement in the newspaper was sent, however unforeseen circumstances led to a delay in placement of the advertisement in the newspaper, that resulted it being 21 days.	1,904,736
		6,439,830

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43. In-kind donations and assistance

Traffic Department

The municipality has a principal/agency relationship with KZN Department of Transport. The department is responsible for driving and learner licence testing functions, in order to provide greater access throughout the Province the department have identified agents. The department has provided all necessary equipment (i.e eye testing, computerised learners licence testing system, eNaTIS equipment, etc) to the municipality and it is the responsibility of the municipality to ensure that these remain in good operating order. The Traffic Station is run on the full time basis by municipality where municipality has provided building where traffic station is situated, human resource and day to day running cost of the traffic station.

Memorandum of Agreement has been entered into between municipality and the department where it states that all the proceeds generated in rendering the service be held by municipality, no portion to be paid to the department

The benefit received by municipality is considered not to be material

44. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year subscription / fee	1,619,143	1,493,323
Amount paid - current year	(1,619,143)	(1,493,323)
	-	-

PAYE and UIF

Opening balance	18,624	82,170
Current year subscription / fee	3,275,386	5,552,690
Amount paid - current year	(3,294,010)	(5,616,236)
	-	18,624

Pension and Medical Aid Deductions

Opening balance	-	(1,192)
Current year subscription / fee	1,183,826	1,882,843
Amount paid - current year	(1,183,826)	(1,881,651)
	-	-

VAT

VAT receivable	4,479,478	2,174,640
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VAT output payables and VAT input receivables are shown in note .

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

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45. Deviation from supply chain management regulations

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

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

46. Deviations

Assets that have been recognised, but which are subject to restrictions, the amount of restriction are as follows:

Opening balance	3,318,946	2,924,128
Nature of the restrictions		
Deviations for the year	541,490	394,818
Nature of the restrictions		
Noted by Council	(3,860,436)	-
Nature of the restrictions		
Noted by council	-	3,318,946
Nature of the restrictions		

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47. Explanation of variances above 10% on General Expenses

Variances above 10% are explained below:

Audit committee fees	241 078	209 732	0.15	The number of meetings for audit committee increased for further consideration of municipal documents
Advertising	542 457	386 196	0.40	Advertising increased as a result on increase in programs, tenders and positions advertised for new positions
Auditors remuneration	1 619 143	1 493 323	0.08	The charges relate to service provided by Auditor General
Bank charges	175 590	104 967	0.67	The bank charges increased as a result of main transaction which were occurring on the municipal account
Cleaning	250 802	322 662	(0.22)	Increase of sites to be cleaned by this cleaning material including the price increase is also considered on the percentage increase
Poverty alleviation	3 878 261	4 236 116	0.62	Increase happened as result of a need identified at a ward level by municipal councilors to enhance the level of poverty at a ward level
Computer expenses	827 507	1 337 286	(0.38)	Decreased because more expenses occurred in the previous financial year which related to server and installation cost.
Consulting and professional f	5 101 001	3 727 850	0.37	Increase as a result of implementation all models to be ready for the implementation of MSCOA and consulting fees paid for services of review municipal policies, fixed assets review cost, PMS and valuation roll by independent consultants
Strategic planning	571 071	1 081 568	(0.47)	There was a reduction of spending in this vote since it was not ideal to strategize with the outgoing councilors for the running of a municipality and plan is to do this during the next coming council
Disability programme	127 210	72 450	0.76	Council increase this vote to respond to the issues raised by people living with disability during the IDP programmes to fund their programmes
Community Programme	440 208	386 342	0.14	Fiscal increase in the budget and increase in actual prices
Card Production costs	410 605	338 989	0.21	Increase as a result of the demand for people in need of drivers licence with KZN 271
Insurance	303 316	345 163	(0.12)	There was a huge decrease in the number of assets insured, due to vehicle accidents and other assets write off
Festive support	1 025 731	425 131	1.41	Expenditure increase as a result to a need identified during festive period to assist tourist.
Indigent support	1 215 588	601 890	1.02	Increase as a result of indigent increase in the area of Umhlabuyalingana local municipality
Transit costs	53 095	52 648	0.01	Less than required percentage for providing reasons
Marketing	2 848 848	1 090 751	1.61	Council took a decision that a municipality have to be marketed to all it people using all the necessary strategies so that a municipality can be known by it people
School support programmes	1 090 483	554 262	0.97	It increased a result of growing need with the area to assist learns to register to universities to allow them to chance to access high education which will enhance the economy of the area.
Promotions	104 590	72 855	0.44	Library promotion programmes have increase due to prices increase and the methods utilised in the current financial year to promote education
Electrification project	7 701 728	-	-	The capital project was transferred to Eskom after completion hence it is expensed

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47. Explanation of variances above 10% on General Expenses (continued)

Bursary support	538 979	381 130	0.41	Provision of bursary enhance the pass percentage at a grade 12 level hence the municipality increase the budget and actual increased
Office and website rental	182 729	160 306	0.14	Increase in prices including inflation.
Fuel and oil	2 019 331	1 536 267	0.31	Increase of fleet in the municipality and increase in the price for petrol and diesel
Agricultural projects	1 063 831	1 410 346	(0.25)	Decrease in LED project because the LED strategy request that we assist SMME programmes with is budget individual.
Postage and courier	662 873	486 865	0.36	Increase in prices and use of courier services.
Printing and stationery	1 491 946	1 203 229	0.24	Increase of prices and increase of staff complement within the municipality
Gender Awareness	302 350	-	-	Gender awareness campaign runned in the office of the mayor and was introduced in the current financial year
IDP Review	5 532 816	1 974 698	1.80	During the IDP public participation communities requested that we visit all the wards and explain programs, IDP, budget and Score card for their better understanding of the municipality since they do not understand thing happening within KZN 271
Disaster management	220 556	4 691	46.02	Training conducted by disaster team to local communities on how to avoid disasters in their area of Jurisdiction.
Security (Guarding of municip	3 167 472	1 943 195	0.63	The municipality have increase the scope of work under this contract and the sites were increase before the appointment of the new service provider wherein sportfeild should have security guards.
Software expenses	257 114	202 873	0.27	Increase in prices and the payment of licences including caseware which was not there in the previous financial year.
Staff welfare	3 919 982	1 040 024	2.77	Increase as a results of more employee wellness programmes runned during the financial year, to try and reduce stress levels amongst the employees
Subscriptions and membershi	519 059	500 983	0.04	Less than required percentage for providing reasons
Sdf & Nodal Plan	1 173 733		1.00	Expenditure increased as a result of review of document relating to planning development.
Woman summit	9 000	144 396	(0.94)	Decrease because summit did not occur in the current financial year.
Training	1 799 371	1 220 658	0.47	Increase as a result of staff taken for training during the current year
Youth programmes	1 014 775	592 000	0.71	This vote increase due to the fact that youth from Umhlabuyalingana claimed that the municipality is silent to youth program, hence the council took a resolution to budget more during the current financial year
SMME Development	34 319	662 107	(0.95)	Expenditure decrease because in the current financial year, management was developing a plan to assist SMME development hence there is no expenditure in this vote.
Sports and Recreation	3 740 562	1 945 706	0.92	This vote increase as a result where youth requested during the IDP, budget consultation requested that the municipality must provide for sports programmms
Electricity	420 959	329 300	0.28	Increase in eskom prices resulted in the increase to the actual expenditure
Sewerage and waste disposa	681 670	697 358	(0.02)	Less than required percentage for providing reasons
Refuse	958 522	681 986	0.41	Community services increased sites where refuse is required to be collected as per their Services Delivery Budget and Implementation Plan
Uniforms	-	87 362	-	Durability of uniform last for more than a year, purchase was only made for new staff that was employed during the current year

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47. Explanation of variances above 10% on General Expenses (continued)

Tourism development	295 224	26 900	9.97	The increase is informed by the LED Strategy approved by the council.
Accommodation	1 462 526	867 762	0.69	Increase in accommodation prices and increase of staff complements which accesses such services
Community participation	7 226 287	3 630 181	0.99	Increase emanated from the community request that we should not conduct public participation only to traditional council but we should go ward by ward for the easy access of the municipality and it was endorsed by council.
Leave pay	864 453	543 530	0.59	Provision for leave increased by this amount due to the increase of employees in the municipality
HIV/AIDS Programme	231 283	619 200	(0.63)	The expenditure decrease as a result of combination of programmes between the municipality and local hospitals.
Ward committees	2 056 336	2 335 362	(0.12)	This vote decreased because no training was performed in the current financial year.
Arts and culture	2 061 929	956 157	1.16	Increase of programs that relate to arts and culture programmes as per the IDP
Legal fees	193 600	-	1.00	Expenditure to draft contracts for consultants, lease agreement for tenants on markets, and civil claim that was instituted against municipality
Community upliftment	7 945 165	386 342	17.56	This expenditure was incurred to run programmes to respond to demands of the community with regards to complains to service delivery and report back to community on progress
Other expenses	393 157	342 826	-	This vote includes expenditure relating to licencing of vehicles, licencing of Mbazwana cemetery, and development of documentation for town planning

48. Budget statement

Material differences between final budget and actual amounts

48.1 Interest Received

Interest on outstanding debtors has a variance of 24%. The budget on Interest from outstanding debtors was understated .

48.2 Services Charges

Service charges variance on original budget and adjustment budget is 60% because it was discovered that budget for services charges was understated in the original budget.

48.3 Rental Income

Rental Income has a variance of 18%. Under collection in this category is a result of market rental debtors who are not paying for their accounts regularly.

48.4 Other Income

Other income has a variance of 26% because of the increase in tender documents revenue resulting from SCM processes that were started early for 2016/2017 capital projects.

48.5 Interest on Investments

Interest on Investments has a variance of 24% because the municipality had more money invested in short term investments and it increased the interest received from investments.

48.6 Property Rates

Property rates has a variance of 16% on original budget and adjustment budget, because of the significant reduction on properties in the valuation roll and tariffs reduction in relation to Ingonyama trusts debtors.

48.7 Traffic Fines

Traffic fines has a variance of more than 50% because the budget estimates were based on the previous years actual's whereas the current year actual's is a result of traffic fines issued.

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48. Budget statement (continued)

48.8 Finance Costs

Finance costs budget was high in the original budget but it was adjusted in the adjustment budget after it was discovered that all the lease agreements were coming to an end in this financial year.

48.9 Debt Impairments

Debt impairment budget was understated.

48.10 General Expenses

General expenses variance of 12% on actual expenditure against the budget because of the electrification projects that had to be expensed as they were transferred to Eskom and 32% of original budget against adjustment budget is a result of the Mid Year Assessment of performance against the budget. Another reason for the increase on the general expenditure is a result of more awareness campaigns the municipality had conducted as a result of certain incidents that happened in this financial year like victimization of Albinos, as well as new programs that were initiated in this financial year such as Youth Programmes, Arts and Culture, HIV Programmes, Sports and Recreation and Gender Programmes.

48.11 Capital Expenditure

Capital expenditure comprises of five categories namely: Municipal access roads, Buildings, Sportfields, Electrification and Other Assets. It also included assets that were build on behalf of district municipality for provision of disaster relief, the assets that were build include Community Boreholes, Creches and Mobile Clinics. The total approved budget was R94 954 364 and total expenditure was R74 904 675 with an underspending of 21% from Community halls (Other Assets) and Electrification. The underspending was due to municipality receiving the Electrification grant of R10.2 million which was not planned for the beginning of the financial year, the stated amount was received in the third quarter of the financial year and the municipality has applied for approval of roll over in 2016/2017. Projects for construction of Community halls were halted.

48.12 Donations

Public contributions and donations increased due to assets donated by Department of Art and Culture.

48.13 Personnel Costs

We have underspent on the employee cost as a results of positions that were initially planned to be implemented. These positions were not filled such as:

- Specials Programme Manager
- Director Planning
- Planning Secretary
- Two Planning Interns
- Committee Assistants
- Technicians

48.14 Depreciation

The depreciation estimate was based on the last years expenditure. There were significant additions in the current year and there were no disposals.

48.15 Impairment Loss

No provision was made during the current financial year for impairment as the conditional assessment was performed at the end of financial year.

Changes from the approved budget to the final budget

The changes between the approved and final budget are as a consequence of other factors within the approved budget parameters. Below are the reasons for adjustment budget.

48.16 Services Carges

Waste services budget was adjusted. This is mainly due to prior year being used as basis for current year budget estimation(original budget).In the prior year,waste services were only provided to the two hospitals (Manguzi and Mseleni). In the current year,the municipality started providing waste services to Ithala centre which resulted in a significant increase in Waste services revenue and hence the budget was adjusted.

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48. Budget statement (continued)

48.17 Interest Received

More interest was anticipated during financial period, but more financial activities was conducted by municipality that resulted in more withdrawals for main bank account resulted in decrease in interest

48.18 License and Permits

Original budget was based on prior year actual's, through current trends and analysis it was observed that individuals applying for licences would not reach estimate as per last year. A reduction to original budget was done.

48.19 Other Income

Other Income includes Tender documents, Library income, Commission, Business licensing. Tender documents issued during the financial year were more than the tender documents issued in the prior period, the original budget was based on the estimates of prior period. Receipts for commission are monies received from Liberty, and it was accounted for as sundry income in prior years. The correct allocation of this income resulted in adjusting budget in the current financial year.

48.20 Interest Received - Investments

More investments were done during the financial period

48.21 Property Rates

On the new valuation/supplementary roll that was received from property valuer, certain properties were removed and budget was based on previous valuation/supplementary roll.

48.22 Government Grants

Electrification grant from COGTA was received during December, as a results original budget was adjusted.

48.23 Fines

Original budget was based on what was received in the prior period, traffic officials were increased and more fines were issued during the financial period.

48.24 Personnel Cost

Increase in employee related cost due to municipality understated cost base on SALGA agreement, medical aid, pension fund, long services award and overtime.

48.25 Remuneration of Councilors

Original budget for councilors allowance is adjusted by on basis of Government Gazette for the upper limits that are issued by office of the MEC.

48.26 Finance Costs

Lease contracts ended during the financial period and the original budget was based on the number of finance lease machine municipality had during the previous financial period.

48.27 Debt Impairment

Impairments were done to certain fixed assets after conducting verification to municipality fixed assets. The condition of such assets were depleted as a results recommendation was made to impair such assets.

48.28 Repairs and Impairments

Repairs and maintenance has increased during the adjustment budget on the due to high maintenance plan and review certain infrastructure that were vandalised by storm during the financial year.

48.29 General Expenses

General expenditure is a group of expenditure incurred in various departments and is made out of these adjustment:

Council department

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48. Budget statement (continued)

Original budget was approved by council during May 2015 the total operating expenditure was R150 million and the budget has increased by R29 million based on the midyear expenditure review. To ensure effectiveness and performance of executive office, accommodation, subsistence and travelling, indigent support, public participation and IDP review were adjusted accordingly.

Management department

Original budget for management department increased from R19 million to R31 million. The increase was due to reach local communities through public participation and municipal marketing. New strategies to engage local communities for the purpose of prioritisation during the development or revision of the Integrated Development Plan and alignment to the budget.

Finance department

Original budget was R5.9 million and the adjustment budget has increased to R9.7 million due to MSCOA implementation and professional fees increase

Corporate Services

The original budget was R7.9 million and has increased to R10 million due to planned extension of scope on security and review of municipality policies.

Technical Services

Original budget was R3.1 million and increased to R3.3 million base on the revised regulation of Mbazwana and Manguzi towns and increase of fuel and oil due to procurement of tractor and refuse truck.

Community Service

The budget has increased from R14 million to R18 million base on extension of scope on Community programmes on Arts and Culture, Youth Programmes and HIV and Aids.

48.30 Capital Expenditure

Capital budget has been increased due to additional computer equipment, furniture and office equipment has been added during the financial period.

Rollover of unspent grants grant received from COGTA has contributed to increase in original budget.