



UMKHANYAKUDE DISTRICT MUNICIPALITY

**Annual Financial Statements
for the year ended 30 June 2016**

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	DC27 Umkhanyakude District Municipality
Executive Committee	Cllr Vilane SJ (Mayor) Cllr Swartz CG (Deputy Mayor) Cllr Mavimbela HGS (Speaker) - Ex Officio Cllr Nxumalo SH (Exco Member) Cllr Moodley GP (Exco Member) Cllr Zungu MC (Exco Member)
Councillors	Cllr Gumbi DL Cllr Hlabisa VF Cllr Khumalo LV Cllr Khumalo SR Cllr Langa ME Cllr Mabuyakhulu PJ Cllr Mathenjwa SM Cllr Mathonsi ZW Cllr Mdaka SF Cllr Mkhombo TS Cllr Mkwanazi MQ Cllr Mngomezulu BZ Cllr Mthethwa B Cllr Mthethwa SP Cllr Msane MS Cllr Msweli MCF Cllr Ngema TN Cllr Ntsele MJ Cllr Nxumalo MW Cllr Sangweni MB Cllr Shobede MZ Cllr Zikhali AT Cllr Madlopha BP
Grading of local authority	Grade 4
Chief Financial Officer (CFO)	Ngcobo M (Acting CFO)
Accounting Officer	Mokhatla TZ (Acting)
Business address	Harlingen No. 13433 Kingfisher Road Mkuze 3965
Postal address	P.O. Box 449 Mkuze
Bankers	First National Bank - Primary and Call Accounts ABSA Ithala Bank
Auditors	Auditor-General South Africa

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

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Abbreviations

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

UMKHANYAKUDE DISTRICT 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 were given unrestricted access to all financial records and related data.

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

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

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

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

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

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

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

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the financial statements below are within the upper limits of the Framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 5 to 61, which have been prepared on the going concern basis, were approved by Council on 31 August 2016 and were signed on its behalf by:

T.Z. Mokhatla
Accounting Officer (Acting)

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

Figures in Rands	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	3	136 923 806	160 496 237
Receivables from exchange transactions	4	74 982 319	79 948 739
Other receivables from exchange transactions	5	3 757 395	1 347 015
VAT receivable	6	45 744 421	18 055 270
Cash and cash equivalents	7	27 315 139	12 696 413
		288 723 080	272 543 674
Non-Current Assets			
Property, plant and equipment	8	1 660 976 185	1 514 819 184
Intangible assets	9	365 307	511 562
Heritage assets	10	586 000	586 000
		1 661 927 492	1 515 916 746
Total Assets		1 950 650 572	1 788 460 420
LIABILITIES			
Current Liabilities			
Payables from exchange transactions	11	249 994 653	223 650 237
Consumer deposits	12	1 193 053	1 180 943
Unspent conditional grants and receipts	13	24 101 774	33 540 297
Current portion of defined benefit plan obligation	14	223 000	108 000
Current portion of loans	15	839 102	1 499 973
		276 351 582	259 979 450
Non-Current Liabilities			
Defined benefit plan obligation	14	5 865 940	4 779 000
Non-current loans	15	7 225 468	7 400 108
		13 091 408	12 179 108
Total Liabilities		289 442 990	272 158 558
Net Assets		1 661 207 582	1 516 301 862
Accumulated surplus		1 661 207 582	1 516 301 862

* See Note 31

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance as at 30 June 2016

Figures in Rands	Note(s)	2016	2015 Restated*
REVENUE			
Revenue from exchange transactions			
Service charges	16	23 334 365	32 562 143
Rental of facilities and equipment	18	66 939	75 322
Interest revenue	19	12 502 874	9 091 377
Other revenue	20	34 355 683	14 646 287
Revenue from non-exchange transactions			
Government grants & subsidies	17	499 263 523	391 167 606
Total revenue		569 523 384	447 542 735
EXPENDITURE			
Employee Related Costs	21	(127 407 231)	(119 633 058)
Remuneration of Councillors	22	(6 445 538)	(6 721 030)
Depreciation and Amortisation	23	(36 347 769)	(28 097 711)
Finance Costs	24	(2 225 598)	(6 226 907)
Debt Impairment	25	(12 208 870)	24 662 719
Repairs and Maintenance	26	(33 218 155)	(46 454 102)
Bulk Purchases	27	(73 600 998)	(89 042 318)
Contracted Services	28	(13 431 591)	(31 525 197)
General Expenses	29	(119 731 913)	(101 830 438)
Total expenditure		(424 617 663)	(404 868 042)
Operating surplus		144 905 721	42 674 693
Surplus for the year		144 905 721	42 674 693

* See Note 31

UMKHANYAKUDE DISTRICT 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
Opening balance as previously reported	1 446 952 934	1 446 952 934
Adjustments		
Prior period errors - Note 31	26 674 235	26 674 235
Balance at 01 July 2014 as restated*	1 473 627 169	1 473 627 169
Changes in net assets		
Restated surplus for the 12 months	42 674 693	42 674 693
Total changes	42 674 693	42 674 693
Restated* Balance at 01 July 2015	1 516 301 862	1 516 301 862
Changes in net assets		
Surplus for the year	144 905 720	144 905 720
Total changes	144 905 720	144 905 720
Balance at 30 June 2016	1 661 207 582	1 661 207 582

* See Note 31

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Cash Flows

Figures in Rands	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		32 342 714	346 916
Grants		490 940 000	402 497 753
Interest income		12 502 873	9 091 377
Other receipts		34 422 622	14 721 609
		<u>570 208 209</u>	<u>426 657 655</u>
Payments			
Employee costs		(133 852 769)	(126 354 088)
Suppliers		(187 638 859)	(240 330 059)
Finance costs		(2 225 598)	(6 226 907)
		<u>(323 717 226)</u>	<u>(372 911 054)</u>
Net cash flows from operating activities	30	<u>246 490 983</u>	<u>53 746 601</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(231 012 497)	(51 290 326)
Purchase of other intangible assets	9	(24 250)	(300 271)
		<u>(231 036 747)</u>	<u>(51 590 597)</u>
Net cash flows from investing activities		<u>(231 036 747)</u>	<u>(51 590 597)</u>
Cash flows from financing activities			
Movement in non-current loans		(835 510)	(837 667)
		<u>(835 510)</u>	<u>(837 667)</u>
Net (decrease)/increase in cash and cash equivalents		14 618 726	1 318 337
Cash and cash equivalents at the beginning of the year		12 696 413	11 378 076
Cash and cash equivalents for the year	7	<u>27 315 139</u>	<u>12 696 413</u>

* See Note 31

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	48 063 207	(13 665 622)	34 397 585	23 334 365	(11 063 220)	
Rental of facilities and equipment	198 153	(110 143)	88 010	66 939	(21 071)	
Other income	28 379 000	10 512 369	38 891 369	34 355 683	(4 535 686)	
Interest recieved - investment	5 797 527	1 414 857	7 212 384	12 502 874	5 290 490	
Total revenue from exchange transactions	82 437 887	(1 848 539)	80 589 348	70 259 861	(10 329 487)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	284 386 950	3 755 000	288 141 950	499 263 523	211 121 573	
Total revenue	366 824 837	1 906 461	368 731 298	569 523 384	200 792 086	
Expenditure						
Employee Related Costs	(135 490 852)	10 161 000	(125 329 852)	(127 407 231)	(2 077 379)	
Remuneration of councillors	(11 409 000)	4 332 718	(7 076 282)	(6 445 538)	630 744	
Depreciation and amortisation	(24 607 000)	(3 597 382)	(28 204 382)	(36 347 769)	(8 143 387)	
Debt Impairments	(38 511 000)	9 301 578	(29 209 422)	-	29 209 422	
Finance costs	(316 800)	(389 937)	(706 737)	(2 225 598)	(1 518 861)	
Bad debts written off	-	-	-	(12 208 870)	(12 208 870)	
Repairs and maintenance	(29 072 460)	(1 867 541)	(30 940 001)	(33 218 155)	(2 278 154)	
Bulk purchases	(63 237 737)	2 694 159	(60 543 578)	(73 600 998)	(13 057 420)	
Contracted Services	(18 309 224)	(1 500 000)	(19 809 224)	(13 431 591)	6 377 633	
General Expenses	(45 870 629)	(21 041 149)	(66 911 778)	(119 731 914)	(52 820 136)	
Total expenditure	(366 824 702)	(1 906 554)	(368 731 256)	(424 617 664)	(55 886 408)	
(Surplus)/Deficit					135	(93)
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement					135	(93)

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Current Assets						
Inventories	65 000	-	65 000	136 923 806	136 858 806	Appendix A
Other receivables from exchange transactions	38 402 000	-	38 402 000	3 757 395	(34 644 605)	
VAT receivable	-	-	-	45 744 421	45 744 421	
Consumer debtors	44 056 000	(36 011 264)	8 044 736	74 982 319	66 937 583	
Cash and cash equivalents	25 289 000	8 570 000	33 859 000	27 315 139	(6 543 861)	
Non-Current Assets						
Property, plant and equipment	1 433 453 292	-	1 433 453 292	1 660 976 187	227 522 895	
Intangible assets	31 000	-	31 000	365 307	334 307	
Heritage assets	-	-	-	586 000	586 000	
Total Assets	1 541 296 292	(27 441 264)	1 513 855 028	1 950 650 574	436 795 546	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	-	-	-	
Payables from exchange transactions	96 717 000	(33 361 727)	63 355 273	249 994 655	186 639 382	
Consumer deposits	40 000	-	40 000	1 193 053	1 153 053	
Unspent conditional grants and receipts	-	-	-	24 101 774	24 101 774	
Defined benefit plan obligation	4 025 877	-	4 025 877	223 000	(3 802 877)	
Current portion of loans	1 300 931	-	1 300 931	839 102	(461 829)	
	102 083 808	(33 361 727)	68 722 081	276 351 584	207 629 503	
Non-Current Liabilities						
Defined benefit plan obligation	-	-	-	5 865 940	5 865 940	
Non-current loans	7 427 917	-	7 427 917	7 225 468	(202 449)	
Non-current finance lease liability	150 000	-	150 000	-	(150 000)	
	7 577 917	-	7 577 917	13 091 408	5 513 491	
Total Liabilities	109 661 725	(33 361 727)	76 299 998	289 442 992	213 142 994	
Net Assets	1 431 634 567	5 920 463	1 437 555 030	1 661 207 582	223 652 552	
Net Assets						
Reserves						
Accumulated surplus	1 431 634 567	5 920 463	1 437 555 030	1 661 207 582	223 652 552	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	48 063 000	(35 842 358)	12 220 642	23 260 010	11 039 368	
Grants	492 040 000	(1 100 000)	490 940 000	499 263 523	8 323 523	
Interest income	5 797 000	(3 297 380)	2 499 620	7 483 338	4 983 718	
Other receipts	28 577 000	26 814 000	55 391 000	34 422 623	(20 968 377)	
	574 477 000	(13 425 738)	561 051 262	564 429 494	3 378 232	
Payments						
Suppliers and employee costs	(303 390 000)	(61 498 000)	(364 888 000)	(302 492 798)	62 395 202	
Finance costs	(316 800)	(389 937)	(706 737)	(2 225 598)	(1 518 861)	
	(303 706 800)	(61 887 937)	(365 594 737)	(304 718 396)	60 876 341	
Net cash flows from operating activities	270 770 200	(75 313 675)	195 456 525	259 711 098	64 254 573	
Cash flows from investing activities						
Purchase of property, plant and equipment	-	-	-	(233 862 880)	(233 862 880)	
Proceeds from sale of property, plant and equipment	70 000	-	70 000	350 791	280 791	
Purchase of other intangible assets	-	-	-	(24 250)	(24 250)	
Net cash flows from investing activities	70 000	-	70 000	(233 536 339)	(233 606 339)	
Cash flows from financing activities						
Movement in provisions	-	-	-	(1 282 000)	(1 282 000)	
Movement in non-current loans	-	-	-	(835 510)	(835 510)	
Net movement in unspent conditional grants	-	-	-	(9 438 523)	(9 438 523)	
Net cash flows from financing activities	-	-	-	(11 556 033)	(11 556 033)	
Net increase/(decrease) in cash and cash equivalents	270 840 200	(75 313 675)	195 526 525	14 618 726	(180 907 799)	
Cash and cash equivalents at the beginning of the year	-	-	-	12 696 413	12 696 413	
Cash and cash equivalents at the end of the year	270 840 200	(75 313 675)	195 526 525	27 315 139	(168 211 386)	

UMKHANYAKUDE DISTRICT 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.

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 may be required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates.

Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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

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

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

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 14 - Provisions.

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Property, plant and equipment (continued)

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.

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

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

Property, plant and equipment is carried at cost

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

Item	Average useful life
Buildings	
• Residential dwellings	10 - 25 years
• Non residential dwellings	15 - 25 years
Infrastructure	
• Electricity	5 - 60 years
• Water	5 - 100 years
• Sewerage	10 - 40 years
• Airports	15 - 30 years
• Stormwater	30 - 80 years
• Capital works in progress	Not applicable
Other	
• Furniture and office equipment	5 - 10 years
• Computer equipment	3 - 5 years
• Transport assets	5 - 7 years
• Other machinery and equipment	5 - 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 municipality 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.

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.

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Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Property, plant and equipment (continued)

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

1.5 Intangible assets

Intangible assets are initially recognised at cost.

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

An intangible asset is recognised when:

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

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.

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	5 years

Intangible assets are derecognised:

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

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

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.6 Heritage assets (continued)

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Financial instruments

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

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

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

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

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

A financial asset is:

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

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

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

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1.7 Financial instruments (continued)

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

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

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

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

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

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

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at fair value
Financial liabilities (loans payable)	Financial liability measured at amortised cost
Finance leases liabilities	Financial liability measured at amortised cost

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

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1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Derecognition

Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;

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

Financial liabilities

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

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

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Accounting Policies

1.7 Financial instruments (continued)

Presentation

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

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

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

Receivables from trade transactions

Receivables from exchange transactions are measured at amortised cost.

Payables from exchange transactions

Trade payables are measured at fair value.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. These are initially and subsequently recorded at fair value.

1.8 Leases

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

Finance leases - lessee

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

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

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

Operating leases - lessor

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

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

1.9 Inventories

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

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

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

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

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

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Accounting Policies

1.9 Inventories (continued)

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

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

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

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

1.10 Impairment of assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

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

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

1.11 Impairment of non-cash-generating assets

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

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Accounting Policies

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

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

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

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

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

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

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

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

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

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

Useful life is either:

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

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

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

1.12 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 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.

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1.12 Employee benefits (continued)

Defined contribution plans

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

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

Pension Obligations

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

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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Accounting Policies

1.14 Commitments (continued)

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

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

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

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

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

Measurement

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

Rendering of services

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

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

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

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

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets.

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

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

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

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

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1.16 Revenue from non-exchange transactions (continued)

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.

1.17 Interest income

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

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.21 Fruitless and wasteful expenditure

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

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

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1.22 Irregular expenditure

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

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

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

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

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Expenditure

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

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

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

Major expenses include:

- Write downs of inventory and decreases in fair values of financial instruments classified as held at fair value.
- Losses on the disposal of non-current assets are reported separately from expenses in the Statement of Financial Performance.
- Repairs and Maintenance - inclusive of repairs and maintenance to buildings, infrastructure assets, motor vehicles and sports and recreational facilities;
- Bulk purchases - expenditure on the procurement of bulk water and electricity;
- Contracted services – included are debt collection costs, data cleansing costs, service level agreement costs, property valuation roll and asset register verification costs, software support costs and security services costs.

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Accounting Policies

1.24 Expenditure (continued)

- Transfers and grants which relate to expenditure pertaining to free basic services; and
- General Expenses which constitute several expense items which are not individually significant.

1.25 Conditional grants and receipts

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

1.26 Consumer deposits

Consumer deposits represents security held by the municipality in respect of new consumer accounts opened. Once application for connection of services are made consumers are required to pay a nominal fee which is recognised as a Consumer deposit.

Consumer deposits are recognised at their nominal or carrying value.

Upon closure of a consumer's account the deposit is subsequently refunded by the municipality to the consumer.

1.27 Offsetting

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

1.28 Budget information

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

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

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

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

1.29 Related parties

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

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.

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

1.30 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

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Accounting Policies

1.30 Events after reporting date (continued)

- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.31 Changes accounting estimates and judgements

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

Assets Useful Lives

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

1.32 VAT

The Municipality is a registered VAT vendor and accounts for declaration and submission of VAT returns on a cash basis.

VAT as disclosed in the annual financial statements have been prepared on the accrual basis.

UMKHANYAKUDE DISTRICT 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
GRAP 20: Related Party Disclosures	No effective date determined.
GRAP 32: Service Concession Arrangements: Grantor	No effective date determined.
GRAP 108: Statutory Receivables	No effective date determined.
GRAP 109: Accounting by Principals and Agents	No effective date determined.
IGRAP 17: Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset	No effective date determined.

3. INVENTORIES

Materials	125 670 729	160 248 156
Water	1 238 246	248 081
Water meters	10 014 831	-
	<u>136 923 806</u>	<u>160 496 237</u>

4. RECEIVABLES FROM EXCHANGE TRANSACTIONS

Gross balances

Electricity	25 843 803	25 442 899
Water	125 825 278	114 225 483
Sewerage	42 963 778	44 568 841
WSSA debtors	18 710 427	22 412 007
	<u>213 343 286</u>	<u>206 649 230</u>

Less:

Allowance for impairment - Service charges	<u>(138 360 967)</u>	<u>(126 700 491)</u>
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Net balance

Receivables from exchange transactions	<u>74 982 319</u>	<u>79 948 739</u>
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Electricity

Current (0 -30 days)	798 263	1 065 185
31 - 60 days	383 385	128 710
61 - 90 days	278 744	85 737
91 - 120 days	204 970	906 313
121 - 365 days	24 178 441	23 256 954
	<u>25 843 803</u>	<u>25 442 899</u>

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
4. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)		
Water		
Current (0 -30 days)	4 965 262	6 504 738
31 - 60 days	389 589	1 604 226
61 - 90 days	1 798 722	1 375 487
91 - 120 days	747 464	1 366 463
121 - 365 days	117 924 241	103 374 569
	125 825 278	114 225 483
Sewerage		
Current (0 -30 days)	1 225 275	1 914 612
31 - 60 days	11 418	50 195
61 - 90 days	29 416	121 753
91 - 120 days	30 887	70 262
121 - 365 days	41 666 781	42 412 019
	42 963 777	44 568 841

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Annual Financial Statements for the year ended 30 June 2016

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Figures in Rand	2016	2015
4. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	346 346	536 450
31 - 60 days	89 278	501 428
61 - 90 days	1 327 536	907 386
91 - 120 days	457 911	940 001
121 - 365 days	135 005 778	129 776 481
	<u>137 226 849</u>	<u>132 661 746</u>
Less: Allowance for impairment	(109 322 350)	(104 943 327)
	<u>27 904 499</u>	<u>27 718 419</u>
Commercial		
Current (0 -30 days)	417 212	308 483
31 - 60 days	106 544	462 954
61 - 90 days	275 638	388 413
91 - 120 days	178 494	885 113
121 - 365 days	26 149 261	23 306 226
	<u>27 127 149</u>	<u>25 351 189</u>
Less: Allowance for impairment	(16 036 782)	(14 043 776)
	<u>11 090 367</u>	<u>11 307 413</u>
National and Provincial Government		
Current (0 -30 days)	936 961	926 216
31 - 60 days	588 570	818 749
61 - 90 days	503 707	287 179
91 - 120 days	346 916	517 924
121 - 365 days	11 257 252	12 639 527
	<u>13 633 406</u>	<u>15 189 595</u>
Total		
Current (0 -30 days)	1 700 520	1 771 149
31 - 60 days	784 391	1 783 131
61 - 90 days	2 106 882	1 582 978
91 - 120 days	983 321	2 343 038
121 - 365 days	172 401 571	165 711 446
	<u>177 976 685</u>	<u>173 191 742</u>
Add: Credit balance debtors (Note 12)	3 654 671	3 332 094
Add: WSSA debtors	18 710 262	22 412 007
Add: Interest on outstanding debtors	13 001 668	7 713 388
	<u>213 343 286</u>	<u>206 649 231</u>
Less: Allowance for impairment		
0 - 30 days	(5 294 814)	(7 720 025)
31 - 60 days	(14 384)	(6 127)
61 - 90 days	(139 094)	(291 371)
91 - 120 days	(275 726)	(216 473)
121 - 365 days	(132 636 782)	(118 466 495)
	<u>(138 360 800)</u>	<u>(126 700 491)</u>

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Figures in Rand	2016	2015
4. RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)		
Total	<u>74 982 319</u>	<u>79 948 739</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	126 700 490	151 363 209
Contributions to allowance	11 660 477	(24 662 718)
	<u>138 360 967</u>	<u>126 700 491</u>
5. Other receivables from exchange transactions		
Avis loan - Mthombeni LM	-	242 792
Debtor Fraud	-	69 939
Loan to Umhlabuyalingana	-	108 762
Prepayments	-	3 805 917
Debtor Shemula	-	2 730
Other Debtors	11 497 680	12 378 983
Housing loans	-	4 022 951
Provision for Bad Debts	(7 740 285)	(19 285 059)
	<u>3 757 395</u>	<u>1 347 015</u>
6. VAT receivable		
VAT	<u>45 744 421</u>	<u>18 055 270</u>
The VAT receivable balance is comprised of:		
Input VAT claimed through VAT 201 returns	41 325 728	19 311 550
Undeclared VAT output	(9 075 646)	(12 404 708)
Unclaimed VAT input	22 611 464	18 840 755
Provision for VAT impairment	(9 117 125)	(7 692 327)
	<u>45 744 421</u>	<u>18 055 270</u>
<p>The provision for impairment on VAT is in respect of VAT input claims that were disallowed by SARS. Attempts are currently being made to recover these amounts.</p>		
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	48 280	38 821
Bank balances	13 350 057	12 157 560
Call account balances	13 916 802	500 032
	<u>27 315 139</u>	<u>12 696 413</u>

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

7. 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
First National Bank - Demand deposit - 62092993809	587 097	261 126	539 141	587 097	261 126	539 141
First National Bank - Demand deposit - 62027696478	90 240	86 976	84 366	90 240	86 976	84 366
First National Bank - Primary Account: 62026865321	11 418 571	1 264 063	2 747 271	11 418 571	1 264 063	2 747 271
ABSA Bank - 40-5310-7423	673 798	9 990 451	6 845 143	673 798	9 990 451	6 845 143
Ithala Bank - Club Account 23247671	580 439	541 799	480 047	580 439	541 799	480 047
ABSA Bank - Call Account - 91-1531-5268	13 886 098	469 586	380 805	13 886 098	469 586	380 805
First National Bank - Money Market Account - 62263733258	28 205	28 233	27 816	28 205	28 233	27 816
First National Bank - Business Call Account - 62309788498	2 499	2 213	240 848	2 499	2 213	240 848
Total	27 266 947	12 644 447	11 345 437	27 266 947	12 644 447	11 345 437

8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	35 875 018	(11 535 895)	24 339 123	35 875 018	(10 210 183)	25 664 835
Infrastructure	942 381 582	(139 649 934)	802 731 648	772 728 298	(109 795 790)	662 932 508
Other property, plant and equipment	46 619 126	(24 128 717)	22 490 409	44 964 010	(19 131 308)	25 832 702
Assets Under Construction	810 257 755	-	810 257 755	799 231 889	-	799 231 889
Total	1 836 290 731	(175 314 546)	1 660 976 185	1 653 956 465	(139 137 281)	1 514 819 184

UMKHANYAKUDE DISTRICT MUNICIPALITY

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2016

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land	1 157 250	-	-	-	-	1 157 250
Buildings	25 664 835	-	-	-	(1 325 712)	24 339 123
Infrastructure	662 932 508	-	169 653 284	-	(29 854 144)	802 731 648
Other property, plant and equipment	25 832 702	1 655 116	-	-	(4 997 409)	22 490 409
Assets Under Construction	799 231 889	229 357 381	(169 653 284)	(48 678 231)	-	810 257 755
	1 514 819 184	231 012 497	-	(48 678 231)	(36 177 265)	1 660 976 185

Reconciliation of property, plant and equipment - 30 June 2015

	Opening balance	Additions	Additions through entity combinations	Transfers	Depreciation	Impairment loss	Total
Land	1 157 250	-	-	-	-	-	1 157 250
Buildings	26 981 903	-	-	-	(1 318 752)	1 684	25 664 835
Infrastructure	684 929 309	-	3 104	-	(21 389 430)	(610 475)	662 932 508
Other property, plant and equipment	22 319 705	7 235 463	696 547	245 659	(4 521 071)	(143 601)	25 832 702
Assets Under Construction	755 422 685	44 054 863	-	(245 659)	-	-	799 231 889
	1 490 810 852	51 290 326	699 651	-	(27 229 253)	(752 392)	1 514 819 184

Pledged as security

There were no assets pledged as security during the year.

Assets under investigation

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

8. Property, plant and equipment (continued)

499 assets with a carrying value of R4 940 784 were flagged as either not verified or which did not meet the service requirements of the municipality.

In addition to the above, 12 projects under construction with a carrying value of R67 092 961 were also flagged as not verified. As at financial statement date, the aforementioned assets were under investigation.

9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	759 478	(394 171)	365 307	735 228	(223 666)	511 562

Reconciliation of intangible assets - 30 June 2016

	Opening balance	Additions	Amortisation	Total
Computer software	511 562	24 250	(170 505)	365 307

Reconciliation of intangible assets - 30 June 2015

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

10. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

Reconciliation of heritage assets 2016

	Opening balance	Total
Mayoral regalia	586 000	586 000

Reconciliation of heritage assets 2015

	Opening balance	Total
Mayoral regalia	586 000	586 000

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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10. Heritage assets (continued)

Recognition of heritage assets

The Municipality did not account for the mayoral chain in the accounting records in prior years. This was retrospectively corrected and included in the assets register during the current financial year.

The deemed cost of the mayoral chain was determined using fair value. The fair value was determined by a Corlia Luyt, an independent jewellery designer and manufacturer, on 23 August 2016.

11. Payables from exchange transactions

Trade creditors	205 548 498	181 392 894
Debtor pre-payments	3 654 672	3 332 095
Employee related deductions and suspense accounts	5 625 660	5 119 463
Operating lease payables	95 982	120 116
Overtime payments accrued	329 699	-
Provision for 13th cheque payments	3 131 127	2 932 104
Provision for leave pay	10 379 021	10 519 441
Retentions	21 229 994	20 234 124
Total creditors	249 994 653	223 650 237

The fair value of payables from exchange transactions have been recognised at their carrying amounts.

12. Consumer deposits

Consumer deposits - Water	1 193 053	1 180 943
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Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
13. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Councillors Training	11 300	11 300
Disaster Management Grant	9 120	9 120
Environmental Management Grant	405 600	405 600
Expanded Public Works Programme	2 331 774	2 082 000
Ingwavuma Prison Electrical Upgrade	101 506	101 506
Kwadapha	578 891	578 891
KwaJobe-Cezwana Water Purification Grant	(7)	(1)
Kwazibi National Lottery Grant	122 667	122 667
Rural Road & Transport Management Grant	2 446 932	1 114 932
Lake Tete	267 001	267 001
Mabibi National Lottery Grant	166 667	166 667
Massification Grant	4 172 492	4 172 492
Municipal Infrastructure Grant	-	12 274 058
Public Participation Customer Satisfaction Survey	154 000	154 000
Mbazwana Thusong Centre	-	101 729
Mqobela National Lottery Grant	166 666	166 666
Ndumo Groundnuts	353 847	749 347
Ndumo Learners Shelter Grant	9 441 505	9 441 505
Nyezi Community HIV Centre	303 570	303 570
Water Services Operating Subsidy	1 945 954	-
PIMMS/ NDT Operational Grant	300	300
ACIP Grant	4 695	4 695
Shared Services Grant	54 541	250 000
Umkhombe Tours	908 690	908 690
Rural Households Infrastructure Grant	8 498	7 997
Waste Management Grant	145 565	145 565
	24 101 774	33 540 297

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

14. Defined benefit plan obligation

Reconciliation of non-current provision - 30 June 2016

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial loss	Total
Long service awards	4 887 000	713 000	471 000	(161 060)	179 000	6 088 940

Reconciliation of non-current provision - 30 June 2015

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial loss	Total
Long service awards	4 189 000	662 000	350 000	(320 000)	6 000	4 887 000

Defined benefit plan obligation disclosed in the Statement of Financial Position as:

Non-current liabilities	5 865 940	4 779 000
Current liabilities	223 000	108 000
	6 088 940	4 887 000

Long Service Awards

Membership Data

As at 30 June 2016, the number of members entitled to receive long service leave awards from the Municipality were:

Gender	Number of active employees	Salary weighted average age (Years)	Weighted average past service (Years)
Male	204	42.95	6.73
Female	98	40.26	7.8
Total	302		

Long service awards liabilities

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

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. The nominal and real zero curves as at 30 June 2016 supplied by the JSE were used to determine the discounted rates and CPI assumptions. As reflected below, the average age for mortality, retirements and withdrawals from service were also considered.

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. It is further assumed that the current policy for awarding long service awards remains unchanged in the future.

The table below reflects a summary of the benefit policy:

Completed years of service	Total long service benefit award (% of annual salary)	Formula used to calculate Total long service benefit award
10	4%	$(10/250) \times \text{Annual salary}$
15	8%	$(20/250) \times \text{Annual salary}$
20,25,30,35,40 and 45	12%	$(30/250) \times \text{Annual salary}$

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
14. Defined benefit plan obligation (continued)		
Valuation Assumptions - Key Financial Variables	Assumed value 30 June 2016	Assumed value 30 June 2015
Discount rate per annum	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve**	Difference between nominal and real yield curve**
Normal salary increase	CPI + 1%	6%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based
Average retirement age for all active employees	63	63
Mortality before retirement	SA 85-90	SA 85-90
The table below sets out the assumed rates of withdrawal from service:		
Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 -59	1%	1%
Age 60+	0%	0%

Valuation of assets

As at the valuation date, the long service leave liability award of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
14. Defined benefit plan obligation (continued)		
Amounts recognised in the Statement of Financial Position		
Accrued defined benefit obligation	6 088 940	4 887 000
Valuation of plan assets	-	-
Total	6 088 940	4 887 000
Reconciliation of accrued defined benefit obligation:		
Long service leave awards		
	Current valuation date 30 June 2016	Preceding valuation date 30 June 2015
Accrued liability as at preceding valuation date	4 887 000	4 189 000
Current service cost	713 000	662 000
Interest cost	471 000	350 000
Benefits paid	(161 060)	(320 000)
Actuarial loss	179 000	6 000
Balance at end of year	6 088 940	4 887 000
Net amounts recognised in Statement of Financial Performance		
Current service cost	713 000	662 000
Interest cost	471 000	350 000
Benefits paid	(161 060)	(320 000)
Actuarial loss	179 000	6 000
	1 201 940	698 000
15. Non-current loans		
Development Bank of Southern Africa Loans		
Non-current portion of borrowings	7 225 468	7 400 108
Current portion of borrowings	839 102	1 499 973
	8 064 570	8 900 081
The municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates per each loan are as follows:		
Loan 61000800, fixed interest rate at 6.75%		
Loan 61000191, semi-floating interest rate. Interest reference is 6 Month Jibar (current base interest plus the margin).		
Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.		
16. Service charges		
Sale of electricity	4 883 908	5 255 863
Sale of water	18 020 484	26 458 450
Sewerage and sanitation charges	429 973	847 830
Total Services Charges	23 334 365	32 562 143

UMKHANYAKUDE DISTRICT 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	265 376 000	226 251 945
Rural Road & Transport Management	-	1 325 360
Expanded Public Works Programme	1 058 226	1 208 094
Public Participation & Customer Survey	-	596 000
Rural Households Infrastructure Grant	3 999 498	3 996 002
ACIP Grant	-	721 113
Disaster Management Grant	-	990 880
Mbazwana Thusong Centre Grant	101 729	148 271
Finance Management Grant	1 250 000	1 250 000
Municipal Systems Improvement Grant	940 000	934 000
Ndumo Groundnuts	395 500	-
Shared Services Grant	195 459	-
Water Services Operating Subsidy	3 254 046	-
	<u>276 570 458</u>	<u>237 421 665</u>
Capital grants		
Municipal Infrastructure Grant	222 693 064	153 745 942
	<u>222 693 064</u>	<u>153 745 942</u>
	499 263 522	391 167 607
Public Participation & Customer Satisfaction Survey Grant		
Balance unspent at beginning of year	154 000	750 000
Current year receipts	-	-
Conditions met - transferred to revenue	-	(596 000)
	<u>154 000</u>	<u>154 000</u>
Conditions still to be met - remain liabilities (see note 13).		
PIMMS / NDT Operational Grant		
Balance unspent at beginning of year	<u>300</u>	<u>300</u>
Conditions still to be met - remain liabilities (see note 13).		
Finance Management Grant		
Current year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 13).		
Massification Grant		
Balance unspent at beginning of year	<u>4 172 492</u>	<u>4 172 492</u>
Conditions still to be met - remain liabilities (see note 13).		

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Figures in Rand	2016	2015
17. Government grants and subsidies (continued)		
Kwazibi National Lottery Grant		
Balance unspent at beginning of year	122 667	122 667
Conditions still to be met - remain liabilities (see note 13).		
Mqobela National Lottery Grant		
Balance unspent at beginning of year	166 666	166 666
Conditions still to be met - remain liabilities (see note 13).		
Mabibi National Lottery Grant		
Balance unspent at beginning of year	166 667	166 667
Conditions still to be met - remain liabilities (see note 13).		
Disaster Management Grant		
Balance unspent at beginning of year	9 120	-
Current year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(990 880)
	9 120	9 120
Conditions still to be met - remain liabilities (see note 13).		
Municipal Systems Improvement Grant		
Current year receipts	940 000	934 000
Conditions met - transferred to revenue	(940 000)	(934 000)
	-	-
Ndumo Groundnuts Grant		
Balance unspent at beginning of year	749 347	749 347
Current year receipts	-	-
Conditions met - transferred to revenue	(395 500)	-
	353 847	749 347
Conditions still to be met - remain liabilities (see note 13).		
Expanded Public Works Programme		
Balance unspent at beginning of year	2 082 000	2 164 094
Current year receipts	1 308 000	1 126 000
Conditions met - transferred to revenue	(1 058 226)	(1 208 094)
	2 331 774	2 082 000
Conditions still to be met - remain liabilities (see note 13).		

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Figures in Rand	2016	2015
17. Government grants and subsidies (continued)		
Lake Tete Grant		
Balance unspent at beginning of year	<u>267 001</u>	<u>267 001</u>
Conditions still to be met - remain liabilities (see note 13).		
Kwadapha Grant		
Balance unspent at beginning of year	<u>578 891</u>	<u>578 891</u>
Conditions still to be met - remain liabilities (see note 13).		
Nyezi Community HIV Centre Grant		
Balance unspent at beginning of year	<u>303 570</u>	<u>303 570</u>
Conditions still to be met - remain liabilities (see note 13).		
Umkhombe Tours Grant		
Balance unspent at beginning of year	<u>908 690</u>	<u>908 690</u>
Conditions still to be met - remain liabilities (see note 13).		
Waste Management Grant		
Balance unspent at beginning of year	<u>145 565</u>	<u>145 565</u>
Conditions still to be met - remain liabilities (see note 13).		
Environmental Management Grant		
Balance unspent at beginning of year	<u>405 600</u>	<u>405 600</u>
Conditions still to be met - remain liabilities (see note 13).		
Rural Road & Transport Management Grant		
Balance unspent at beginning of year	1 114 931	291
Current year receipts	2 447 000	2 440 000
Conditions met - transferred to revenue	-	(1 325 360)
Other	(1 115 000)	-
	<u>2 446 931</u>	<u>1 114 931</u>
Conditions still to be met - remain liabilities (see note 13).		
Ndumo Learners Shelter Grant		
Balance unspent at beginning of year	<u>9 441 505</u>	<u>9 441 505</u>
Conditions still to be met - remain liabilities (see note 13).		

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Figures in Rand	2016	2015
17. Government grants and subsidies (continued)		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	12 274 058	-
Current year receipts	210 419 000	166 020 000
Conditions met - transferred to revenue	(222 693 058)	(153 745 942)
	<u>-</u>	<u>12 274 058</u>
Conditions still to be met - remain liabilities (see note 13).		
Councillors Training Grant		
Balance unspent at beginning of year	<u>11 300</u>	<u>11 300</u>
Conditions still to be met - remain liabilities (see note 13).		
Ingwavuma Prison Electrical Upgrade		
Balance unspent at beginning of year	<u>101 506</u>	<u>101 506</u>
Conditions still to be met - remain liabilities (see note 13).		
Water Services Operating Subsidy		
Balance unspent at beginning of year	-	-
Current year receipts	5 200 000	-
Conditions met - transferred to revenue	(3 254 046)	-
	<u>1 945 954</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 13).		
Shared Services Grant		
Balance unspent at beginning of year	250 000	250 000
Conditions met - transferred to revenue	(195 460)	-
	<u>54 540</u>	<u>250 000</u>
Conditions still to be met - remain liabilities (see note 13).		
Rural Households Infrastructure Grant		
Balance unspent at beginning of year	7 996	4 498
Current year receipts	4 000 000	4 000 000
Conditions met - transferred to revenue	(3 999 498)	(3 996 502)
	<u>8 498</u>	<u>7 996</u>
Conditions still to be met - remain liabilities (see note 13).		
ACIP Grant		
Balance unspent at beginning of year	4 695	-
Current year receipts	-	725 808
Conditions met - transferred to revenue	-	(721 113)
	<u>4 695</u>	<u>4 695</u>

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Figures in Rand	2016	2015
17. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 13).		
Mbazwana Thusong Centre Grant		
Balance unspent at beginning of year	101 729	250 000
Conditions met - transferred to revenue	(101 729)	(148 271)
	<u>-</u>	<u>101 729</u>
Conditions still to be met - remain liabilities (see note 13).		
Equitable Share		
In terms of the Section 227 of the Constitution, this grant is used to enable the municipality to provide basic services and perform functions allocated to it.		
The Equitable Share Grant also provides funding for the municipality to deliver free basic services to poor households and to subsidise the cost of administration and other core services for the municipality.		
18. Rental of facilities		
Facilities and equipment		
Rental of facilities	<u>66 939</u>	<u>75 322</u>
19. Interest revenue		
Investments	4 308 100	100 146
Other bank balances	8 194 773	8 991 231
Total interest	<u>12 502 873</u>	<u>9 091 377</u>
20. Other income		
Connection fees	9 763	30 260
Department of Water and Sanitation refund	34 216 370	13 007 834
Fair value adjustment	-	699 652
Sale of tender documents	63 597	88 801
Sundry revenue	65 954	819 739
	<u>34 355 684</u>	<u>14 646 286</u>

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

	2016	2015
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21. Employee related costs

Basic salaries and wages	94 716 905	90 130 466
Contributions to pensions, medical aids and UIF	19 202 757	16 003 644
Defined contribution plans	730 940	-
Travel, motor car, accommodation, subsistence and other allowances	6 792 064	7 241 633
Housing benefits and allowances	2 001 676	1 495 239
Overtime payments	2 703 607	3 378 864
13th Cheque payments	199 023	561 021
Leave paid	1 060 260	822 190
	127 407 232	119 633 057

Remuneration of Municipal Manager

Annual Remuneration	727 288	727 288
Travel, housing and other allowances	333 122	376 254
Contributions to UIF, Medical and Pension Funds	11 168	11 589
	1 071 578	1 115 131

The Municipal Manager was suspended on full pay since January 2016. The General Manager - Corporate Services acted as Municipal Manager for the period January - March 2016.

Through section 139(a) of the MFMA, the Municipality subsequently appointed an Acting Municipal Manager on 01 April 2016. For the period April 2016 - June 2016, R300 340 was paid in salaries and allowances to the Acting Municipal Manager.

Remuneration of the Chief Finance Officer

Annual Remuneration	333 424	500 137
Travel, housing and other allowances	412 811	680 092
Contributions to UIF, Medical and Pension Funds	9 027	12 258
Leave paid	90 931	-
	846 193	1 192 487

The Chief Financial Officer was suspended on full pay effectively from July 2015. His contract was subsequently terminated during February 2016.

Since November 2015, the municipality subsequently appointed an Acting Chief Financial Officer. R714 558 was paid to the Acting Chief Financial Officer during the period November 2015 - June 2016.

Remuneration of General Manager - Corporate Services

Annual Remuneration	648 833	648 833
Travel, housing and other allowances	354 652	354 640
Contributions to UIF, Medical and Pension Funds	10 937	11 070
Total	1 014 422	1 014 543

The General Manager - Corporate Services acted as Municipal Manager during the period January 2016 - March 2016.

Remuneration of General Manager - Community Services

Annual Remuneration	771 550	771 550
Travel, housing and other allowances	203 048	246 944
Contributions to UIF, Medical and Pension Funds	10 428	10 960
	985 026	1 029 454

Remuneration of General Manager - Technical Services

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Figures in Rand	2016	2015
21. Employee related costs (continued)		
Annual Remuneration	353 389	658 894
Car Allowance	168 806	369 376
Contributions to UIF, Medical and Pension Funds	7 479	11 117
Leave paid	119 301	-
	648 975	1 039 387

The General Manager - Technical Services resigned in December 2015. The Municipality subsequently appointed a General Manager - Technical Services on 01 April 2016. R275 185 was paid in salaries and allowances to the Acting General Manager - Technical Services during the period April - June 2016.

Remuneration of General Manager - Planning & Economic Development

Annual Remuneration	117 581	705 487
Travel, housing and other allowances	51 860	287 287
Contributions to UIF, Medical and Pension Funds	2 778	10 925
Leave paid	93 124	-
	265 343	1 003 699

The General Manager - Planning & Economic Development resigned in August 2015. As at 30 June 2016, the position of General Manager - Planning & Economic Development was held in an acting capacity. Acting allowances of R54 636 were paid during the period October 2015 - June 2016.

22. Remuneration of councillors

Mayor	731 529	731 529
Deputy Mayor	590 118	621 714
Speaker	591 426	625 323
Executive Committee Members	1 672 597	1 714 742
Councillors	2 859 868	3 027 722
	6 445 538	6 721 030

Mayor

Mayoral allowance	563 040	563 040
Travel allowance	140 760	140 760
Cellphone allowance	20 868	20 868
Contributions to UIF, Medical and Pension Funds	6 861	6 861
	731 529	731 529

Deputy Mayor

Annual remuneration	450 432	450 432
Travel allowance	112 608	112 608
Cellphone allowance	20 868	20 868
Reimbursable allowance	700	32 045
Contributions to UIF, Medical and Pension Funds	5 510	5 761
	590 118	621 714

Speaker

Annual remuneration	450 432	450 432
Travel allowance	112 608	112 608
Cellphone allowance	20 868	20 868
Reimbursable allowance	2 008	35 625
Contributions to UIF, Medical and Pension Funds	5 510	5 790
	591 426	625 323

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Figures in Rand 2016 2015

22. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time.

The Mayor and Speaker are provided with offices and secretarial support at the cost of the Council.

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

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

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

The Mayor and Speaker have two full-time bodyguards and one relief bodyguard.

23. Depreciation and amortisation

Property, plant and equipment	36 347 769	28 097 711
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24. Finance costs

Current borrowings	2 225 598	6 226 907
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25. Debt impairment

Contributions to debt impairment provision	11 660 476	(24 662 719)
Bad debts written off	548 394	-
	12 208 870	(24 662 719)

26. Repairs and Maintenance

Expenditure on repairs and maintenance comprised the following:

Electricity infrastructure	413 336	1 537 001
Furniture and equipment	-	200 272
Motor vehicles	1 637 900	1 023 712
Buildings	676 874	1 348 696
Water distribution	30 490 044	42 344 421
	33 218 154	46 454 102

27. Bulk purchases

Electricity	29 793 680	31 572 417
Water	43 807 318	57 469 902
	73 600 998	89 042 319

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

Bulk purchases of water comprises water purchased for resale.

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Figures in Rand	2016	2015
28. Contracted services		
Contracted expenditure incurred during the year	<u>13 431 591</u>	<u>31 525 197</u>
Contracted services comprised the following :		
Consultants fees	1 893 446	2 962 671
Disaster management	-	4 055 505
Insurance	685 613	1 354 970
Fleet management	778 342	7 611 824
Vehicle hire	369 734	743 989
Photocopies and office equipment rental	1 412 832	1 673 341
Cellular and data services	2 093 794	762 212
IT services	424 240	163 953
Internal audit fees	2 125 002	3 411 916
Communication	806 500	3 216 020
Security services	2 332 965	4 069 922
Other services	509 123	1 498 874
	<u>13 431 591</u>	<u>31 525 197</u>

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Figures in Rand	2016	2015
29. General expenses		
Accommodation	1 557 230	2 257 624
Advertisement	133 804	491 599
Arts & Culture	-	329 531
Audit Committee fees	32 014	4 572
Audit Fees	3 057 443	2 507 642
Bank charges	461 474	325 860
Business Development & Support	-	201 770
Cleaning	52 761	2 169
Community development and training	138 500	163 945
Consulting and professional fees	1 342 847	4 252 718
Disability	-	228 445
Disaster Management	-	210 250
Fuel and oil	1 613 282	531 464
Fines and penalties	515 584	446 000
Gender, Youth, Children & Senior Citizen	165 815	375 416
Grants & Subsidies - ACIP Water *	48 678 231	23 265 985
Grants & Subsidies - Disaster Management	2 043 135	25 440
Grants & Subsidies - Extended Public Works	1 048 195	1 312 344
Grants & Subsidies - FMG Operational Costs	-	376 305
Grants & Subsidies - Jozini RHIG Sanitation	7 013 596	3 505 265
Grants & Subsidies - Rural Transport Management	403 825	1 162 596
Grants & Subsidies - Mseleni Ground Nuts	749 347	289 440
Grants & Subsidies - MSIG Operational Costs	385 550	599 939
Grants & Subsidies - Umhlosinga Development Agency	3 000 000	8 330 158
Hire of Plant & Equipment	2 234 434	27 236 701
HIV & AIDS Prevention	-	322 039
Entertainment	18 784	170 719
Legal Fees	3 195 138	87 026
Fleet	3 000	11 000
Licences	574 592	762 468
Other expenses	2 692 989	3 351 118
Mayoral Descretionary Fund	26 169	82 423
Medical expenses	43 904	29 559
Municipal Health	12 492	332 523
Operation Turn Around	599 590	-
Postage and courier	961	2 650
Publicity	26 419	911 659
Training	397 363	470 687
Printing and stationery	20 803	175 173
Sports DC27	135 605	4 198 231
Small tools	3 770	27 535
Systems Support	525 705	1 294 492
Telephone and fax	1 221 155	1 586 828
Transport and freight	-	540
Tourism Projects	300 000	890 556
Uniforms	-	234 013
Inventory expensed - Umhlatuze Water	6 445 857	-
Inventory loss	27 434 751	763 694
VAT impairment	1 424 799	7 692 327
Events Organisations	1 000	-
	119 731 913	101 830 438

* R48 678 231 was incurred by the municipality during the current financial year (2015: R23 265 985) for the provision of VIP toilets.

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
30. Cash generated from operations		
Surplus	144 905 720	42 674 693
Adjustments for:		
Depreciation and amortisation	36 347 769	28 097 711
Finance cost	2 225 598	6 226 907
Debt impairment	12 208 870	(24 662 719)
Movements in provisions	1 201 940	698 000
VIP toilets expensed	48 678 231	23 265 985
Other non-cash movements	(2 773 990)	19 428 976
Changes in working capital:		
Inventories	23 572 431	(73 654 612)
Receivables from exchange transactions	(6 694 056)	(66 377 952)
Other receivables from exchange transactions	(2 410 381)	1 075 556
Payables from exchange transactions	26 344 415	97 685 271
VAT Payable	(27 689 151)	(11 852 318)
Unspent conditional grants and receipts	(9 438 523)	11 267 201
Consumer deposits	12 110	(126 098)
	246 490 983	53 746 601

31. Prior period errors

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

Statement of financial position

Property, plant and equipment - Cost	-	(54 151 770)
Property, plant and equipment - Accumulated depreciation	-	(6 289 141)
Heritage assets	-	586 000
Finance lease liability	-	1 526 049
Inventories	-	73 511 684
Operating lease liability	-	(120 116)
Payables from exchange transactions	-	(52 042 468)
Receivables from exchange transactions	-	30 125 395
Provision for doubtful debts	-	42 017 573
VAT	-	(6 026 345)
Consumer deposits	-	807 201
	-	29 944 062

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
31. Prior period errors (continued)		
Statement of Financial Performance		
Service charges	-	(6 584 397)
Rental of facilities	-	(42 000)
Bulk purchases	-	19 639 187
Contracted services	-	3 916 138
Debt impairment	-	(42 017 573)
Depreciation	-	109 565
Employee costs	-	139 869
Finance charges	-	(243 083)
General expenses	-	16 371 657
Repairs and maintenance	-	13 961 398
Other income	-	(807 201)
Interest income - Outstanding debtors	-	(7 713 388)
	-	(3 269 828)
Statement of Changes in Net Assets		
Accumulated Surplus		26 674 235
Disclosures		
Fruitless and wasteful expenditure		5 470 252
Irregular expenditure		34 270 587
Material losses		763 694

UMKHANYAKUDE DISTRICT MUNICIPALITY

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2016

2015

31. Prior period errors (continued)

Correction of the aforementioned prior period errors was attributed to:

Property, plant and equipment

During the physical verification of municipal assets it was discovered that there were assets that belong to the municipality which were never recorded in the municipality's asset register and accounting records. In addition to unrecorded assets, the municipality did not correctly account for retentions and capital expenditure in the prior year. This resulted in the misstatement of the retentions liability and capital work in progress. These errors were corrected retrospectively and the effect was as follows:

Increase in newly identified assets by R23 887 459

Decrease in Property, plant and equipment as a result of retentions incorrectly accounted for by R1 058 604

Decrease in Retentions liability - Payables from Exchange Transactions by R1 058 604

Increase in creditors - Payables from Exchange Transactions by R182 227

Increase in Accumulated depreciation by R6 894 253

Increase in Accumulated surplus by R16 116 013

Accumulated depreciation

Accumulated depreciation had a net increase as a result of newly identified assets and finance lease assets derecognised. The effect was as follows:

Increase in Accumulated depreciation by R7 637 656

Decrease in Finance lease assets by R1 348 524

Heritage assets

The municipality has a Mayoral chain that qualifies as a heritage asset in terms of GRAP103, it was not previously accounted in the accounting records. The valuation of this asset was performed and the correction was performed retrospectively. The effect of this was as follows:

Increase in Heritage Assets as at 30 June 2015 by R586 000.

Increase in the Opening Accumulated Surplus as at 01 July 2014 by R586 000.

Finance and operating lease liabilities

The municipality incorrectly recognised assets leased under an operating lease, as a finance lease. The lease classification criteria per GRAP13 was revisited, the correction was made retrospectively and the effect of this was as follows:

Decrease in Finance lease liability as at 30 June 2015 by R1 526 049

Decrease in Property, plant and equipment - Finance leased assets as at 30 June 2015 by R2 995 328

Decrease in Accumulated Depreciation as at 30 June 2015 by R1 348 524

Increase in the operating lease liability as at 30 June 2015 by R120 116

Decrease in Opening Accumulated surplus as at 01 July 2014 by R129 798

Increase in Contractual services - lease payments for the year ended 30 June 2015 by R988 002

Decrease in Depreciation for the year ended 30 June 2015 by R633 847

Decrease in Finance charges for the year ended 30 June 2015 by R243 083.

Inventories

The municipality purchased water pipes during the 2012 financial year and incorrectly capitalised other inventory pipes costs and related operating expenditure as Capital Work in Progress. Due to lack of supporting documents, the valuation of inventory on hand could not be substantiated in prior financial years. The municipality engaged the services of asset management specialist to assist the valuation of these water pipe inventory. The correction was made retrospectively and the effect was as follows:

Decrease in Property, plant and equipment - Capital Work in Progress by R75 152 571

Increase in General expenditure - Inventory loss by R763 694

Increase in Inventory balance by R73 511 684

Payables from exchange transactions

The municipality did not recognise expenditure in respect of goods and services rendered and received in the prior years, and not paid for at the end of the financial reporting period. This was corrected retrospectively and the effect was as follows:

Decrease in Opening Accumulated Surplus by R2 973 238

Increase in Property, plant and equipment - Capital Work in Progress by R1 167 274

Increase in Repairs and Maintenance by R16 371 657

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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31. Prior period errors (continued)

Increase in Bulk purchases by R12 644 767
Increase in General expenses by R4 663 451
Increase in Payables from exchange transactions by R52 820 977
Increase in Unclaimed input VAT by R4 418 334.

Provision for 13th cheque payments

The municipality also did not accurately compute the 13th cheque provision in the prior year. This error was corrected retrospectively and the effect was as follows:

Increase in Provision for 13th cheque payments by R139 868
Increase in Employee costs by R139 868.

Receivables from non exchange transactions

The municipality engaged Water Solutions Southern Africa (WSSA) to assist with the operations and maintenance of certain schemes. WSSA also performs the billing and collection of revenue on behalf of the municipality, these transactions were not recorded in the accounting records, thus resulting in the understatement of consumer debtors and revenue from exchange transactions. The municipality also recognised interest on outstanding debtors in accordance with the requirements of MFMA, which was considered irrecoverable. The correction was performed retrospectively and the effect was as follows:

Increase in Opening Accumulated Surplus as at 01 July 2015 by R13 075 258
Increase in Revenue from exchange transactions for the year ended 30 June 2015 by R6 584 396
Increase in Receivable from exchange transactions as at 30 June 2015 by R30 125 394
Increase in undeclared VAT output by R2 752 352.

Provision for doubtful debts

The municipality reviewed in detail and revised its the risk profiling utilised to calculate the provision for doubtful debt in the prior year. The municipality also recognised interest on outstanding debtors in accordance with the requirements of MFMA, which was considered irrecoverable. The correction of the revised calculation was made retrospectively and the effect of this was as follows:

Increase in Contribution to provision for doubtful debts as at 30 June 2015 by R42 017 573
Decrease in Provision for doubtful debt as at 30 June 2015 by R42 017 573.

VAT

The municipality has a VAT receivable in respect of the net VAT input claims submitted to SARS in the prior years. Some of the claims were disallowed by SARS and the municipality did not respond on time to address the issues that resulted in SARS disallowing these claims. Currently there are attempts being undertaken to recover these monies. The municipality has adopted a prudence approach and raised an impairment provision on the VAT receivable. This was performed retrospectively and the effect was as follows:

Increase in the General expenditure - VAT impairment for the year ended 30 June 2015 by R7 692 327
Increase in provision for doubtful debt as at 30 June 2015 by R7 692 327.

Consumer deposits

The municipality incorrectly accounted for Consumer deposits in prior years resulting in an overstatement of the account balance. A detailed review of the Consumer deposit listing was performed and subsequently updated. The effect was as follows:

Increase in Other income for the year ended 30 June 2015 by R807 201
Decrease in Consumer deposits for the year ended 30 June 2015 by R807 201.

Rental revenue

The municipality did not reconcile rentals deducted from employees in respect of staff accommodation in 2015. The municipality subsequently reconciled monthly rentals deducted from employees including the suspense in the current financial year. The effect was as follows:

Increase in Rental revenue as at 30 June 2015 by R42 000
Decrease in Payables from exchange transactions as at 30 June 2015 by R42 000.

Disclosures

UMKHANYAKUDE DISTRICT MUNICIPALITY

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Figures in Rand 2016 2015

31. Prior period errors (continued)

Interest and penalties

Interest was charged on the late payment of an outstanding creditor relating to the prior year. Interest was previously not included as fruitless and wasteful expenditure.

Irregular expenditure

The municipality did not include certain items of expenditure considered irregular in nature in the prior year. Irregular expenditure was subsequently updated and corrected retrospectively in the current year.

Inventory losses

The municipality did not account for inventory losses in the comparative period. Inventory losses were subsequently recognised and accounted for in the current financial year. This was retrospectively corrected and restated in the comparative period.

32. Comparative figures

Certain comparative figures have been reclassified.

The effect of the reclassification are as follows:

Statement of financial position

Other financial liabilities	5 356 952	5 119 463
Payables from exchange transactions	(5 356 952)	(5 119 463)

Statement of Financial Performance

Repairs and maintenance	-	610 110
General expenses	-	2 263 690
Contracted services	-	(2 873 800)

33. Unauthorised expenditure

Opening balance	178 548 229	53 595 334
Add: Unauthorised expenditure - Current year	34 927 681	124 952 895
Less: Amounts written-off - Prior years	-	-
Less: Amounts written-off - Current year	-	-
	<u>213 475 910</u>	<u>178 548 229</u>

Unauthorised expenditure in the current financial year was incurred as a result of expenditure which exceeded the approved budget.

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

34. Fruitless and wasteful expenditure

Opening balance	8 329 553	2 649 882
Add: Fruitless and wasteful expenditure - Current year	515 583	5 679 671
Less: Amounts written-off - Prior years	-	-
	<u>8 845 136</u>	<u>8 329 553</u>

Fruitless and wasteful expenditure comprised interest and penalties relating to SARS EMP declarations and late payment of creditors.

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35. Irregular expenditure		
Opening balance	1 313 437 186	1 148 782 553
Add: Irregular Expenditure - Current year	237 311 395	164 654 633
Less: Amounts condoned	-	-
	1 550 748 581	1 313 437 186

Transactions with suppliers in which partners or associates of employees, councillors or directors had an interest however connection was not declared.

During the year the municipality transacted with the following suppliers amounting to R17 384 653 where partners or associates of employees, councillors or directors had an interest however connection was not declared:

Supplier	Municipal Official	Position	
Hydro Services and Fabrications CC	Sihlangu Joffrey Vilane	Councillor	3 206 910
Ndingamsholo Trading	Israel Fana Nyawo	Councillor	125 177
Diza Kamatoto Company (Pty) Ltd	Muntuwethu Duncan Shandu	Credit Control Clerk	130 161
UWP Consulting	Mabhudu Israel Tembe	Inkosi	13 922 405

Transactions with suppliers in which persons in service of other state institutions have an interest however connection was not declared.

During the year the municipality transacted with twelve (12) suppliers in which persons in service of other state institutions have an interest however connection was not declared.

Value of awards made	25 270 721
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36. Material losses

Opening balance	763 694	-
Add: Material losses - Current year	27 434 751	763 694
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
	28 198 445	763 694

The municipality recognised inventory losses for the current and comparative period. Inventory losses incurred were as a result of water pipe movements which could not be accounted for during the current financial year. The municipality will investigate whether the loss is recoverable. Inventory losses have been included in general expenses.

37. Additional disclosure in terms of Municipal Finance Management Act

External Audit Fees

Opening balance	4 102	-
Current year fees	3 067 101	2 502 086
Amount paid - current year	(3 067 101)	(2 497 984)
Amount paid - previous years	(4 102)	-
	-	4 102

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37. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension		
Opening balance	3 129 318	1 366 053
Current year fee	13 406 351	10 057 776
Amount paid - current year	(9 521 572)	(8 294 511)
Amount paid - previous years	(3 129 318)	-
Balance unpaid (included in payables)	3 884 779	3 129 318
Medical Aid		
Opening balance	881 010	439 049
Current year subscription / fee	3 768 756	3 697 656
Amount paid - current year	(3 558 068)	(3 255 695)
Amount paid - previous years	(881 010)	-
	210 688	881 010
PAYE		
Opening balance	923 319	807 060
Current year	20 188 286	17 338 118
Amount paid - current year	(18 704 860)	(17 221 859)
Amount paid - previous years	(923 319)	-
	1 483 426	923 319
SALGA Fees		
SALGA fees paid	1 665 784	1 000 936
VAT		

VAT output payables and VAT input receivables are shown in note 6. The VAT returns for the months of August and November 2015 were submitted late.

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor G Dlozi	-	10 513	10 513
Councillor Z Nyawo	-	16	16
Councillor Zungu	-	22 526	22 526
	-	33 055	33 055

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor G Dlozi	-	10 513	10 513
Councillor Z Nyawo	-	16	16
Councillor Zungu	-	22 526	22 526
	-	33 055	33 055

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38. Commitments		
Commitments in respect of capital expenditure		
Approved and contracted for		
• Infrastructure	331 066 994	259 113 005
Approved but not yet contracted for		
• Infrastructure	-	-
Total capital commitments		
Approved and contracted for	331 066 994	259 113 005
Approved but not yet contracted for	-	-
	331 066 994	259 113 005
Capital commitments were financed through:		
Government grants	331 066 994	259 113 005
Operating commitments		
Approved and contracted for		
• Operating leases (as lessee)	980 399	2 070 918
Total operational commitments		
Already contracted for but not provided for	980 399	2 070 918
Total commitments		
Total commitments		
Approved and contracted for capital commitments	331 066 994	259 113 005
Approved and contracted for operating commitments	980 399	2 070 918
	332 047 393	261 183 923
Operating commitments		
The municipality's operating commitments comprised operating leases.		
Operating lease payments comprise lease rentals payable by the municipality for the office equipment. Leases are contracted for a period of three (3) years with no contingent rentals payable. Lease rentals escalates at an average of 15% (2015: 15%) on an annual basis. Expenditure on lease rentals paid have been recognised on a straight-line basis in the Statement of Financial Performance.		
Minimum lease payments due		
- within one year	749 707	1 090 519
- in second to fifth year inclusive	230 692	980 399
	980 399	2 070 918
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	682 507	1 066 385
- in second to fifth year inclusive	201 910	884 417
	884 417	1 950 802
Operating lease expenditure recognised in the current year	1 066 385	975 604

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38. Commitments (continued)

The municipality previously accounted for office equipment leased as finance leases in prior years. In the current year, the accounting treatment for leases was changed correctly account for leases as operating leases. This was retrospectively adjusted for in the prior year.

39. Contingent liabilities

Wage curve agreement

The Municipality did not conduct the job evaluation as per the Wage curve agreement. As a result, the possible obligation as at 30 June 2016 could not be reliably estimated and provided for in the accounting records.

Disciplinary matters

As at 30 June 2016, the municipality had two (2) separate employee related pending disciplinary matters. The final outcome of the matter between the municipality and the Supply Chain Manager was pending whilst the decision in the matter between the municipality and the Chief Financial Officer was appealed. Should the outcome of both matters favour respective claimants, the municipality may be liable for compensation of up to R400 000.

Disputes with service providers

Letters of demand and summons in respect of amounts in dispute were received during the current financial year relating to goods and services rendered to the municipality in the past.

Service providers versus UKDM

The service provider has claimed that the municipality is liable for R2 200 000 relating to work performed on the Mpukunyoni CWSS project. The amount claimed was still in dispute as at 30 June 2016.

The service provider was appointed to implement emergency water and sanitation services including drilling, development and test boreholes. The amount claimed to the value of R117 269 was disputed by the municipality and was still in dispute as at 30 June 2016.

The service provider was appointed to undertake construction work at the Ndumo treatment plant. The budget on the project was subsequently exhausted. The amount claimed to the value of R1 000 000 was claimed which was disputed by the municipality.

A service provider was appointed to perform IT related services at the municipality. The amount claimed to the value of R16 150 was disputed by the municipality and was still in dispute as at 30 June 2016.

The service provider was appointed to perform bulk water maintenance in the region. The amount claimed to the value of R11 200 000 was disputed by the municipality and was still in dispute as at 30 June 2016.

The service provider was appointed as an insurance consultant to assist municipal employees with risk cover. Due to financial constraints the municipality was unable to continue providing the aforementioned benefit to employees. The amount claimed to the value of R8 000 000 was disputed by the municipality and was still in dispute as at 30 June 2016.

40. Related parties

Relationships

Umhlosinga Development Agency

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

Related party transactions

Transfers paid (to) by related parties

Transfers paid	(3 000 000)	(3 300 000)
Transfers raised - Accrued in respect of prior year	-	(5 030 158)
Small Town Rehabilitation	-	(4 800 000)

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41. Events after the reporting date

The municipality was not aware of any material events that may have occurred between 30 June 2016 and the date when the annual financial statements were authorised.

42. Risk management

Interest Rate Risk

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

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

Loan from Development Bank of South Africa.

FNB Bank Call deposits.

FNB Bank, ABSA and Ithala Bank Notice deposits.

Liquidity risk

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

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

The following liabilities were due within 1 month:

Consumer deposits R1193 053 (2016) R1 180 943 (2015)

Payables from exchange transactions R249 994 653 (2016) R223 650 237 (2015).

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

Unspent conditional grants and receipts R24 101 774 (2016) R33 540 297 (2015)

Current portion of defined benefit plan obligations R223 000 (2016) R108 000 (2015)

Borrowings R839 102 (2016) R1 499 973 (2015).

Maximum credit risk exposure

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

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

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

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43. 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 Council and includes a note to the annual financial statements.

Items of goods and services were procured during the current financial year which deviated from the provisions of paragraph 12(1)(d)(i) as reflected above. As at 30 June 2016, deviations from Municipal Supply Chain Management Regulations for amounted to R4 008 207.

44. Distribution losses

Electricity distribution losses 7 775 791 6 096 276

Electricity distribution loss calculated as:

	2016 kWh units	2016 Rand	2015 kWh units	2015 Rand
Electricity purchases	11 357 178	12 659 699	11 120 564	11 352 139
Less: Electricity sales	<u>(4 933 146)</u>	<u>(4 883 908)</u>	<u>(5 684 270)</u>	<u>(5 255 863)</u>
	<u>6 424 032</u>	<u>7 775 791</u>	<u>5 436 294</u>	<u>6 096 276</u>

Water distribution loss:

	2016 Non revenue loss (Rand)	2015 Non revenue loss (Rand)
Water distribution loss	<u>17 745 527</u>	<u>36 560 649</u>
	<u>17 745 527</u>	<u>36 560 649</u>

Water distribution losses incurred during the current financial year amounted to R17 745 527 (2015: R36 560 649).

45. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R1 645 524 997. The current liabilities exceeds current assets (i.e. excluding inventory) by R125 552 803 (2016) and R147 932 013 (2015 restated).

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

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

46. Actual operating expenditure versus budgeted operating expenditure

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

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47. Actual capital expenditure versus budgeted capital expenditure

Capital expenditure	Original budget	Adjustments	Final budget	Actual amounts on a comparable basis	Difference between final budget and actual
Capital expenditure	<u>252 173 499</u>	<u>(3 925 881)</u>	<u>248 247 618</u>	<u>231 012 497</u>	<u>(17 235 121)</u>

Although R248 million was budgeted for capital expenditure for 2015/16, actual expenditure reported per Note 8 was below the final budget by approximately 7%, which may be considered marginal.