



**Umhlabuyalingana Local Municipality
Annual Financial Statements
for the year ended 30 June 2017**

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

| | |
|--|---|
| Legal form of entity | Municipality KZN 271 |
| Nature of business and principal activities | The main purposes of the municipality is to engage in local governance activities, which include planning and promotions of integrated development planning, economic and environmental development and supplying of the following services to the community. Rates and general services all types of services rendered by the municipality includes services for refuse removal. |
| Mayoral committee | |
| Mayor | Cllr. N.S Mthethwa |
| Deputy Mayor | Cllr F.G Mlambo |
| Speaker | Cllr. B.T Tembe |
| Grading of local authority | Medium capacity municipality |
| Accounting Officer | Mrs N.P Gamede |
| MPAC Chairperson | Cllr S.P Mthethwa |
| Chief Finance Officer (CFO) | Mr N.P.E Myeni |
| Exco Members | Cllr B.N Ntsele Cllr. S.N Tembe Cllr M.D Mathenjwa Cllr M. Z Mhlongo Cllr Z.M Mhlongo |
| Registered office | Municipal Building Kwangwanase 3973 |
| Postal address | Private Bag X 901 Kwangwanase 3973 |
| Bankers | First National Bank of South Africa |
| Attorneys | Maseko Mbatha Attorneys |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

General Information

List of councilors

Cllr. K.O Tembe
Cllr. T.N Magagula
Cllr L.D Tembe
Cllr M Mthembu
Cllr S.G Nxumalo
Cllr G.S Mthembu
Cllr D.A Tembe
Cllr M.I Mthembu
Cllr N Vumase
Cllr J.B Gwala
Cllr N.J Ndabeni
Cllr N.C Mdletshe
Cllr E.G Mhlongo
Cllr J.E Sithole
Cllr B.C Zikhali
Cllr S.M Ndlovu
Cllr T.S Myeni
Cllr L.E Mkhwanazi
Cllr J.G Ngubane
Cllr S.S Gumede
Cllr B.J Tembe
Cllr M.J Mathenjwa
Cllr T.L Mlambo
Cllr H.K Gumede
Cllr T.S Khumalo
Cllr T Khumalo

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Index

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

| | Page |
|--|-------------|
| Accounting Officer's Responsibilities and Approval | 4 |
| Statement of Financial Position | 5 |
| Statement of Financial Performance | 6 |
| Statement of Changes in Net Assets | 7 |
| Cash Flow Statement | 8 |
| Statement of Comparison of Budget and Actual Amounts | 9 |
| Accounting Policies | 10 - 28 |
| Notes to the Annual Financial Statements | 29 - 64 |

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2018 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 64, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017 and were signed on its behalf by:

Accounting Officer
Mrs N.P Gamede

31 August 2017

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Position as at 30 June 2017

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|--|---------|--------------------|--------------------|
| Assets | | | |
| Current Assets | | | |
| Receivables from non-exchange transactions | 6 | 12,387,073 | 7,038,520 |
| VAT receivable | 7 | 1,697,926 | 2,713,719 |
| Receivables from exchange transactions | 8 | 436,814 | 385,778 |
| Cash and cash equivalents | 9 | 18,260,777 | 62,188,345 |
| | | 32,782,590 | 72,326,362 |
| Non-Current Assets | | | |
| Property, plant and equipment | 3 | 295,421,499 | 247,125,682 |
| Intangible assets | 4 | 1,090,577 | 553,072 |
| | | 296,512,076 | 247,678,754 |
| Total Assets | | 329,294,666 | 320,005,116 |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables from exchange transactions | 12 | 19,233,894 | 10,162,715 |
| Unspent conditional grants and receipts | 10 | 6,079,726 | 9,125,630 |
| | | 25,313,620 | 19,288,345 |
| Non-Current Liabilities | | | |
| Provisions | 11 | 12,935,108 | 11,420,724 |
| Total Liabilities | | 38,248,728 | 30,709,069 |
| Net Assets | | 291,045,938 | 289,296,047 |
| Accumulated surplus | | 291,045,938 | 289,296,047 |

* See Note 31

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---------|----------------------|----------------------|
| REVENUE | | | |
| Revenue from exchange transactions | | | |
| Refuse Removal | 14 | 201,968 | 201,968 |
| Interest received - Debtors | | 894,633 | 747,244 |
| Licences and permits | | 3,707,490 | 3,798,350 |
| Rental income | 15 | 253,770 | 252,125 |
| Other income | 16 | 352,344 | 364,767 |
| Interest received - investment | | 5,121,209 | 6,958,873 |
| Total revenue from exchange transactions | | 10,531,414 | 12,323,327 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 17 | 19,118,068 | 17,183,838 |
| Transfer revenue | | | |
| Government grants & subsidies | 18 | 170,602,127 | 167,286,022 |
| Public contributions and donations | 19 | 53,262 | 30,085 |
| Fines, Penalties and Forfeits | | 1,709,650 | 2,076,550 |
| Total revenue from non-exchange transactions | | 191,483,107 | 186,576,495 |
| Total revenue | 13 | 202,014,521 | 198,899,822 |
| EXPENDITURE | | | |
| Employee related costs | 20 | (49,253,591) | (37,484,073) |
| Remuneration of councillors | 21 | (10,386,046) | (9,501,582) |
| Depreciation and amortisation | | (20,316,105) | (16,586,843) |
| Impairment loss | 23 | (860,468) | (1,597,196) |
| Finance costs | | (878,217) | (824,605) |
| Debt Impairment | 24 | (3,152,481) | (8,563,669) |
| Assets write-off | | (9,110) | - |
| Contracted services | 25 | (11,285,436) | (26,345,024) |
| General Expenses | 26 | (104,000,123) | (75,730,923) |
| Total expenditure | | (200,141,577) | (176,633,915) |
| Operating surplus | | 1,872,944 | 22,265,907 |
| Loss on write off/disposal of assets | | (123,053) | (64,023) |
| Surplus for the year | | 1,749,891 | 22,201,884 |

* See Note 31

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|--|---------------------|--------------------|
| Balance at 01 July 2015 | 267,094,163 | 267,094,163 |
| Changes in net assets | | |
| Surplus for the year | 29,500,155 | 29,500,155 |
| Prior year adjustment | (7,298,271) | (7,298,271) |
| Total changes | 22,201,884 | 22,201,884 |
| Restated* Balance at 01 July 2016 | 289,296,047 | 289,296,047 |
| Changes in net assets | | |
| Surplus for the year | 1,749,891 | 1,749,891 |
| Total changes | 1,749,891 | 1,749,891 |
| Balance at 30 June 2017 | 291,045,938 | 291,045,938 |
| Note(s) | | |

* See Note 31

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Cash Flow Statement

| Figures in Rand | Note(s) | 2017 | 2016 Restated* |
|---|---------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Cash receipts from customers and other | | 14,312,849 | 11,088,846 |
| Grants | | 173,648,032 | 167,286,022 |
| Interest income | | 5,121,209 | 6,958,873 |
| Other receipts | | 4,064,964 | 4,197,717 |
| | | <u>197,147,054</u> | <u>189,531,458</u> |
| Payments | | | |
| Employee costs | | (59,639,637) | (46,985,655) |
| Suppliers | | (107,114,340) | (87,962,762) |
| Interest Paid | | (5,565) | (20,320) |
| | | <u>(166,759,542)</u> | <u>(134,968,737)</u> |
| Net cash flows from operating activities | 27 | <u>30,387,512</u> | <u>54,562,721</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 3 | (73,548,242) | (69,870,548) |
| Proceeds from sale of assets | | 233,649 | 190,134 |
| Purchase of other intangible assets | 4 | (1,000,965) | (321,931) |
| Net cash flows from investing activities | | <u>(74,315,558)</u> | <u>(70,002,345)</u> |
| Cash flows from financing activities | | | |
| Finance lease payments | | - | (25,704) |
| Net decrease in cash and cash equivalents | | <u>(43,928,046)</u> | <u>(15,465,328)</u> |
| Cash and cash equivalents at the beginning of the year | | 62,188,823 | 77,653,673 |
| Cash and cash equivalents at the end of the year | 9 | <u>18,260,777</u> | <u>62,188,345</u> |

* See Note 31

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

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 | | | | | | |
| Refuse Removal | 1,922,160 | (1,720,560) | 201,600 | 201,968 | 368 | |
| Interest received | 211,788 | 328,888 | 540,676 | 894,633 | 353,957 | Note 39.1 |
| Licences and permits | 4,082,520 | - | 4,082,520 | 3,707,490 | (375,030) | |
| Rental income | 243,000 | 28,000 | 271,000 | 253,770 | (17,230) | |
| Other income | 2,129,911 | (113,419) | 2,016,492 | 352,344 | (1,664,148) | Note 39.2 |
| Interest received - Investment | 4,092,084 | - | 4,092,084 | 5,121,209 | 1,029,125 | Note 39.3 |
| Total revenue from exchange transactions | 12,681,463 | (1,477,091) | 11,204,372 | 10,531,414 | (672,958) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 21,434,425 | (1,917,700) | 19,516,725 | 19,118,068 | (398,657) | |
| Donations | - | - | - | 53,262 | 53,262 | Note 39.4 |
| Transfer revenue | | | | | | |
| Government grants | 181,477,000 | 10,549,889 | 192,026,889 | 170,602,127 | (21,424,762) | Note 39.12 |
| Fines | 1,915,100 | - | 1,915,100 | 1,709,650 | (205,450) | Note 39.5 |
| Total revenue from non-exchange transactions | 204,826,525 | 8,632,189 | 213,458,714 | 191,483,107 | (21,975,607) | |
| Total revenue | 217,507,988 | 7,155,098 | 224,663,086 | 202,014,521 | (22,648,565) | |
| Expenditure | | | | | | |
| Personnel | (47,190,798) | (2,949,192) | (50,139,990) | (49,253,591) | 886,399 | |
| Remuneration of councillors | (10,321,701) | (253,030) | (10,574,731) | (10,386,045) | 188,686 | |
| Depreciation and amortisation | (14,175,655) | (6,200,000) | (20,375,655) | (20,316,105) | 59,550 | |
| Impairment loss | - | - | - | (860,469) | (860,469) | Note 39.6 |
| Finance costs | (270,936) | (620,000) | (890,936) | (878,217) | 12,719 | |
| Debt Impairment | (22,329,589) | 18,470,000 | (3,859,589) | (3,152,481) | 707,108 | Note 39.7 |
| Contracted Services | (23,782,178) | 12,324,178 | (11,458,000) | (11,285,436) | 172,564 | Note 39.8 |
| Assets Written - Off | - | - | - | (9,110) | (9,110) | Note 39.9 |
| General Expenses | (99,380,313) | (14,320,280) | (113,700,593) | (104,000,123) | 9,700,470 | Note 39.10 |
| Total expenditure | (217,451,170) | 6,451,676 | (210,999,494) | (200,141,577) | 10,857,917 | |
| Surplus before taxation | 56,818 | 13,606,774 | 13,663,592 | 1,872,944 | (11,790,648) | |
| Surplus for the year excluding capital expenditure | 56,818 | 13,606,774 | 13,663,592 | 1,872,944 | (11,790,648) | |
| Capital Expenditure | 74,380,363 | 7,707,549 | 82,087,912 | 74,549,207 | (7,538,705) | Note 39.11 |
| Comparison of Budget and Actual amounts | 74,437,181 | 21,314,323 | 95,751,504 | 76,422,151 | (19,329,353) | |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

Useful lives of property plant and equipment and intangible assets

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

Effective interest rate

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

| Item | Depreciation method | Average useful life |
|-----------|---------------------|---------------------|
| Buildings | Straight line | 20 -30 years |
| Borehole | Straight line | 20 years |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.4 Property, plant and equipment (continued)

Asset Under Construction (WIP)

The municipality changed its accounting policy for property, plant and equipment in 2017. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2017 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.5 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.5 Intangible assets (continued)

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

| Item | Depreciation method | Average useful life |
|-------------------------------------|---------------------|---------------------|
| Intangible assets under development | Straight line | 5 years |

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

1.6 Financial instruments

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

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

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

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

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

A financial asset is:

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

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Financial instruments (continued)

Classification

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

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

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

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

Initial measurement of financial assets and financial liabilities

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

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

Gains and losses

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial liabilities

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

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

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

1.7 Leases

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

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

Operating Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.7 Leases (continued)

Operating leases - lessee

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

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

Recoverable 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.

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

Identification

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.9 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

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

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.

Identification

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.10 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

Defined contribution plans

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

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

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating 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.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

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

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

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

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

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

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

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

1.12 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.12 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.

1.13 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

1.14 Revenue from non-exchange transactions

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

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

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

Property Rates

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

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

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

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

1.15 Investment income

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

1.16 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.

1.17 Value Added Tax (VAT)

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

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.19 Unauthorised expenditure (continued)

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

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

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

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

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

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

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

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

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

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

1.22 Budget information

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.22 Budget information (continued)

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

The approved budget covers the fiscal period from 01 Jul 2016 to 30 Jun 2017.

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

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

1.23 Related parties

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

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

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

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

1.24 Events after reporting date

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

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

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

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

1.25 Commitments

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

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

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

1.26 Retention

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

Retention is a percentage of the amount certified as due to the contractor on an interim certificate, that is deducted from the

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Accounting Policies

1.26 Retention (continued)

amount due and retained by the client. The purpose of retention is to ensure that the contractor properly completes the activities required of them under the contract. Retention can also be applied to nominated sub-contractors, and the main contractor may also apply retention to domestic sub-contractors.

- Often the percentage of retention ranges from 5% to 10% depending on:

a) The risk of the project, if the risk of failure is high then the percentage will be at maximum 10%.

b) The experience of the awarded contractor, if the contractor has minimum experience of the work to be executed then the percentage will be maximum 10%.

- Half of the amount retained is released on certification of practical completion ('substantial completion' for Institution of Civil Engineers (ICE) contracts) and the remainder is released upon certification of making good defects (or 'final statement' for design and build contracts such as Joint Contracts Tribunal (JCT)).

- Interim certificates should make clear the amount of retention and a statement should also be prepared showing retention for nominated sub-contractors. The contract may require that retention is kept in a separate bank account and that this is certified to contractors. In this case, the client will generally keep any interest paid on the account.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

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 2017 or later periods:

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|--|--|
| • IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land | 01 April 2019 | Unlikely there will be a material impact |
| • GRAP 26 (as amended 2016): Impairment of cash-generating assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 21 (as amended 2016): Impairment of non-cash-generating assets | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 18 (as amended 2016): Segment Reporting | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 17 (as amended 2016): Property, Plant and Equipment | 01 April 2018 | Unlikely there will be a material impact |
| • GRAP 16 (as amended 2016): Investment Property | 01 April 2018 | Unlikely there will be a material impact |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment

| | 2017 | | | 2016 Restated | | |
|---------------------|---------------------|---|--------------------|---------------------|---|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Buildings | 171,917,314 | (29,439,691) | 142,477,623 | 126,594,776 | (18,738,723) | 107,856,053 |
| Plant and machinery | 9,131,473 | (5,464,887) | 3,666,586 | 8,255,110 | (4,557,227) | 3,697,883 |
| Motor vehicles | 9,260,044 | (2,688,972) | 6,571,072 | 6,807,285 | (2,088,484) | 4,718,801 |
| Electrification | 21,145,381 | - | 21,145,381 | - | - | - |
| Community | - | - | - | 4,706,934 | - | 4,706,934 |
| Work in Progress | - | - | - | 22,694,828 | - | 22,694,828 |
| Bins and containers | 602,679 | (163,028) | 439,651 | 602,679 | (122,849) | 479,830 |
| Leased Assets | 386,090 | (386,091) | (1) | 386,090 | (386,091) | (1) |
| Roads and Water | 166,964,309 | (45,843,122) | 121,121,187 | 148,837,665 | (45,866,313) | 102,971,352 |
| Total | 379,407,290 | (83,985,791) | 295,421,499 | 318,885,367 | (71,759,687) | 247,125,680 |

Reconciliation of property, plant and equipment - 30 June 2017

| | Opening balance | Additions | WIP Opening Adjustment | Disposals | Transfers (Out)/In | Write Off | WIP | Depreciation | Impairment loss | Total |
|---------------------|--------------------|-------------------|---------------------------|------------------|-----------------------|----------------|-------------------|---------------------|--------------------|--------------------|
| Buildings | 107,856,053 | 28,961,547 | 13,043,322 | - | (18,609,975) | - | 23,334,827 | (4,899,940) | (7,208,211) | 142,477,623 |
| Plant and machinery | 3,697,883 | 956,303 | - | - | - | (9,110) | - | (978,490) | - | 3,666,586 |
| Motor vehicles | 4,718,801 | 3,247,508 | - | (356,870) | - | - | - | (1,038,367) | - | 6,571,072 |
| Electification | - | 11,493,878 | 9,651,506 | - | (22,088,032) | - | 22,088,029 | - | - | 21,145,381 |
| Water Assets | 4,706,934 | 1,470,173 | - | - | (6,177,107) | - | - | - | - | - |
| Bins and containers | 479,830 | - | - | - | - | - | - | (40,179) | - | 439,651 |
| Roads and Water | 102,971,352 | 27,418,833 | - | - | (2,721,073) | - | - | (12,895,669) | 6,347,744 | 121,121,187 |
| | 224,430,853 | 73,548,242 | 22,694,828 | (356,870) | (49,596,187) | (9,110) | 45,422,856 | (19,852,645) | (860,467) | 295,421,500 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 30 June 2016

| | Opening balance | Additions | Transfers received | Write Offs | Depreciation | Impairment loss | Total |
|---------------------|--------------------|-------------------|-----------------------|-----------------|---------------------|--------------------|--------------------|
| Buildings | 80,265,530 | 14,000 | 31,557,960 | - | (3,981,437) | - | 107,856,053 |
| Plant and machinery | 4,225,200 | 520,889 | - | (64,023) | (986,987) | 2,804 | 3,697,883 |
| Motor vehicles | 3,438,241 | 1,976,142 | - | - | (695,582) | - | 4,718,801 |
| Work- in- progress | 41,265,153 | 62,435,998 | (79,406,323) | - | - | (1,600,000) | 22,694,828 |
| Community | - | 4,766,940 | - | - | (60,006) | - | 4,706,934 |
| Bins and containers | 356,880 | 156,579 | - | - | (33,629) | - | 479,830 |
| Leased Assets | 14,588 | - | - | - | (14,588) | - | - |
| Roads and Water | 71,249,804 | - | 42,315,850 | - | (10,594,302) | - | 102,971,352 |
| | 200,815,396 | 69,870,548 | (5,532,513) | (64,023) | (16,366,531) | (1,597,196) | 247,125,681 |

Pledged as security

There are no Property, Plant and Equipment pledged as security for the municipality.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

3. Property, plant and equipment (continued)

Community assets

This is an exceptional case for Mhlabuyalingana municipality. uMhlabuyalingana local municipality was declared as a disaster area during 2015/16 financial period, emergency relief funds was made available by the municipality from its current budget to ameliorate the effects of the disaster as declared by the Premier of KZN.

There was a provision of short term relief to the affected communities through buying Jojo Tanks, Hiring Water Tanks, and construction of Boreholes. Through further engagement with the new district Mayor of Mkhanyakude municipality there is now consensus that these assets will be transferred to the district.

In addition, communities had a dire need for mobile clinics and creches. Taking into account the volatility of the situation and non-responsiveness of the district municipality to both these issues (boreholes, clinics and creches) due to financial constraints and maladministration (hence Section 139(b) intervention by the KZN cabinet), uMhlabuyalingana intervened after seeking advice from COGTA and obtaining resolution from the council to assist in this regard to avert imminent hostility and possible property vandalism by angry communities.

Details of the Infrastructure constructed is listed below.

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

Community Assets Creche

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

Community Assets Clinic

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

3. Property, plant and equipment (continued)

Details of Community Assets Transferred

Water Assets - Boreholes

| | | |
|------------|-----------|---|
| Book value | 4,362,823 | - |
|------------|-----------|---|

Boreholes (Water Assets) that were constructed by the municipality were transferred to Mkhanyakude District Municipality at its book value. The transfer of these assets took effect on 29 June 2017.

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

| | | |
|------------------|-------------------|-------------------|
| Buildings | 23,334,827 | - |
| Work in Progress | - | 22,694,828 |
| Electrification | 22,088,129 | - |
| | 45,422,956 | 22,694,828 |

Work in Progress prior year was split to recognise expenditure in respective categories, the reallocation was done to Land and Buildings and Infrastructure Electrification.

Current year work in progress was reallocated to Land and Building and Electrification Infrastructure Assets as it closing balance making up the balance for WIP.

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

| | | |
|---|-------------------|------------------|
| Manguzi Multipurpose Centre | 14,562,762 | 4,177,164 |
| Manguzi Multipurpose Centre is a multi year project, and estimated to be completed November 2017. | | |
| | 14,562,762 | 4,177,164 |

Reconciliation of Work-in-Progress 2017

| | Included within Buildings | Included within Community | Included within Other PPE | Total |
|--------------------------------|---------------------------|---------------------------|---------------------------|-------------------|
| Opening balance | 13,043,323 | - | 9,651,506 | 22,694,829 |
| Additions/capital expenditure | 60,584,191 | 1,470,173 | 12,436,523 | 74,490,887 |
| Transferred to completed items | (50,292,687) | (1,470,173) | - | (51,762,860) |
| | 23,334,827 | - | 22,088,029 | 45,422,856 |

Reconciliation of Work-in-Progress 2016

| | Included within Buildings | Included within Other PPE | Total |
|--------------------------------|---------------------------|---------------------------|-------------------|
| Opening balance | 39,426,838 | 1,838,320 | 41,265,158 |
| Additions/capital expenditure | 21,735,934 | 40,700,064 | 62,435,998 |
| Impairment | (1,600,000) | - | (1,600,000) |
| Transferred to completed items | (46,519,450) | (32,886,878) | (79,406,328) |
| | 13,043,322 | 9,651,506 | 22,694,828 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|-------------------|-------------------|
| 3. Property, plant and equipment (continued) | | |
| Expenditure incurred to repair and maintain property, plant and equipment | | |
| Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance | | |
| Contracted Services - Plumbing | 142,900 | 333,802 |
| Contracted services - G5 Material | 40,000 | 1,201,697 |
| Contracted services - G7 Material | 591,382 | 1,381,885 |
| Contracted - Hiring Excavator | 590,001 | 1,378,658 |
| Contracted Service - Hiring of Grader | 3,399,294 | 7,943,146 |
| Contracted Service - Hiring Water Tank | 1,596,379 | 3,730,266 |
| Maintenance Storm Water | 207,300 | 484,399 |
| Contracted Service - TLB Hire | 194,750 | 455,073 |
| Renovations Mayors Office | 195,790 | 457,503 |
| Renovations Security Office Traffic Department | 196,764 | 459,779 |
| Locksmith | 10,000 | 23,367 |
| Contracted Service - Building Renovations | 646,788 | 1,511,352 |
| Contracted Service - Painting | 37,250 | 87,042 |
| Contracted Services - Parkhome Renovations | 79,412 | 185,562 |
| Contracted Service - Paving | 234,520 | 548,004 |
| Service Septic Tanks | 17,700 | 41,360 |
| Road Markings | 197,000 | 460,331 |
| Site Clearing | 84,714 | 197,952 |
| Tree Cutting | 206,000 | 455,657 |
| Computer Repair | 162,922 | 380,701 |
| Aircon Regas | 7,500 | 1,108,229 |
| Chainsaw Repair | 18,497 | 43,222 |
| Electrical | 17,035 | 39,806 |
| Furniture Repair | 3,664 | 8,562 |
| Contracted Service - Motor Vehicle | 1,466,882 | 3,427,669 |
| Contracted Service - Grass Cutting | 940,991 | - |
| | 11,285,435 | 26,345,024 |

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

4. Intangible assets

| | 2017 | | | 2016 | | |
|--------------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 2,671,769 | (1,581,192) | 1,090,577 | 1,670,804 | (1,117,732) | 553,072 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

4. Intangible assets (continued)

Reconciliation of intangible assets - June 2017

| | Opening balance | Additions | Amortisation | Total |
|--------------------------|-----------------|-----------|--------------|-----------|
| Computer software, other | 553,072 | 1,000,965 | (463,460) | 1,090,577 |

Reconciliation of intangible assets - June 2016

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

5. Employee benefit obligations

Long Service Awards

The Council offers employees leave awards that may be exchanged for cash on certain anniversaries

of commencing service and a retirement gift determined by reference to length of service.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as

at 30 June 2017 by Independent Actuarial One Pangaea Financial ('OPF'), Fellow of the Actuarial Society of South Africa. The

present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

Carrying value

| | | |
|---|------------------|------------------|
| Present value of the defined benefit obligation-wholly unfunded | 26,167 | 384,267 |
| Present value of the defined benefit obligation-partly or wholly funded | (43,668) | (102,578) |
| Fair value of plan assets | (357,958) | (422,622) |
| | (375,459) | (140,933) |

Assumptions used at the reporting date:

| | | |
|---|----------|----------|
| Discount rates used | 9.43 % | 9.31 % |
| Real Rate | 7.27 % | 7.36 % |
| General Inflation Rate | 7.27 % | 7.25 % |
| Examples of mortality rates were used as follows: | - | - |
| Average retirement age | 63 | 63 |
| Mortality during employment | SA 85-90 | SA 85-90 |

Members withdrawn from services: (Average for males and females)

| | | |
|--------|---------|---------|
| Age 20 | 12.00 % | 12.00 % |
| Age 25 | 6.60 % | 6.60 % |
| Age 30 | 5.10 % | 5.10 % |
| Age 35 | 3.60 % | 3.60 % |
| Age 40 | 2.60 % | 2.60 % |
| Age 45 | 1.80 % | 1.80 % |
| Age 50 | 1.10 % | 1.10 % |
| | - | - |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|--|-------------------|-------------------|
| 5. Employee benefit obligations (continued) | | |
| Changes in the present value of the defined benefit obligation are as follows: | | |
| Opening balance | 1,154,232 | 1,295,165 |
| Contributions by plan participants | 26,167 | 384,267 |
| Benefits paid | (43,668) | (102,578) |
| Assumed in an entity combination | (357,958) | (422,622) |
| | 778,773 | 1,154,232 |
| Net expense recognised in the statement of financial performance | | |
| Long services award | 641,732 | 375,459 |
| 6. Receivables from non-exchange transactions | | |
| Rates Debtors | 40,688,369 | 34,216,885 |
| Fines | 3,963,741 | 2,556,151 |
| Less: Provisions for the year - Rates | (29,081,732) | (27,715,432) |
| Less: Provisions Fines | (3,183,305) | (2,019,084) |
| | 12,387,073 | 7,038,520 |
| Rate Debtors (Ageing) | | |
| Current (0-30 days) | 2,018,389 | 1,195,600 |
| 31-60 days | 880,497 | 1,151,338 |
| 61-90 days | 852,315 | 948,211 |
| 91-120 days | 836,204 | 546,242 |
| 121-365 days | 36,100,964 | 30,375,495 |
| | 40,688,369 | 34,216,886 |
| Fines | | |
| Fines (Ageing) | | |
| Current (0-30 days) | 240,856 | 155,150 |
| 31-60 days | 181,661 | 117,150 |
| 61-90 days | 300,364 | 193,700 |
| 91-120 days | 284,392 | 183,400 |
| 121-365 days | 2,956,468 | 1,906,751 |
| | 3,963,741 | 2,556,151 |
| Receivables from non-exchange transactions past due but not impaired | | |
| Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2017, 2,703,682 (2016: 2,715,635) were past due but not impaired. | | |
| The ageing of amounts past due but not impaired is as follows: | | |
| 1 month past due | 852,315 | 560,524 |
| 2 months past due | 880,497 | 969,520 |
| 3 months past due | 970,870 | 1,185,590 |
| 7. VAT | | |
| VAT Receivables | 1,697,926 | 2,713,719 |

VAT is accounted for on an accrual basis but claimed / paid over to SARS on a cash basis.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|--|-------------------|-------------------|
| 8. Receivables from exchange transactions | | |
| Gross balances | | |
| Creditors Overpayment | 155,168 | 149,877 |
| Debtor PMU | 23,170 | 58,448 |
| Debtors Employee Overpayment | 11,824 | 19,678 |
| Refuse | 46,795 | 58,341 |
| Debtors - Rentals | 133,620 | 99,434 |
| Other Debtors | 66,237 | - |
| | 436,814 | 385,778 |
| Net balance | | |
| Creditors Overpayment | 155,168 | 149,877 |
| Debtor PMU | 23,170 | 58,448 |
| Debtors Employee Overpayment | 11,824 | 19,678 |
| Debtors-Waste | 46,795 | 58,341 |
| Debtors - Rentals | 133,620 | 99,434 |
| Other debtors | 66,237 | - |
| | 436,814 | 385,778 |
| Creditors Overpayment | | |
| > 365 days | 155,168 | 149,877 |
| Debtors PMU | | |
| Current (0 -30 days) | 23,170 | 58,448 |
| Debtors overpayment | | |
| Current (0 -30 days) | 11,824 | 19,678 |
| Refuse | | |
| Current (0 -30 days) | 46,795 | 58,341 |
| Rental | | |
| Current (0 -30 days) | 34,102 | 25,377 |
| 31 - 60 days | 27,613 | 20,548 |
| 61 - 90 days | 21,002 | 15,629 |
| 91 - 120 days | 11,825 | 8,800 |
| 121 - 365 days | 8,936 | 6,650 |
| > 365 days | 30,142 | 22,430 |
| | 133,620 | 99,434 |
| Other (specify) | | |
| Current (0 -30 days) | 66,237 | - |
| 9. Cash and cash equivalents | | |
| Cash and cash equivalents consist of: | | |
| Cash on hand | 1 | 47 |
| Bank balances | 12,713,451 | 8,336,188 |
| Short-term deposits | 5,499,873 | 53,786,325 |
| Other cash and cash equivalents | 47,452 | 65,785 |
| | 18,260,777 | 62,188,345 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | | | 2016 | | |
|--|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| 9. Cash and cash equivalents (continued) | | | | | | |
| The municipality had the following bank accounts | | | | | | |
| Account number / description | Bank statement balances | | | Cash book balances | | |
| | 30 June 2017 | 30 June 2016 | 30 June 2015 | 30 June 2017 | 30 June 2016 | 30 June 2015 |
| First National Bank - Current Account Hluhluwe - 62025236408 | 713,704 | 8,336,188 | 8,311,074 | 713,704 | 8,336,188 | 8,311,074 |
| First National Bank - Call Account Hluhluwe - 62055161146 | 3,902 | 997,903 | 962,969 | 3,902 | 997,903 | 962,969 |
| First National Bank - Call Account Hluhluwe - 62217154351 | 2,365 | 1,395,792 | 1,331,959 | 2,365 | 1,395,792 | 1,331,959 |
| First National Bank - Call Account Hluhluwe - 62266899825 | 821,240 | 788,193 | 752,804 | 821,240 | 788,193 | 752,804 |
| First National Bank - Call Account Hluhluwe - 74275256516 | 4,138,519 | 3,846,009 | 13,033,415 | 4,138,519 | 3,846,009 | 13,033,415 |
| Standard Bank - Call Account Empangeni - 068824491 | 18,110 | 17,111 | 16,638 | 18,110 | 17,111 | 16,638 |
| Nedbank - Call Account Richardsbay - 28702097 | 31,376 | 29,627 | 28,195 | 31,376 | 29,627 | 28,195 |
| First National Bank - Call Account Hluhluwe - 62424086785 | 484,361 | 46,711,753 | 19,377,877 | 484,361 | 46,711,753 | 19,377,877 |
| First National Bank - Fixed Deposit Account - 74622621601 | 11,999,747 | - | 33,789,770 | 11,999,747 | - | 33,789,770 |
| Total | 18,213,324 | 62,122,576 | 77,604,701 | 18,213,324 | 62,122,576 | 77,604,701 |

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|---|------------------|------------------|
| COGTA - Small Town Rehabilitation | 162,260 | 162,260 |
| Spatial Development | 100,000 | 100,000 |
| Manguzi Road Project | 17,307 | 17,307 |
| Urban Development | 907,195 | 907,195 |
| INEP Energy Electrification | 2,916,223 | - |
| Manzengwenya Project | 7,500 | 7,500 |
| M A P | 251,168 | 251,168 |
| Phelandaba Development Grant | 178,600 | 178,600 |
| Nhlange Lake Restaurant | 5,600 | 5,600 |
| KwaTembe Concrete Project | 86,111 | 86,111 |
| Mbazwana and Munguzi Hubs | 160,000 | 160,000 |
| Tourism and Environmental Affairs Grant | 200,000 | 200,000 |
| Cogta energy electrification | - | 3,549,889 |
| Wall to Wall Scheme | 1,000,000 | - |
| Small Town | 87,762 | 3,500,000 |
| | 6,079,726 | 9,125,630 |

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

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

10. Unspent conditional grants and receipts (continued)

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

11. Provisions

Reconciliation of provisions - 2017

| | Opening Balance | Additions | Total |
|------------------------------|-------------------|------------------|-------------------|
| Environmental rehabilitation | 10,266,492 | 872,652 | 11,139,144 |
| Employee benefit cost | 1,154,232 | 641,732 | 1,795,964 |
| | 11,420,724 | 1,514,384 | 12,935,108 |

Reconciliation of provisions - 2016

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

Environmental rehabilitation provision

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

The Municipality estimated rehabilitation cost are R11 139 144 (2016: 109 266 492) to restore the landfill site at the end of its useful life, estimated to be 30 years from the date of revaluation. The amount of rehabilitation is dependent on future costs technology, inflation and site consumption. The discount rate of the provision was 8.5% (2016: 8.5%).

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

The date on which Mpume Naleli Technologies valued landfill sites was 30 May 2017. The landfill sites are revalued every four year.

Long service award provision

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

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

For key assumptions and values please refer to note 5.

12. Payables from exchange transactions

| | | |
|-----------------------------|-------------------|-------------------|
| Trade payables | 9,203,834 | 2,079,693 |
| Accrued leave pay | 2,922,866 | 2,084,243 |
| Accrued bonus | 980,080 | 735,550 |
| Accrued expense | 22,357 | 22,357 |
| Retention Creditors | 6,103,400 | 5,206,461 |
| Other creditors | 1,357 | - |
| Payroll related creditors | - | 28,589 |
| Debtors with credit balance | - | 5,822 |
| | 19,233,894 | 10,162,715 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|--------------------|--------------------|
| 12. Payables from exchange transactions (continued) | | |
| Ageing trade and other payables | | |
| Trade payables | 7,586,090 | 2,079,693 |
| 13. Revenue | | |
| Service charges | 201,968 | 201,968 |
| Interest received (trading) | 894,633 | 747,244 |
| Licences and permits | 3,707,490 | 3,798,350 |
| Rental income | 253,770 | 252,125 |
| Other income | 352,344 | 364,767 |
| Interest received - investment | 5,121,209 | 6,958,873 |
| Property rates | 19,118,068 | 17,183,838 |
| Government grants & subsidies | 170,602,127 | 167,286,022 |
| Public contributions and donations | 53,262 | 30,085 |
| Fines, Penalties and Forfeits | 1,709,650 | 2,076,550 |
| | 202,014,521 | 198,899,822 |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Service charges | 201,968 | 201,968 |
| Interest received (trading) | 894,633 | 747,244 |
| Licences and permits | 3,707,490 | 3,798,350 |
| Rental income | 253,770 | 252,125 |
| Other income | 352,344 | 364,767 |
| Interest received - investment | 5,121,209 | 6,958,873 |
| | 10,531,414 | 12,323,327 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Taxation revenue | | |
| Property rates | 19,118,068 | 17,183,838 |
| Transfer revenue | | |
| Government grants & subsidies | 170,602,127 | 167,286,022 |
| Public contributions and donations | 53,262 | 30,085 |
| Fines, Penalties and Forfeits | 1,709,650 | 2,076,550 |
| | 191,483,107 | 186,576,495 |
| 14. Refuse removal | | |
| Refuse removal | 201,968 | 201,968 |
| 15. Rental Income | | |
| Rental income | 253,770 | 252,125 |
| 16. Other income | | |
| Business Licensing | 1,658 | 2,600 |
| Sundry income | 222,375 | 84,037 |
| Library Income | 17,477 | 20,584 |
| Tender Documents | 110,834 | 257,546 |
| | 352,344 | 364,767 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---------------------------|----------------------|----------------------|
| 17. Property rates | | |
| Rates | | |
| Commercial | 9,723,526 | 4,294,373 |
| State | 13,200,675 | 9,322,449 |
| Property trust | 960,000 | 7,445,286 |
| Hospitality | - | 389,943 |
| Less: Income forgone | (4,766,133) | (4,268,213) |
| | 19,118,068 | 17,183,838 |
| Valuations | | |
| Residential / Hospitality | 92,900,000 | 92,900,000 |
| Commercial | 506,075,000 | 399,075,000 |
| State | 658,120,000 | 685,280,000 |
| State trust Land | 572,400,000 | 572,400,000 |
| Municipality | 27,900,000 | - |
| Other | - | 174,740,000 |
| Protected Area | 164,500,000 | - |
| Place of Worship | 4,300,000 | - |
| | 2,026,195,000 | 1,924,395,000 |

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

A general rate of 0,0025 (2016:0,0025) is applied to property valuations of ITB to determine the assessment rate. The billing remained constant from previous year.

Business Properties are billed at R0.01 (2016: R0,01) per rand for a period of seven months per council discretion. Hospitality will be included in this category.

The new general valuation will be implemented on 01 July 2019.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|--|--------------------|--------------------|
| 18. Government grants and subsidies | | |
| Operating grants | | |
| Equitable share | 121,121,000 | 121,138,000 |
| Financial Management Grant | 1,825,000 | 1,800,000 |
| EPWP Grant | 2,277,000 | 1,294,000 |
| Small Town Rehabilitation | 3,412,238 | - |
| Library Grant | 1,592,000 | 1,747,169 |
| Municipal Systems Improvement Grant | - | 934,000 |
| Electrification grant - COGTA | 3,549,889 | 6,450,111 |
| Community participation grant | - | 2,000 |
| | 133,777,127 | 133,365,280 |
| Capital grants | | |
| Municipal Infrastructure Grant | 36,825,000 | 33,827,000 |
| Sports Grant | - | 97,742 |
| | 36,825,000 | 33,924,742 |
| | 170,602,127 | 167,290,022 |
| Conditional and Unconditional | | |
| Included in above are the following grants and subsidies received: | | |
| Conditional grants received | 49,481,127 | 46,152,022 |
| Unconditional grants received | 121,121,000 | 121,138,000 |
| | 170,602,127 | 167,290,022 |
| MSIG | | |
| Current-year receipts | - | 934,000 |
| Conditions met - transferred to revenue | - | (934,000) |
| | - | - |
| Department of Sport | | |
| Balance unspent at beginning of year | - | 97,742 |
| Conditions met - transferred to revenue | - | (97,742) |
| | - | - |
| COGTA -Small Town Rehabilitation | | |
| Balance unspent at beginning of year | 162,260 | 162,260 |
| Spatial Development | | |
| Balance unspent at beginning of year | 100,000 | 100,000 |
| Project Consolidate Manguzi | | |
| Balance unspent at beginning of year | 17,307 | 17,307 |
| Library Grant | | |
| Balance unspent at beginning of year | - | 181,569 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|--|--------------|--------------|
| 18. Government grants and subsidies (continued) | | |
| Current-year receipts | 1,592,000 | 1,565,600 |
| Conditions met - transferred to revenue | (1,592,000) | (1,747,169) |
| | - | - |
| Urban Development Grant | | |
| Balance unspent at beginning of year | 907,195 | 907,195 |
| Department of energy | | |
| Current-year receipts | - | 8,657,622 |
| Conditions met - transferred to revenue | - | (8,657,622) |
| | - | - |
| Manzengwenya Project | | |
| Balance unspent at beginning of year | 7,500 | 7,500 |
| Municipal Assistance Program (MAP) | | |
| Balance unspent at beginning of year | 251,168 | 251,168 |
| Phelandaba Development Grant | | |
| Balance unspent at beginning of year | 178,600 | 178,600 |
| Nhlange Lake Restaurant | | |
| Balance unspent at beginning of year | 5,600 | 5,600 |
| Kwa Tembe Concrete Project | | |
| Balance unspent at beginning of year | 86,111 | 86,111 |
| Mbazwana and Manguzi Hubs | | |
| Balance unspent at beginning of year | 160,000 | 160,000 |
| IDP Community Participation | | |
| Balance unspent at beginning of year | - | 2,000 |
| Conditions met - transferred to revenue | - | (2,000) |
| | - | - |
| MIG | | |
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 36,825,000 | 33,827,000 |
| Conditions met - transferred to revenue | (36,825,000) | (33,827,000) |
| | - | - |
| FMG | | |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|--|------------------|------------------|
| 18. Government grants and subsidies (continued) | | |
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 1,825,000 | 1,800,000 |
| Conditions met - transferred to revenue | (1,825,000) | (1,800,000) |
| | - | - |
| EPWP | | |
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 2,277,000 | 1,294,000 |
| Conditions met - transferred to revenue | (2,277,000) | (1,294,000) |
| | - | - |
| Tourism and Environmental Affairs Grant | | |
| Balance unspent at beginning of year | 200,000 | 200,000 |
| INEP Electrification Grant | | |
| Current-year receipts | 20,000,000 | 15,000,000 |
| Current year expenditure realised - Liability | (17,083,777) | (15,000,000) |
| | 2,916,223 | - |
| Cogta electrification grant | | |
| Balance unspent at beginning of year | 3,549,889 | - |
| Current-year receipts | - | 10,000,000 |
| Conditions met - transferred to revenue | (3,549,889) | (6,450,111) |
| | - | 3,549,889 |
| Wall to Wall Scheme | | |
| Current-year receipts | 1,000,000 | - |
| Small Town | | |
| Balance unspent at beginning of year | 3,500,000 | - |
| Current-year receipts | - | 3,500,000 |
| Conditions met - transferred to revenue | (3,412,238) | - |
| | 87,762 | 3,500,000 |
| 19. Public contributions and donations | | |
| Public contributions and donations | 53,262 | 30,085 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|--|-------------------|-------------------|
| 20. Employee related costs | | |
| Basic | 33,752,427 | 27,685,686 |
| Cellphone Allowance | 491,317 | 722,820 |
| Bonus | 2,361,311 | 1,748,292 |
| Medical aid - company contributions | 1,311,015 | 900,780 |
| UIF | 261,241 | 224,672 |
| SDL | 407,257 | 325,819 |
| Travel, motor car, accommodation, subsistence and other allowances | 2,550,739 | 1,663,771 |
| Overtime payments | 963,989 | 779,470 |
| Long-service awards | 684,450 | (36,728) |
| Car allowance | 2,268,000 | 985,464 |
| Housing benefits and allowances | 21,861 | - |
| Standby Allowance | 513,000 | 445,500 |
| GroupLife Insurance | 415,064 | 317,240 |
| NJMPF Contribution | 2,686,444 | 1,712,268 |
| SALGBC - Levies | 12,273 | 9,019 |
| Rural Allowance | 553,203 | - |
| | 49,253,591 | 37,484,073 |
| Remuneration of Municipal Manager | | |
| Annual Remuneration | 1,039,237 | 838,637 |
| Car Allowance | 180,000 | 139,020 |
| Performance Bonuses | 110,425 | 87,267 |
| Backpay | 98,145 | - |
| Contributions to UIF, Medical and Pension Funds | 32,686 | 24,875 |
| Reimbursive travel | 99,569 | 43,344 |
| Cellphone allowance | 30,000 | 30,000 |
| Rural Allowance | 99,383 | - |
| | 1,689,445 | 1,163,143 |
| Remuneration of Chief Finance Officer | | |
| Annual Remuneration | 851,150 | 673,531 |
| Car Allowance | 162,000 | 122,616 |
| Performance Bonuses | 90,665 | 72,733 |
| Contributions to UIF, Medical and Pension Funds | 27,332 | 88,800 |
| Backpay | 89,879 | - |
| Reimbursive allowance | 88,589 | 43,369 |
| Cellphone allowance | 25,200 | 25,200 |
| Rural Allowance | 81,599 | - |
| | 1,416,414 | 1,026,249 |
| Remuneration of Director - Community Services | | |
| Annual Remuneration | 851,150 | 651,530 |
| Car Allowance | 162,000 | 122,616 |
| Performance Bonuses | 90,665 | 94,734 |
| Contributions to UIF, Medical and Pension Funds | 27,260 | 20,227 |
| Cellphone allowance | 25,200 | 25,200 |
| Backpay | 82,701 | - |
| Reimbursive allowance | 4,681 | 4,805 |
| Rural Allowance | 81,599 | - |
| | 1,325,256 | 919,112 |
| Remuneration Corporate and Human Resources (Corporate Services) | | |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|--|------------------|------------------|
| 20. Employee related costs (continued) | | |
| Annual Remuneration | 851,150 | 657,830 |
| Car Allowance | 160,200 | 122,616 |
| Performance Bonuses | 90,665 | 88,434 |
| Contributions to UIF, Medical and Pension Funds | 27,260 | 68,680 |
| Backpay | 82,701 | - |
| Reimbursive allowance | 37,132 | 25,200 |
| Cellphone allowance | 25,200 | 18,904 |
| Rural Allowance | 81,599 | - |
| | 1,355,907 | 981,664 |
| Remuneration of Director Technical Services | | |
| Annual Remuneration | 737,963 | 593,333 |
| Car Allowance | 162,000 | 122,616 |
| Performance Bonuses | 78,582 | 54,567 |
| Contributions to UIF, Medical and Pension Funds | 139,713 | 105,896 |
| Backpay | 71,427 | - |
| Reimbursive allowance | 121,574 | 107,190 |
| Cellphone allowance | 25,200 | 25,200 |
| Rural Allowance | 70,723 | - |
| | 1,407,182 | 1,008,802 |
| Mayor Cllr T.S Mkhombo | | |
| Annual Remuneration | 33,781 | 280,480 |
| Car Allowance | 11,260 | 93,493 |
| Contributions to UIF, Medical and Pension Funds | - | 45,725 |
| Cellphone Allowance | 2,244 | 20,172 |
| Mobile data | 387 | 3,480 |
| SDL | 454 | - |
| | 48,126 | 443,350 |
| Deputy Mayor Cllr M.N Nxumalo | | |
| Annual Remuneration | 27,025 | 224,384 |
| Car Allowance | 9,008 | 74,795 |
| Contributions to UIF, Medical and Pension Funds | - | 26,763 |
| Cellphone Allowance | 2,245 | 20,172 |
| Performance bonus | 387 | 39,375 |
| Mobile data | 387 | 3,480 |
| | 39,052 | 388,969 |
| Speaker Cllr N.S Mthembu | | |
| Annual Remuneration | 27,025 | 224,384 |
| Car Allowance | 9,008 | 74,794 |
| Reimbursive Allowance | 5,405 | - |
| Contributions to UIF, Medical and Pension Funds | 369 | 56,940 |
| Performance bonus | - | 40,918 |
| Cellphone Allowance | 2,244 | 20,172 |
| Data Allowance | 387 | 3,480 |
| | 44,438 | 420,688 |
| Mayor Cllr N.S Mthethwa | | |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|----------------|----------------|
| 20. Employee related costs (continued) | | |
| Annual Remuneration | 325,389 | - |
| Car Allowance | 108,463 | - |
| Contributions to UIF, Medical and Pension Funds | 4,849 | - |
| Backpay | 52,114 | - |
| Cellphone Allowance | 17,712 | - |
| Data Allowance | 3,000 | - |
| Reimbursive Allowance | 30,092 | - |
| | 541,619 | - |
| Deputy Mayor Cllr F.G Mlambo | | |
| Annual Remuneration | 260,311 | - |
| Car Allowance | 86,770 | - |
| Contributions to UIF, Medical and Pension Funds | 3,940 | - |
| Backpay | 43,556 | - |
| Cellphone Allowance | 17,712 | - |
| Data Allowance | 3,000 | - |
| Reimbursive Allowance | 51,359 | - |
| | 466,648 | - |
| Speaker Cllr B.T Tembe | | |
| Annual Remuneration | 260,310 | - |
| Car Allowance | 86,770 | - |
| Contributions to UIF, Medical and Pension Funds | 3,675 | - |
| Backpay | 43,556 | - |
| Cellphone Allowance | 17,712 | - |
| Data Allowance | 3,000 | - |
| Reimbursive Allowance | 60,220 | - |
| | 475,243 | - |
| Exco Members Cllr N.S Mthethwa | | |
| Annual Remuneration | 25,336 | 210,362 |
| Car Allowance | 8,445 | 70,120 |
| Performance Bonuses | - | 44,158 |
| Contributions to UIF, Medical and Pension Funds | 347 | 34,501 |
| Cellphone Allowance | 2,243 | 20,172 |
| Data Allowance | 387 | 3,480 |
| Reimbursive Allowance | 12,182 | - |
| | 48,940 | 382,793 |
| Exco Members Cllr B.T Tembe | | |
| Annual Remuneration | 25,336 | 210,362 |
| Car Allowance | 8,445 | 70,121 |
| Cellphone Allowance | 2,244 | 20,172 |
| Data Allowance | 387 | 3,480 |
| Performance bonus | - | 34,501 |
| Contributions to UIF, Medical and Pension Funds | 347 | - |
| | 36,759 | 338,636 |
| Exco Member Cllr B.N Ntsele | | |
| Annual Remuneration | 196,355 | - |
| Car Allowance | 65,452 | - |
| Cellphone Allowance | 17,712 | - |
| Data Allowance | 3,000 | - |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|-------------------|------------------|
| 20. Employee related costs (continued) | | |
| Backpay | 21,840 | - |
| Reimbursive Allowance | 83,035 | - |
| Contributions to UIF, Medical and Pension Funds | 2,912 | - |
| | 390,306 | - |
| Exco Member Cllr S.N Tembe | | |
| Annual Remuneration | 196,355 | - |
| Car Allowance | 65,452 | - |
| Cellphone Allowance | 17,712 | - |
| Data Allowance | 3,000 | - |
| Backpay | 20,222 | - |
| Reimbursive Allowance | 55,101 | - |
| Contributions to UIF, Medical and Pension Funds | 2,896 | - |
| | 360,738 | - |
| Exco Member Cllr M.D Mathenjwa | | |
| Annual Remuneration | 196,355 | - |
| Car Allowance | 65,452 | - |
| Cellphone Allowance | 17,712 | - |
| Data Allowance | 3,000 | - |
| Backpay | 20,222 | - |
| Reimbursive Allowance | 2,547 | - |
| Contributions to UIF, Medical and Pension Funds | 2,896 | - |
| | 308,184 | - |
| Exco Member Cllr Z.L Mhlongo | | |
| Annual Remuneration | 196,355 | - |
| Car Allowance | 65,452 | - |
| Cellphone Allowance | 17,712 | - |
| Data Allowance | 3,000 | - |
| Backpay | 20,222 | - |
| Reimbursive Allowance | 29,983 | - |
| Contributions to UIF, Medical and Pension Funds | 2,896 | - |
| | 335,620 | - |
| Exco Member Cllr M.Z Mhlongo | | |
| Annual Remuneration | 196,355 | - |
| Car Allowance | 65,452 | - |
| Cellphone Allowance | 17,712 | - |
| Data Allowance | 3,000 | - |
| Backpay | 20,222 | - |
| Contributions to UIF, Medical and Pension Funds | 2,896 | - |
| | 305,637 | - |
| 21. Remuneration of Councillors | | |
| Mayor | 395,490 | 314,162 |
| Councillors | 9,767,135 | 8,974,845 |
| Cell phone Allowance | 97,808 | 90,175 |
| Data Allowance | 125,613 | 122,400 |
| | 10,386,046 | 9,501,582 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

21. Remuneration of Councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, Speaker are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor has three full-time bodyguards . The Deputy Mayor and speaker have two full-time bodyguards.

22. Repairs and maintenance

Repairs and Maintenance covered large part of municipal access roads being maintained in the current financial period.

23. Impairment of assets

Impairments

| | | |
|--|---------|-----------|
| Impairment Fixed Assets | 860,468 | 1,597,196 |
| Certain Property, Plant and Equipment were considered for Impairment in the current period due to lack of maintenance in some areas of Sportsfield. Impairment reversal was also considered on Access Roads as they were maintained and the useful life increased. The recoverable amount of the asset was based on its fair value less costs to sell. | | |

The main classes of assets affected by impairment losses are:

Sportsfields

Theres lack of maintenance on the local sportfields. It has been visible through verification that soccerfields are not maintained and possibly vandalism on the facalities. Impairment was recommended until facalities are maintained.

The main classes of assets affected by reversals of impairment losses are:

Gravel Roads

A thorough maintenance was carried through Access Road, G5 and G7 material way laid on Access Road, hence the usefulife of roads improved. Reversal of Impairment resulted on roads

24. Debt impairment

| | | |
|--|------------------|------------------|
| Contributions to debt impairment provision | 2,530,522 | 6,683,947 |
| Bad debts written off | 621,959 | 1,879,722 |
| | 3,152,481 | 8,563,669 |

25. Contracted services

| | | |
|---------------------------------|-------------------|-------------------|
| Information Technology Services | 162,922 | 380,701 |
| Fleet Services | 1,466,882 | 3,427,669 |
| Other Contractors | 9,655,632 | 22,536,654 |
| | 11,285,436 | 26,345,024 |

Expenditure on Contracted Services was incurred on employing services providers to provide various services to repair and maintained certan Property, Plant and Equipment

The detailed breakdown of expenditure incurred is substantiated on note 3.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|--------------------|-------------------|
| 26. General expenses | | |
| Audit Committee fees | 324,254 | 241,078 |
| Advertising | 454,324 | 554,081 |
| Auditors remuneration | 1,359,345 | 1,619,143 |
| Bank charges | 200,552 | 175,590 |
| Cleaning | 699,992 | 280,372 |
| IT Networks | 1,473,026 | 384,070 |
| Consulting and professional fees | 7,749,775 | 4,371,806 |
| Strategic planning | 619,715 | 617,940 |
| Gardening | - | 699,113 |
| Disability programme | 166,603 | 127,210 |
| Refreshments - Water | 418,465 | 1,125,343 |
| Internal Audit fee | 3,040,440 | 2,998,717 |
| Catering expense | 10,424,043 | 7,395,734 |
| Tent and chairs hire | 12,125,959 | 8,630,617 |
| Card licence costs | 377,699 | 410,605 |
| Legal fees | 1,339,900 | 922,795 |
| Insurance | 376,848 | 303,316 |
| Festive support | 545,724 | 1,025,731 |
| Conferences and seminars | 9,474 | - |
| Pauper Burial | 1,360,148 | 1,221,688 |
| Transit costs | 58,526 | 53,095 |
| News letter | 388,000 | 292,000 |
| Marketing | 1,730,339 | 2,848,848 |
| School uniforms | 736,330 | 1,090,483 |
| Promotion and sponsorship | 58,956 | 104,590 |
| Sporting Kits | 4,665,752 | 2,990,477 |
| Borehole transferred | 4,173,393 | - |
| Vehicle hire | 34,508 | - |
| Bursary support | 1,042,821 | 718,979 |
| Office and website rental | 564,169 | 182,729 |
| Fuel and oil | 2,817,218 | 2,019,331 |
| Postage and courier | 757,775 | 662,873 |
| Printing and stationery | 1,903,155 | 2,039,434 |
| Gender Awareness | 365,190 | 302,350 |
| Disaster management | 1,329,283 | 220,556 |
| Groceries | 8,499,101 | 6,832,005 |
| MSCOA implementation costs | 1,700,805 | 443,438 |
| Security (Guarding of municipal property) | 5,229,830 | 3,186,852 |
| Software expenses | 120,086 | 257,114 |
| Subscriptions and membership fees | 500,000 | 519,059 |
| Sdf & Nodal Plan | 843,630 | 1,173,755 |
| Woman summit | 150,000 | 9,000 |
| Training | 1,329,930 | 1,799,371 |
| Electricity | 702,770 | 420,959 |
| Transport | 4,504,332 | 3,384,806 |
| Waste management plan | 801,857 | 681,670 |
| Refuse | 1,227,380 | 958,522 |
| Uniforms | 352,850 | 101,459 |
| Tourism development | 365,695 | 295,224 |
| Accommodation | 4,158,541 | 1,777,156 |
| Leave pay | 926,802 | 864,453 |
| Equipment hire | 2,684,644 | 1,558,307 |
| Commission paid | 32,232 | - |
| Awareness campaign - Clothing | 3,099,422 | 2,019,103 |
| Sanitation hire | 708,517 | 415,350 |
| Ward committees stipend | 1,833,350 | 2,056,336 |
| Other expenses | 536,647 | 346,288 |
| | 104,000,122 | 75,730,921 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|--|-------------------|-------------------|
| 27. Cash generated from operations | | |
| Surplus | 1,749,891 | 22,201,884 |
| Adjustments for: | | |
| Depreciation and amortisation | 20,316,105 | 16,586,843 |
| (Profit)/Loss on sale of property, plant and equipment | 123,053 | 64,023 |
| Assets write off | 9,110 | - |
| Impairment deficit | 860,468 | 1,597,196 |
| Debt impairment | 166 | - |
| Non-cash item - Boreholes | 4,173,393 | - |
| Other non cash item | (56) | (140) |
| Movements in provisions | 1,514,384 | 663,354 |
| Non-cash items - Electrification | - | 5,532,647 |
| Changes in working capital: | | |
| Receivables from exchange transactions | (51,035) | 103,293 |
| Receivables from non-exchange transactions | (5,348,553) | (1,256,446) |
| Other receivables from non-exchange transactions | - | (5,072) |
| Payables from exchange transactions | 9,070,697 | 2,845,640 |
| VAT | 1,015,793 | (539,079) |
| Unspent conditional grants and receipts | (3,045,904) | 6,768,578 |
| | 30,387,512 | 54,562,721 |
| 28. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Kwambila Multipurpose Centre | 9,445,140 | - |
| • Mseleni Electrification | 306,082 | - |
| • Manguzi Multipurpose Centre | 10,338,146 | 22,951,859 |
| • Intangible assets | - | 886,194 |
| • Mboza Electrification Phase 2 | 865,252 | 2,903,165 |
| • Ward 8 Electrification | - | 3,124,302 |
| • Welcome Community Centre | - | 1,183,899 |
| • Lulwane Community Centre | - | 2,615,597 |
| • Manaba Electrification | 8,789,689 | - |
| • Ward 4 Electrification | 3,403,663 | - |
| | 33,147,972 | 33,665,016 |
| Not yet contracted for and authorised by accounting officer | | |
| • Property, plant and equipment | 755,141 | 755,141 |
| | | |
| Total capital commitments | | |
| Already contracted for but not provided for | 33,147,972 | 33,665,016 |
| Not yet contracted for and authorised by accounting officer | 755,141 | 755,141 |
| | 33,903,113 | 34,420,157 |

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

The amount disclosed for commitments is vat exclusive.

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

29. Contingencies

1. NATAL JOINT PENSION VS UMHLABUYALINGANA MUNICIPALITY

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

2. LUYEZA TRADING CONSTRUCTION CC VS UMHLABUYALINGANA MUNICIPALITY

This relate to the construction of Zama Zama Sportfield, the contractor was unable to complete the project and was subsequently released from the contract. The contractor insituted a claim against municipality and the amount of the claim was R216 000.

3. UMHLABUYALINGANA LOCAL MUNICIPALITY VS SITA

Municipality was pulling out from the contarct with SITA, and the department instituted a claim against municipality. Settlement amount is estimated to be R150 000

3. NGUBANE & CO. VS UMHLABUYALINGANALOCAL MUNICIPALITY

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

4. EXCO V DIRECTORS OF UMHLABUYALINGANA

Contracts of certian municipal Head of Departments came to an end and were subsequently renewd by council resolution. The descision was taken by mucipality to rescind the appointment of these directors. The claim was instituted by the directors claiming the validity of the contracts.

The amount of the settlement amount is estimated to be R19 538 117

30. Related parties

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

31. Prior-year adjustments

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

Statement of financial position

2016

| | Note | As previously reported | Re-classification | Restated |
|----------------|------|------------------------|--------------------|--------------------|
| Vat Receivable | | 4,479,478 | (1,765,759) | 2,713,719 |
| PPE | | 252,658,193 | (5,532,511) | 247,125,682 |
| | | 257,137,671 | (7,298,270) | 249,839,401 |

Statement of finanical performance

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | | 2017 | 2016 | |
|---|------|------------------------|--------------------|-------------------|
| 31. Prior-year adjustments (continued) | | | | |
| 2016 | | | | |
| | Note | As previously reported | Re-classification | Restated |
| Revenue from non-exchange transactions | | 182,286,022 | (15,000,000) | 167,286,022 |
| General expenditure | | (83,432,652) | 7,701,728 | (75,730,924) |
| Deficit for the year | | 98,853,370 | (7,298,272) | 91,555,098 |

Cash flow statement

2016

| | | | | |
|-------------------------------------|------|------------------------|--------------------|-------------------|
| | Note | As previously reported | Re-classification | Restated |
| Cash flow from operating activities | | | | |
| Grants | | 182,286,022 | (15,000,000) | 167,286,022 |
| Payment to suppliers | | (95,261,030) | 7,298,268 | (87,962,762) |
| | | 87,024,992 | (7,701,732) | 79,323,260 |
| Cash flow from investing activities | | | | |
| WIP Additions | | (77,572,280) | 7,701,728 | (69,870,552) |

Reclassification Electrification Projects

Due to GRAP 109, Accounting by principal and Agent, Electrification Projects expensed as a result of transfer of completed projects had to be reversed to correctly classify the accounting treatment thereof

32. Risk management

Financial risk management

Liquidity risk

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand 2017 2016

32. Risk management (continued)

Credit risk

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

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

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

| Financial instrument | 30 June 2017 | 30 June 2016 |
|--|--------------|--------------|
| Receivables from exchange transactions | 436,814 | 266,558 |
| Receivables from non-exchange transactions | 12,387,073 | 7,038,520 |
| Cash and cash equivalents | 18,260,777 | 62,188,345 |

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

Market risk

Interest rate risk

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

33. Going concern

We draw attention to the fact that at 30 June 2017, the municipality had accumulated surplus of 291,045,938 and that the municipality's total assets exceed its liabilities by 291,045,938.

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.

34. Events after the reporting date

The municipality has relinquished contracts of some executive directors, of which the matter is in court. The directors which were released from their respective contracts are:

Nathi Myeni (CFO).
Nokuphiwa Msane (Director Corporate Service)
Mduduzi Mnguni (Director Community Service)

The Accounting Officer's Mr S.E Bukhosini contract came to an end 31 July 2017 and the Acting Municipal Manager Mrs Nonhlanhla Gamede was appointed on 01 August 2017

35. Unauthorised expenditure

| | | |
|------------------|------------------|------------------|
| Opening balance | 4,843,362 | - |
| Boreholes | 1,470,173 | 2,892,649 |
| Clinics | - | 1,005,326 |
| Creche | - | 868,967 |
| Ndwangu causeway | - | 76,420 |
| | 6,313,535 | 4,843,362 |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|---|--------------------------------|------------------|
| 36. Fruitless and wasteful expenditure | | |
| Opening balance | 3,147 | - |
| Add: Fruitless and wasteful expenditure | 5,464 | 3,147 |
| | 8,611 | 3,147 |
| 37. Irregular expenditure | | |
| Opening balance | 6,439,830 | 80,642,075 |
| Add: Irregular Expenditure - current year | 1,150,700 | 6,439,830 |
| Less: Amounts written off | - | (80,642,075) |
| | 7,590,530 | 6,439,830 |
| Details of irregular expenditure - In Service of the State | | |
| Repeat Suppliers identify by CAATs | | 841,157 |
| Identified Suppliers by CAATs in 2015/16 financial year. | | 3,693,937 |
| Bids advertised | | 1,904,736 |
| SCM Processes not properly followed | Procurement of Mayoral Vehicle | 1,150,700 |
| | | 7,590,530 |
| 38. Additional disclosure in terms of Municipal Finance Management Act | | |
| Audit fees | | |
| Current year subscription / fee | 1,383,204 | 1,619,143 |
| Amount paid - current year | (1,383,204) | (1,619,143) |
| | - | - |
| PAYE and UIF | | |
| Opening balance | - | 18,624 |
| Current year subscription / fee | 6,247,016 | 3,275,386 |
| Amount paid - current year | (6,247,016) | (3,294,010) |
| | - | - |
| Pension and Medical Aid Deductions | | |
| Current year subscription / fee | 2,260,094 | 1,183,826 |
| Amount paid - current year | (2,260,094) | (1,183,826) |
| | - | - |
| VAT | | |
| VAT receivable | 1,697,926 | 2,713,719 |

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

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

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

39. Actual operating expenditure versus budgeted operating expenditure

39.1 Interest on Outstanding Debtors

Interest on outstanding debtors recognised is 65% more than the projected budget. Interest is coming from property rates debtors as a result of long outstanding debtors not settled by both government and commercial debtors

39.2 Other Income

Revenue received from insurance refunds and LGSETA refunds is the reason for the increase in this category including Tender documents income and Commission Received

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

39. Actual operating expenditure versus budgeted operating expenditure (continued)

39.3 Interest on Investments

Revenue received from interest on investments and current account is less than the budget as a result of more withdrawals on investment and on the main account than what was anticipated during the adjustment budget. Interest on current accounts is 14% less than the projected budget. Budget was overstated.

39.4 Public Contributions and Donations

Revenue recognised from donations increased by 100%, donation received from other government department was received after the adjustment budget.

39.5 Traffic Fines

Traffic fines revenue recognised is 11% less than the projected budget. Traffic equipment were out of service for most part of the financial year, coupled with ENATIS system being down for most part of the year. The challenge was the delays in the servicing of the speed cameras

39.6 Impairment Loss

Increase of 100% on impairment loss is a result of Sports Fields not included in the maintenance plan. Conditions on Sports Field deteriorated during the financial period and during conditional assessment recommendation to impair the infrastructure was issued. Conditional assessment was done after adjustment budget.

39.7 Debt Impairment

Ingonyama Trust and Other Government properties were moved as they fall within Jozini district. Other business properties were removed from valuation roll. The original budget was fairly based on the incidents happened in the prior financial period and was adjusted accordingly. The budget was overstated.

39.8 Contracted Service

Budget for repairs and maintenance was re-allocated to Contracted Services. Due to implementation and adoption of new GRAP standards, repairs and maintenance are to be disclosed per function. There is no final budget and there is no actual expenditure for this line item.

39.9 Assets Write Off

Increase of 100% on asset write offs is a result of disposal of redundant assets by the municipality, the municipality did not budget for this item because we did not anticipate that we will dispose any assets.

39.10 General Expenditure

General expenditure is 9% below budgeted. Electrification projects budgeted to be expensed were reversed due to compliance with GRAP standards as a result under spending occurred.

39.11 Capital Expenditure

Capital budget has reduced due to Electrification Grant not expensed in the current period, additional computer equipment, furniture and office equipment has not been purchased during the financial period as budgeted for. Rollover of unspent grants received has contributed to increase in original budget.

39.12 Government Grants

Due to Electrification Grant not being recognised as an income, Budgeted income was undersated by 11%

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

| Figures in Rand | 2017 | 2016 |
|-----------------|------|------|
|-----------------|------|------|

40. Deviation from supply chain management regulations

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

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

41. Deviations

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

| | | |
|-------------------------|---------|-------------|
| Opening balance | - | 3,318,946 |
| Deviations for the year | 676,397 | 541,490 |
| Closing balance | - | (3,860,436) |

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

42. Explanation of variances above 10% on General Expenses

Audit Committee Fees

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

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

Expenditure increased by 35% as a result of more special audit committee meetings due to internal audit findings and for the preparation of AFS

Advertising

Advertising decreased by 18% due to fewer tenders advertised..

Auditors remuneration

Expenditure decreased as a result of decrease in actual hours spent for audit.

Bank charges

More transactions were done in the bank accounts hence the increase in charges

Cleaning

There's a 150% increase in expenditure due to additional dumping sites were established and they were provided with cleaning material

IT Network

This expenditure was to address issues of DRP, BCP, Server and Network

Consulting

The 77% increase in expenditure was as a result of review of municipal policies work done by consultant, coupled with conditional assessment carried out which needed work of an expert.

Gardening

These were once off programmes introduced to communities, hence a 100% decrease in expenditure.

Disability programme

Increase is a result of meetings held with District Municipality for the preparation and implementation of disability programs

Refreshments

Through special programmes and awareness conducted by mayor water refreshments were provided in those events, the area is popularly known to be hot.

Catering

Food and beverages were provided in awareness campaign conducted by mayor. Council meeting contributed to 41% increase in catering.

Tent and Chair hire

Awareness campaign were held in different wards, some of these wards shelter was not available, this resulted in hiring of tents and chairs, hence 40% increase in expenditure

Legal fees

There were more litigations against municipality which resulted in 45% increase in expenditure.

Insurance

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

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

Increase is a result of additional assets purchased in this financial year

Festive Support

Decrease is a result of the decrease in the number of volunteers appointed

Conference and seminars

Awareness and campaign were strengthened by conference and seminars as it was considered necessary to involve authorities as incidents were escalating.

Pauper burial

Municipality is providing assistance to communities that are poverty stricken in burials for their loved ones. Indigent communities are the ones who are assisted in pauper burial hence 11% increase in the expenditure.

Transit costs

Increase is a result of the increase in the agreement

Newsletter

Increase is a result of the scope of work

Marketing

Decreased because the marketing strategy was reviewed to reduce costs

School uniforms

Decreased because schools supported were reduced compared to previous financial year

Promotion and sponsorship

Decreased because of few events were held that required promotional items

Sporting kits

Local communities are supported in sports development to encourage youth to participate in different sporting codes. In the current period there were more communities identified and supported through this programme.

Water Assets

Increase is a result of assets transferred to the District Municipality

Vehicle hire

Delays in the procurement of the Mayoral Car resulted in hiring

Bursary support

Increased as a result of the increase of Tertiary Students supported

Office and Website rental

Increase is a result of a new appointed service provider and additional scope of work

Fuel and oil

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

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

Increase is a result of additional vehicles purchased

Postage and courier

Increase as a result of increase of courier services charges

Gender Awareness

Increase is a result of increase on programme

Disaster Management

Increased as a result of increase on incidents happened in this financial year

Groceries

This programme was through poverty alleviation where families were assisted through provision of groceries, 24% increase as more families were identified.

MSCOA implementation cost

MSCOA implementation was at its peak more training programmes were conducted and training's.

Software expenses

Huge decline was a results of new software was implemented in the previous financial period.

Security (Guarding of municipal property)

Increased as result of increase of security personnel including political office bearers(Mayor, Speaker and Deputy Mayor)

SDF and Nodal Plans

Decreased as a result of decrease in the number of plans to be drafted as others were compiled in the last financial year

Woman summit

Increased as a result that this programme was implemented this financial year as it was not implemented in the previous financial year

Training

Decreased as a result few training's attended in this financial year

Electricity

Increases as a result of the increase on tariffs

Transport

Transport was provided for various activities conducted by municipalities to places where its not easy to reach.

Waste management plan

Increased as a result of the development of the Waste Management Plan

Refuse

Increased as a result of the increase of the collection points in three towns

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

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

Uniforms

Increased as result of the increase of general workers to services three towns

Tourism development

Increased as a result of the increase on tourism campaigns

Accommodation

Increased as a result of the increase on number of employees and increase on Mscoa meetings.

Equipment hire

More sound system and generators that were provided for awareness campaigns, hence a 72% increase.

Commission paid

This expenditure is for the commission paid to the Auctioneers who assisted the municipality in the auction of municipal assets

Ward committees

Decreased as a result of delays in the appointment of new ward committee members after the new council has been inaugurated and disputes from the appointment of ward committee members

Sanitation hire

Were provided in the awareness events held by mayor, more campaigns were held hence 71% increase.

Mscoa Project

Is a result of implementation of Mscoa including mscoa training

Other expenditure

General expenditure increased by 37% as a results of expenditure relating to licensing of vehicles, licensing of Mbazwana cemetery, and development of documentation for town planning

43. Budget statement

Changes from the approved budget to the final budget

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

43. Budget statement (continued)

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

Services Charges (Refuse Removal)

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

Rental Income

There was an increase in the collection of rental from Market Rentals, the collection significantly increased and the adjustment was made to original budget.

Interest on outstanding debtors

There was an increase in the value of properties not paying for property rates. Collection has reduced and interest on outstanding debtors increased.

Other Income

Other Income includes Tender documents, Library income, Commission, Business licensing. Tender documents issued during the financial year were more than the tender documents issued in the prior period, the original budget was based on the estimates of prior period. There was an insurance payout that was received in the current period.

Property Rates

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

Government Grants

There was a roll over on Electrification Grant from previous financial period, and an extra Street Lights grant was received during the current financial period.

Personnel Costs

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

Remuneration of Councilors

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

Debt Impairment

Debt impairment has decreased significantly as a results of large number of properties being removed from valuation roll and transferred to Jozini local municipality. A huge budget was originally done based on the prior estimate on Ingonyama Trust Properties being written off.

Depreciation and Amortisation

Intangible assets and Computer software increased in the current financial period. Adjustment to original budget increased.

Finance charges

Umhlabuyalingana Local Municipality

Annual Financial Statements for the year ended 30 June 2017

Notes to the Annual Financial Statements

Figures in Rand

2017

2016

43. Budget statement (continued)

There's an increase on finance cost as a results of finance charges on rehabilitation of Landfill Site that was not originally budgeted for on this vote.

Contracted Services

This resulted from new GRAP Standard that prompted for Repairs and Maintenance be disclosed per function. The adoption of the new standard resulted in adjustment budget from Repairs and Maintenance to Contracted Service account.

Repairs and Maintenance

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General Expenditure

There was a transfer of Electrification Projects and Water Assets that was expensed. Electrification was completed and transferred in the current period.

Executive Council department

Original budget for Executive Council was R21 681 702 and it increased to R23 204 731, the increase was due to community upliftment programmes to assist communities in alleviating poverty.

Management department

Original budget increased from R34 034 798 to R38 433 732, the increase was due to the increase in the budget for the following program Audit fees, Community Participation, Sports and Recreation and IDP Review..

Finance department

Original budget increased from R51 958 169 to R58 516 026, the increase was due to the increase on the provision of bad debts and depreciation

Corporate Services

The original budget was R17 253 372 and has decreased to R16 583 360 due to reduction and movement of original budget to management department.

Technical Services

Original budget decreased from R43 136 087 to R30 839 569, the funds were allocated to Executive Council, Management and Finance department to finance programmes allocated to those departments

Community Services

The budget has increased from R24 017 173 to R24 635 921 base on extension of scope on Community programmes on Arts and Culture, Youth Programmes and HIV and Aids.