

BIG 5 HLABISA LOCAL MUNICIPALITY

**ANNUAL FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30 JUNE 2017**

BIG 5 HLABISA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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BIG 5 HLABISA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

GENERAL INFORMATION

Mayor	V.F. Hlabisa
Deputy Mayor	H.T. Nkosi
Speaker	CT Khumalo
Member	Cllr. BN Ngwane
Member	Cllr. SS Zondo
Member	Cllr. PS Mantengu
Member	Cllr. SZ Mthembu
Member	Cllr. FZ Nkwanyana
Member	Cllr. BL Mafuleka
Member	Cllr. PV Gumede
Member	Cllr. NH Nxumalo
Member	Cllr. MO Ntombela
Member	Cllr. BW Manqele
Member	Cllr. MR Mthembu
Member	Cllr. TM Khumalo
Member	Cllr. GR Mchunu
Member	Cllr. SF Mdaka
Member	Cllr. AS Thela
Member	Cllr. NF Ngema
Member	Cllr. ONN Ndwandwe
Member	Cllr. TN Ngema
Member	Cllr. TS Mahlaba
Member	Cllr. DM Mngomezulu
Member	Cllr. HS Ndlovu
Member	Cllr. NN Xulu

Capacity of Municipality

Medium Capacity Municipality
Grade 2

Auditors

The Auditor-General of South Africa
Private Bag X9034
PIETERMARITZBURG
3200

Attorneys

Truter James de Ridder

Bankers

First National Bank of South Africa
ABSA

Registered office: Municipal Building, Hlabisa

Physical address: Lot 808 Masson Street
Hlabisa
3937

Postal address: P.O. Box 387
Hlabisa
3937

Telephone Number: 035 - 838 8500

Fax Number: 035 - 838 1015

Municipal Manager

Dr VJ Mthembu

Acting Chief Financial Officer

KWG Thusi

STATEMENT OF THE ACCOUNTING OFFICER'S RESPONSIBILITY AND APPROVAL

BIG 5 HLABISA LOCAL MUNICIPALITY ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting and is responsible for the content and integrity of the annual financial statement and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statement 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 responsible for reporting on the fair presentation of the annual financial statements.

The annual financial statements have been prepared in accordance with South African Statement of General 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 judgment and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss 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 control 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 are 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 behaviours 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 loss.

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

The annual financial statements set out on page 5 to 39 which have been prepared on the going concern basis, were approved by accounting officer.

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Dr VJ Mthembu
Municipal Manager

30 JUNE 2017

BIG 5 HLABISA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2017

1 BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These annual financial statements have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act No 56 of 2003).

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

The accounting policies applied are consistent with those used to present the previous year's financial statement, unless explicitly stated. The details of any Accounting policies for material transaction, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraph 7,11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Recognised Accounting Practices including any interpretations of such Statements issued by the Accounting Practices Board.

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and the figures are rounded off to the nearest rand.

1.3 GOING CONCERN ASSUMPTION

The annual financial statements have been prepared on the assumption that the Municipality will continue to operate as a going concern for at least the next 12 months.

1.4 BUDGET INFORMATION & COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual 1,4,1 financial statements.

1,4,2 When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts restated.

The nature and reason for reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

1.5 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 20 - Related Party Disclosures
- GRAP 32 - Service Concession Arrangements Grantor
- GRAP 34 - Separate Financial Statements
- GRAP 35 - Consolidated Financial Statements
- GRAP 36 - Investments Associated and Joint Ventures
- GRAP 37 - Joint Arrangements
- GRAP 38 - Disclosure of Interests in other Entities
- GRAP 108 - Statutory Receivables
- GRAP 109 - Accounting by Principles and Agents
- GRAP 110 - Living and non Living Resources

1.6 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.

1,6,1 INITIAL RECOGNITION

The cost of an items of property, plant and equipment are recognised as assets when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the cost thereof can be measured reliably.

On acquisition date assets are initially recorded 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

BIG 5 HLABISA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2017

1,6,1 INITIAL RECOGNITION (CONTINUED)

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.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1,6,2 SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1,6,3 DEPRECIATION

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Infrastructure Assets	
Roads and Paving	30 years
Roads and Water	30 years
Community Assets	
Recreational Facility	20-30 years
Security	5 years
Community Halls	30 years
Libraries	30 years
Parks and gardens	10 years
Finance Lease Assets	
Office equipment	5 years
Other Assets	
Buildings	30 years
Specialist vehicles	10 years
Other vehicles	5 years
Office equipment	3-7 years
Furniture and fittings	7-10 years
Specialised plant and equipment	10-15 years
Landfill sites	30 years
Computer equipment	3-7 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

1,6,4 IMPAIRMENT OF ASSETS

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

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

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That

BIG 5 HLABISA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2017

1,6,4 IMPAIRMENT OF ASSETS (CONTINUED)

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1,6,5 CASH GENERATING ASSETS

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

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized in surplus or deficit.

An impairment loss is recognized for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

> To the assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

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 had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized in surplus or deficit.

1,6,6 NON- CASH GENERATING ASSETS

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

If there is any indication that an asset may be impaired the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortization is recognized in surplus or deficit.

An impairment loss is recognized for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

> To the assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortization is recognized in surplus or deficit.

1,6,7 DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.7 INTANGIBLE ASSETS

1,7,1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while

Intangible assets are initially recognised at cost.

**BIG 5 HLABISA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

for the year ended 30 June 2017

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset 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, its deemed cost is the carrying amount of the asset(s) given up.

1,7,2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1,7,3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software 3-5 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1,7,4 DERECOGNITION

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying

1.8 INVESTMENT PROPERTY

1,8,1 INITIAL RECOGNITION

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary

1,8,1 INITIAL RECOGNITION (CONTINUED)

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1,8,2 SUBSEQUENT MEASUREMENT - FAIR VALUE MODEL

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

The municipality shall revalue its investment property that are under revaluation with measured using fair value.

1,8,3 DERECOGNITION

Investment property is derecognised when it is disposed of or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1,8,4 DIRECTIVE 7 - DEEMED COST

Use of deemed cost for property, plant and equipment, investment property, intangible assets and heritage assets

When an entity initially recognises an asset using the Standards of GRAP, it measures such assets using either cost or fair value at the date of acquisition (acquisition cost). Where the acquisition cost of an asset is not available on the adoption of the Standards of GRAP, acquisition cost is measured using a surrogate value (deemed cost) at the date an entity adopts the Standards of GRAP (measurement date). Deemed cost is determined as the fair value of an asset at the measurement date.

An entity may have determined a deemed cost for an asset under another basis of accounting where information about the acquisition cost of the asset was unavailable. A deemed cost determined for an asset under another basis of accounting is acceptable for purposes of this Directive if it represents the fair value of the asset as or its cost or depreciated historical cost.

The Hlabisa Municipality did not apply Directive 7 for Property, Plant & Equipment identified after the adoption of GRAP. These assets were identified in the current financial year and a correction of error is to be applied retrospectively

a description of whether deemed cost was determined:

(i) using fair value or depreciated replacement cost for items of property, plant and equipment and investment properties; and

1.9 FINANCIAL INSTRUMENTS

1.9.1 INITIAL RECOGNITION

Financial instruments are recognised as either financial assets or financial liabilities. Financial assets are categorised according to their nature as either financial assets at fair value through profit or loss, cost or amortized cost. Financial liabilities are categorised as either at fair value through profit or loss, cost or amortized cost.

1.9.2 SUBSEQUENT MEASUREMENT

The subsequent measurement of financial assets and liabilities depends on this categorisation and, in accordance with GRAP 104.

1.9.3 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

1.9.4 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount

1.9.5 FINANCIAL LIABILITIES: ACCOUNTS PAYABLE

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

1.9.6 CASH AND CASH EQUIVALENTS

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.10 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.11 IRREGULAR EXPENDITURE

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), the Public Office Bearers Act (Act No. 20 of 1998), Division of Revenue Act of 2008 or is in contravention of the Municipality'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.

1.12 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

1.13 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Provisions are derecognised when it is no longer probable that an outflow of resources will be occur.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least: - the business or part of a business concerned;- the principal locations affected - the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and when the plan will be implemented; and

(b) The municipality 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.

BIG 5 HLABISA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2017

1.14 LEASES

1,14,1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

1,14,2 MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is

1.15 REVENUE

1,15,1 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

1,15,2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when the spot fine and summonses are issued.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible Councilors or officials is virtually certain.

1,15,3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.16 EMPLOYEE BENEFITS

The municipality provides retirement contributions for its employees and Councilors. Contributions are made to the Natal Joint Municipal Pension Fund to fund the obligations for the payment of retirement benefits in accordance with the rules of the defined benefit funds it administers. Contributions are recognised as an expense in the statement of Financial Performance.

1,16,1 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 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 costs or 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.

1,16,2 Defined contribution plans

Council employees contribute to the Natal Joint Municipal Pension Fund. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid.

BIG 5 HLABISA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2017

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods. The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

1,16,2 Defined contribution plans (continued)

Natal Joint Municipal Pension Fund have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where

1,16,3 Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries

1.17 BUDGET INFORMATION

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as a separate additional financial statement, namely Statement of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2014 to 30 June 2015. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- ▣ the approved and final budget amounts;
- ▣ actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statement of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included the Statement of Comparison of Budget and Actual Amount

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24. No amendments or disclosure requirements in terms of GRAP 3 (Revised – March 2012) has been made.

1.18 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.

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – "Related Party Disclosures".

A related party is a person or an entity:

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

The following are regarded as related parties of the Municipality:

(a) A person or a close member of that person's family is related to the Municipality if that person:

- has control or joint control over the Municipality.
- has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
- is a member of the management of the Municipality or its controlling entity.

(b) An entity is related to the Municipality if any of the following conditions apply:

- the entity is a member of the same Municipality (which means that each controlling entity, controlled entity and fellow controlled entity is related to the other)
- one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an Municipality of which the other entity is a member)
- both entities are joint ventures of the same third party.
- one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
- the entity is controlled or jointly controlled by a person identified in (a).
- a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

BIG 5 HLABISA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ended 30 June 2017

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities

1.18 RELATED PARTIES (CONTINUED)

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an Municipality who has the authority and responsibility for planning, directing and controlling the activities of the
- © any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.

- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.19 SIGNIFICANT JUDGEMENT AND SOURCES OF ESTIMATING 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 are 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:

1,19,1 TRADE AND OTHER RECEIVABLES/LOANS RECEIVABLES

The municipality assesses its trade receivables and loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset. The impairment for trade receivables and loans and receivables is calculated on a portfolio basis on the remaining individually impaired items, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence

1,19,2 FAIR VALUE ESTIMATION

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the entity is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The entity uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying values of trade receivables and payables are assumed to approximate their fair values.

1,19,3 IMPAIRMENT TESTING

The recoverable (service) amounts of individual assets and cash-generating units 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.

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. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

1,19,4 USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangible assets. This estimate is based on the condition and use of the individual assets, in order to determine the remaining period over which the asset can and will be used.

1,19,5 ALLOWANCES FOR IMPAIRMENT

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

1,19,6 PROVISION FOR STAFF LEAVE

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

1,19,7 PROVISION FOR PERFORMANCE BONUS

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to evaluation by Council.

1,20 COMMITMENTS (CAPITAL AND OPERATING)

**BIG 5 HLABISA LOCAL MUNICIPALITY
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

for the year ended 30 June 2017

Commitments are future expenses and liabilities to be incurred on a contractual basis that have been entered into at reporting date.

The amount of capital commitments and other operating commitments contracted for at the reporting date and which have been recognised as liabilities are disclosed by way of note

Capital commitments are disclosed in the Annual Financial Statements when the letter of award is accepted by the contractor for capital commitments and when the order is issued for operating commitments

Capital commitments disclosed in the annual financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

Operational commitments disclosed in the annual financial statements represent only the contractual balance committed to operating expenditure.

1.20 COMMITMENTS (CAPITAL AND OPERATING) CONTINUED

1.21 EVENTS AFTER REPORTING DATE

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

(a) those that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date); and

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

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

2. POLICY

The unaudited annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year. There were no changes to the accounting policy during the current year.

3. NEW STANDARDS AND INTERPRETATIONS

3.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year there were no new standards which were adopted by the municipality

4. Mergers

4.1 Accounting policy adopted for the merger

Mergers are accounted for in accordance with GRAP 107. The combining entities derecognise their assets and liabilities at their carrying amounts at the date of the

Any difference between the assets and liabilities derecognised and the consideration received, if any, is recognised in accumulated surplus or deficit.

4.2 Merging Entities

The Big 5 Hlabisa Municipality was incorporated on the 10th of August 2016

The entities who under took the merger are hereto recognised as Hlabisa Local Municipality and The Big Five Falsebay Local Municipality.

The merger arose as a result of the decision taken by the municipal demarcation board.

4.3 The Merger date

The Big 5 Hlabisa Municipality was incorporated on the 10th of August 2016

Refer to Note 5 for the effect of the merger on the opening balances of the Big 5 Hlabisa Local Municipality

Note 5

Take on Balances of the Big 5 Hlabisa Local Municipality on the date of incorporation being the 10th of August 2016

	TAKE ON BALANCE	HLABISA	BIG 5 FB
	R	R	R
Assets			
Non-Current Assets	253 203 614	121 098 663	132 104 951
Property, Plant & Equipment	251 908 023	120 502 822	131 405 201
Investment Property	293 000	293 000	
Intangible Assets	496 951	288 641	208 310
Deposits	14 200	14 200	
Receivables from Exchange Transactions	491 440	-	491 440
Current Assets	44 169 851	9 502 310	34 667 541
Trade Receivables from exchange transactions	523 846	398 325	125 521
Trade Receivables from non exchange transactions	6 320 337	1 751 647	4 568 690
Consumer Debtors	20 119 945	-	20 119 945
VAT Receivables	9 384 240	4 472 416	4 911 824
Cash and cash equivalents	7 821 483	2 879 922	4 941 561
Total Assets	297 373 465	130 600 973	166 772 492
Liabilities			
Non-Current Liabilities	9 484 715	3 363 843	6 120 872
Finance Lease Obligation	-	-	-
Non-Current Provisions - Long Service Award	1 608 574	1 608 574	
Non - Current Provisions - Landfill Site Provisions	1 755 268	1 755 268	6 120 872
Current Liabilities	44 046 013	22 137 755	21 908 258
Trade & other Payables from exchange transactions	22 844 346	8 905 548	13 938 798
Trade & other Payables from non-exchange transactions	4 340 523	3 670 466	670 057
Unspent Conditional Grants	16 010 363	8 710 960	7 299 403
Current portion of lease liability	850 780	850 780	
Total Liabilities	53 530 728	25 501 598	28 029 130
Net Assets	-		
Accumulated Surplus	243 842 737	105 099 375	138 743 362
Total Net Assets	243 842 737	105 099 375	138 743 362

BIG 5 HLABISA LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

	NOTES	30 JUNE 2017
		R
Revenue		
Revenue from non-exchange transactions		
Property rates	<u>21</u>	7 114 889
Property rates penalties	<u>21</u>	1 162 297
Interest earned Investment	<u>18.1</u>	561 198
Traffic Fines		533 650
Licences and permits issued		1 554 663
Government grants and subsidies	<u>22</u>	108 449 264
Gain on assets donated		487 314
Revenue from exchange transactions		
Service charges	<u>17</u>	1 469 654
Interest earned Main bank	<u>18.2</u>	171 608
Rental revenue	<u>20</u>	194 072
Commission received	<u>19</u>	14 986
Sundry income	<u>19</u>	149 576
Loss on Scrapping of Asset		(345 995)
Total Revenue (A)		121 517 176
Expenditure (classified by nature)		
Employee related costs	<u>23</u>	55 814 378
Councillor remunerations	<u>24</u>	5 766 120
Depreciation	<u>25</u>	10 268 685
Finance Charges	<u>26</u>	365 698
Contracted Services	<u>27</u>	425 265
General expenses	<u>28</u>	38 984 077
Repairs and maintenance	<u>28.1</u>	2 288 477
Provision for doubtful debts		9 499 409
Provision for Site Rehabilitation	<u>16</u>	430 619
Total Expenditure (B)		123 842 729
		-
Total expenditure (A) plus loss on sale		123 842 729
Surplus/(Deficit) for the year (A-B)		(2 325 552)

17 543.85

BIG 5 HLABISA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2017

	NOTES	30 JUNE 2017
		R
Assets		
Non-current assets		268 162 850
Property, plant and equipment	<u>9</u>	267 517 174
Investment property	<u>8</u>	293 000
Intangible assets	<u>10</u>	338 476
Deposits	<u>11</u>	14 200
Current assets		32 741 870
Trade and Receivable from exchange transactions	<u>6.1</u>	4 902 856
Trade and Receivable from non exchange transactions	<u>6.2</u>	14 101 855
VAT Receivables	<u>14</u>	11 810 497
Cash and cash equivalents	<u>7</u>	1 926 661
Total assets		300 904 720
Liabilities		
Non- Current Liabilities		9 332 808
Finance Lease Obligation	<u>12</u>	202 001
Non-Current Provisions - Long Service Award	<u>30</u>	1 478 878
Non-Current Provisions - Landfill Site	<u>16</u>	7 651 929
Current liabilities		49 662 812
Trade and other payables from exchange transactions	<u>13.1</u>	32 023 421
Trade and other payables from non-exchange transactions	<u>13.2</u>	12 400 739
Unspent Conditional Grants	<u>15</u>	4 806 052
Current portion of lease liability	<u>12</u>	108 074
Current portion of Provisions - Long Service Award	<u>30</u>	78 911
Current portion of Provisions - Landfill Site	<u>16</u>	245 614
Total liabilities		58 995 620
Net assets		241 909 100
Accumulated surplus		241 909 100
Total net assets		241 909 100

BIG 5 HLABISA LOCAL MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

	NOTES	30 JUNE 2017
		R
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts		
Sale of goods and services	<u>42</u>	8 691 589
Grants	<u>22</u>	108 449 264
Interest Receipts	<u>18</u>	732 806
		117 873 659
Payments		
Employee related costs	<u>42</u>	(61 580 498)
Suppliers	<u>42</u>	(36 480 319)
Interest paid		(147 900)
		(98 208 718)
Net cash flow from operating activities	<u>29</u>	19 664 940
CASH FLOW FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	<u>9</u>	(24 930 930)
Additions to intangible assets	<u>10</u>	(88 125)
Net cash flow from investing activities		(25 019 056)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of lease liability	<u>12</u>	(540 705)
Net cash flow from financing activities		(540 705)
Net cash flows for the year		(5 894 820)
Cash and cash equivalents beginning of year		7 821 483
Cash and cash equivalents end of year	<u>7</u>	1 926 662

BIG 5 HLABISA LOCAL MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017		
	NOTE	Accumulated surplus
		R
Opening Balance as at 10 August 2016		243 842 737
Adjustment to opening Accumulated Surplus		391 915
Adjusted Opening Balance as at 10 August 2016	<u>43</u>	244 234 652
Surplus for the period		(2 325 552)
Balance as at 09 August 2016	<u>43</u>	241 909 100

BIG 5 HLABISA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original Budget 01 July 2016 to 30 June 2017	Budget adjustments (i.t.o s28 and 31 of MFMA)	Final Budget 01 July 2016 to 30 June 2017	Final Adjustment Budget apportioned for 10 Aug 2016 to 30 June 2017	Shifting of funds (i.t.o 31 of MFMA)	Virement (i.t.o council approved policy)	Final Budget apportioned for 01 July to 09 August 2016	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Reason for Material Variance
Property rates	13 959 780	-	13 959 780	12 420 683	-	-	12 420 683	8 277 186		4 143 497	-33%	The variance is due to reduction in property rates and property rate penalties due a 50% discount on billing granted to customers and interest not being levied on these debtor accounts between March 2017 and June 2017. This decision was approved by council resolution
Service charges	1 849 238	-	1 849 238	1 645 355	-	-	1 645 355	1 469 654		175 701	-11%	The variance is due to refuse customers not being levied interest on these debtor accounts between March 2017 and June 2017. This decision was approved by council resolution
Investment revenue	1 037 000	(268 352)	768 648	683 903	-	-	683 903	732 806		(48 903)	7%	The variance is positive and is due to cash being held in interest bearing investment accounts for longer periods during the year
Transfers recognised operational	118 168 320	900 000	119 068 320	119 068 320	-	-	119 068 320	108 449 264		10 619 056	-9%	The variance is due to municipality not including the R 9 Million rand which related to the prior year unspent conditional grants. This amount was deducted by National Treasury from the current year equitable share receipts.
Other own revenue	6 958 229	(1 338 317)	5 619 912	5 000 304	-	-	5 000 304	2 588 267		2 412 037	-48%	The variance is due to the reduction in traffic fines issued as budgeted. In the Hluhluwe region the Traffic camera, which was used to generate revenue was not used in the current financial year
Total Revenue (excluding capital transfers and contributions)	141 972 567	(706 669)	141 265 898	138 818 564	-	-	138 818 564	121 517 176		17 301 388		
Employee related costs	45 729 437	10 463 573	56 193 009	49 997 602	-	-	49 997 602	55 814 378	5 816 776	(5 816 776)	12%	The variance is due to increases in payroll cost being effected in December 2016, furthermore the increase is due to the movement of the leave pay provision and provision for 13th cheque calculation
Remuneration of Councilors	6 775 763	(426 737)	6 349 026	5 649 031	-	-	5 649 031	5 766 120	117 089	(117 089)	2%	Movement is within the acceptable norm
Depreciation and asset impairment	12 125 476	(3 333 663)	8 791 813	7 822 496	-	-	7 822 496	10 268 685	2 446 189	(2 446 189)	31%	The variance is due to the higher "Cost" being included or transferred to fixed asset from Work In Progress. During the year a total of R 39 Million of immoveable assets was transferred out from WIP/Assets under construction to fixed asset. The result being the actual increase in depreciation as compared to the budget
Finance Charges	350 001	(200 000)	150 001	133 463	-	-	133 463	365 698	232 235	(232 235)	174%	The variance is due to the increase on the interest charge relating to interest charged on the long service award and the landfill site provision totalling R 217K. This charge was not considered in the budget
Transfers, Grants and other expenditure	72 837 605	(3 667 485)	69 170 120	61 543 957	-	-	61 543 957	51 627 848		9 916 110	-16%	The variance is due to the increase in the provision for doubtful debts relating to Debtors (Refuse, Rates and Traffic Fines). The combined statement of financial performance effect was a total of R 9.8 Million. The increase in the provision was due to a larger portion of traffic fines debtors and Refuse/Rates Debtors being assessed not to be recoverable.
Total expenditure	137 818 281	2 835 688	140 653 969	125 146 550	-	-	125 146 550	123 842 729	8 612 289	1 303 821		
Surplus/(Deficit)	4 154 285	(3 542 357)	611 929	13 672 015	-	-	13 672 015	(2 325 552)	(8 612 289)	15 997 567		
Capital expenditure and funds sources												
Total capital expenditure	23 800 000	-	23 800 000	23 800 000			23 800 000	23 738 969		61 032	0%	The variance is within the norm

BIG 5 HLABISA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

Statement of Comparison of Budget and Actual Amounts - Statement of Financial Position

Figures in Rand	Original Budget	Budget adjustments (i.t.o s28 and 31 of MFMA)	Final adjustment budget	Shifting of funds (i.t.o 31 of MFMA)	Virement (i.t.o council approved policy)	Final Budget	Actual outcome	Variance	Actual outcome as % of final budget	Reason for Material Variance
Non-current assets	302 175 580	-	302 175 580	-	-	302 175 580	268 162 850	(34 012 730)	-12.68%	The variance is primarily due to the difference in NBV on Property Plan and Equipment and the Fair value of investment property. These were incorrectly calculated during the budgeting process
Property, plant and equipment	278 807 820	-	278 807 820	-	-	278 807 820	267 517 174			
Investment property	20 444 760	-	20 444 760	-	-	20 444 760	293 000			
Intangible assets	623 000	-	623 000	-	-	623 000	338 476			
Other Non Current	2 300 000	-	2 300 000	-	-	2 300 000	14 200			
Current assets	36 046 487	(11 923 478)	24 123 009	-	-	24 123 009	32 741 870	8 618 861	26.32%	The variance is primarily due to the vat receivable of R11 M forming part of the actual results. The municipality has been behind with submitting their vat 201 forms during the year and as a result this amount remains receivable
Consumer Debtors	19 660 420	1 337 378	20 997 798	-	-	20 997 798	4 902 856			
Other Debtors	2 108 254	-	2 108 254	-	-	2 108 254	14 101 855			
VAT Receivables	-	-	-	-	-	-	11 810 497			
Cash and cash equivalents	14 277 813	(13 260 856)	1 016 957	-	-	1 016 957	1 926 661			
Total assets	338 222 067	(11 923 478)	326 298 589	-	-	326 298 589	300 904 720	(25 393 869)	-8.44%	
Liabilities										
Non- Current Liabilities	5 500 000	-	5 500 000	-	-	5 500 000	9 332 808	3 832 808	41.07%	The variance is due to the movements in the bad debt provisions, landfill site rehabilitation and long service award for the year. The increase is due a deterioration of debtors collectibility
Finance Lease Obligation	-	-	-	-	-	-	202 001			
Provisions	5 500 000	-	5 500 000	-	-	5 500 000	1 478 878			
Non-Current Provisions - Landfill Site	-	-	-	-	-	-	7 651 929			
Current liabilities	11 938 000	(3 938 000)	8 000 000	-	-	8 000 000	49 662 812	41 662 812	83.89%	The variance is due to the increase in trade creditors. The municipality experiencing a reduction in cash flows, as a result the trade creditors balance have increased as compared to the budget amount
Trade and other payables from exchange transactions	11 938 000	(3 938 000)	8 000 000	-	-	8 000 000	32 023 421			
Trade and other payables from non exchange transactions	-	-	-	-	-	-	12 400 739			
Unspent Conditional Grants	-	-	-	-	-	-	4 806 052			
Current portion of lease liability	-	-	-	-	-	-	108 074			
Current portion of Provisions - Long Service Award	-	-	-	-	-	-	78 911			
Current portion of Provisions - Landfill Site	-	-	-	-	-	-	245 614			
Total liabilities	17 438 000	-	13 500 000	-	-	13 500 000	58 995 620	45 495 620	77.12%	
Accumulated Surplus/Net assets	320 784 067	(11 923 478)	312 798 589	-	-	312 798 589	241 909 099	(70 889 490)	-29.30%	

BIG 5 HLABISA LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

Statement of Comparison of Budget and Actual Amounts

	Original Budget	Budget adjustments (i.t.o s28 and 31 of MFMA)	Final addjstment budget	Shifting of funds (i.t.o 31 of MFMA)	Virement (i.t.o council approved policy)	Final Budget	Actual outcome	Variance	Actual outcome as % of final budget
Figures in Rand									
Cash flows									
Net cash from (used) operating	36 605 489	(12 394 000)	24 211 489			24 211 489	19 664 940	(4 546 549)	-19%
Net cash from (used) investing	(27 048 606)	-	(27 048 606)			(27 048 606)	(25 019 056)	2 029 550	-8%
Net cash from (used) financing	(783 477)	(68 000)	(851 477)			(851 477)	(540 705)	310 771	-36%
Net increase/(decrease) in cash and cash equivalents	8 773 406	(12 462 000)	(3 688 594)	-	-	(3 688 594)	(5 894 820)	(2 206 227)	160%
Cash and cash equivalents at the beginning of the year	3 948 000	757 373	4 705 373			4 705 373	7 821 483	3 116 110	166%
Cash and cash equivalents at the end of the year	12 721 406	(11 704 627)	1 016 779	-	-	1 016 779	1 926 663	909 883	189%

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

6.1 Trade and Receivable from exchange transactions

30 JUNE 2017

Refuse	10 456 255
Allowance for debt impairment on refuse	(5 704 691)
Trade Creditors with a debit balance	151 292
	<u>4 902 856</u>

Refuse	
Current (0-30 days)	224 480
31 - 60 days	219 301
61 - 90 days	198 697
91 - 120 days	120 905
121 - 365 days	9 692 872
	<u>10 456 255</u>

Summary of trade receivables by customer classification

Refuse	
Government	
Current (0-30 days)	2 205
31 - 60 days	4 222
61 - 90 days	-
91 - 120 days	-
121 - 365 days	140 995
	<u>147 423</u>

Industrial/ Commercial	
Current (0-30 days)	63 334
31 - 60 days	48 343
61 - 90 days	36 987
91 - 120 days	25 614
121 - 365 days	531 865
	<u>706 144</u>

Residential	
Current (0-30 days)	158 940
31 - 60 days	166 736
61 - 90 days	171 995
91 - 120 days	97 952
121 - 365 days	9 007 065
	<u>9 602 689</u>

6.2 Trade and other receivables from non-exchange transactions

30 JUNE 2017

Gross Balances	
Rates	20 895 437
Debtors: Traffic Fines	15 995 035
Staff Debt	169 989
Other Debtors	668 702
Less: Allowances for impairment	
Rates	(7 803 447)
Debtors: Traffic Fines	(15 823 860)
Net Balance	<u>14 101 855</u>

Summary of other receivables by customer classification

Rates	
Government	
Current (0-30 days)	9 467
31 - 60 days	43 008
61 - 90 days	213 313
91 - 120 days	11 441
121 - 365 days	4 380 347
	<u>4 657 576</u>

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Industrial/ Commercial

Current (0-30 days)	688 234
31 - 60 days	570 813
61 - 90 days	437 286
91 - 120 days	307 052
121 - 365 days	8 649 606
	10 652 991

Residential

Current (0-30 days)	283 310
31 - 60 days	267 101
61 - 90 days	232 849
91 - 120 days	111 932
121 - 365 days	4 689 678
	5 584 870

6.2 Trade and other receivables from non-exchange transactions (continued)

Total	30 JUNE 2017
Current (0 - 30 days)	981 011
31 - 60 days	880 922
61 - 90 days	883 448
91 - 120 days	430 425
121 - 365 days	17 719 630
	20 895 437
Less: Allowance for debt impairment	(7 803 447)
	13 091 990

6.2 Reconciliation of allowance for impairment of trade receivables (continued)

	30 JUNE 2017
Opening balance	19 832 589
Contribution to allowance	9 499 409
	29 331 998

Trade and other receivables pledged as security

No portion of accounts receivables was pledged as security for any financial liabilities.

No security is held for any accounts receivables.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other enhancement

7 Cash and Cash equivalent

	30 JUNE 2017
Investment - ABSA	56 026
Investment - FNB - 62205724174	(6)
Investment - FNB - 62641677466	16 605
Investment - FNB - 62641681251	4 694
Investment - ABSA - 9104689480	1
Investment - Nedbank - 7881083085	1 661
Investment - Nedbank - 9998	86 149
Investment - Mercantile - 4100167725	16 255
Main Bank Account - FNB - 62632389450	1 453 755
Investment - Absa - 9109586760	58 065
Main Bank Account - FNB - 62022340385	88 291
Investment - FNB - 62641679123	113 856
Call Account-FNB - 62641675890	7 444
Petty Cash	23 866
	1 926 661

ABSA

Cash book balance at beginning of year	46 960
Bank statement balance at beginning of year	66 960
Cash book balance at end of period	56 026
Bank statement balance at end of period	76 026

FNB (62205724174)

Cash book balance at beginning of year	284 039
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BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Bank statement balance at beginning of year	284 045
Cash book balance at end of period	(6)
Bank statement balance at end of period	-

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Investment - FNB (62641677466)

Cash book balance at beginning of year	-
Bank statement balance at beginning of year	-
Cash book balance at end of period	16 605
Bank statement balance at end of period	16 605

Investment - FNB (62641681251)

Cash book balance at beginning of year	-
Bank statement balance at beginning of year	-
Cash book balance at end of period	4 694
Bank statement balance at end of period	4 694

Investment - Nedbank (7881083085)

Cash book balance at beginning of year	-
Bank statement balance at beginning of year	-
Cash book balance at end of period	1 661
Bank statement balance at end of period	-

Investment - Nedbank 9998

Cash book balance at beginning of year	81 535
Bank statement balance at beginning of year	81 535
Cash book balance at end of period	86 149
Bank statement balance at end of period	86 139

Investment - Mercantile (4100167725)

Cash book balance at beginning of year	15 249
Bank statement balance at beginning of year	15 249
Cash book balance at end of period	16 255
Bank statement balance at end of period	16 255

Main Bank Account - FNB -62632389450

Cash book balance at beginning of year	-
Bank statement balance at beginning of year	-
Cash book balance at end of period	1 453 755
Bank statement balance at end of period	1 453 755

Investment - Absa - 9109586760

Cash book balance at beginning of year	56 610
Bank statement balance at beginning of year	56 610
Cash book balance at end of period	58 065
Bank statement balance at end of period	58 065

Main Bank Account - FNB - 62022340385

Cash book balance at beginning of year	190 680
Bank statement balance at beginning of year	190 680
Cash book balance at end of period	88 291
Bank statement balance at end of period	88 291

Investment - FNB - 62641679123

Cash book balance at beginning of year	-
Bank statement balance at beginning of year	-
Cash book balance at end of period	113 856
Bank statement balance at end of period	113 856

Call Account-FNB -62641675890

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Cash book balance at beginning of year	-
Bank statement balance at beginning of year	-
Cash book balance at end of period	7 444
Bank statement balance at end of period	7 444

8 Investment Property

30 JUNE 2017

Cost	293 000
Devaluation	-
Carrying value	<u>293 000</u>

Reconciliation of investment property

Opening balance	293 000
Impairment	-
Revaluation	-
	<u>293 000</u>

Investment property consists of land in the name of the municipality that had been leased out

A register containing the information required by Section 63 of the Municipal

Other information

Amounts recognised in surplus and deficit for the year

Rental revenue for investment property	<u>124 503</u>
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Pledged as security

No investment properties were pledged as security for overdraft facilities during the year

9 Property, plant and equipment

	30 JUNE 2017		
	COST	ACCUMULATED DEPRECIATION & IMPAIRMENT	CARRYING VALUE
Land	57 080 966	-	57 080 966
Buildings	75 895 390	(18 659 845)	57 235 545
Infrastructure	107 626 336	(26 276 732)	81 349 604
Community Assets	69 172 662	(7 178 189)	61 994 472
Plant & Machinery	3 194 966	(1 700 187)	1 494 779
Furniture & Fixtures	3 998 418	(1 523 394)	2 475 024
Motor Vehicles	10 837 073	(6 357 307)	4 479 766
Office Equipment	828 673	(630 618)	198 055
IT Equipment	1 522 438	(804 085)	718 353
Finance Leased Asset	3 121 351	(2 630 742)	490 609
Total	333 278 273	(65 761 099)	267 517 174

Year Ended 30 June 2017 - Reconciliation of Property, Plant and Equipment Carrying Values/NBV

	Opening Balance	Adjustments to the Opening Balance	Restated Opening Balance	Additions
Land	57 080 966	-	57 080 966	-
Buildings	57 681 435	(259)	57 681 176	3 726 010
Infrastructure	77 187 681	294 293	77 481 974	34 774 192
Community Assets	50 401 880	756 208	51 158 088	9 992 497
Plant & Machinery	1 340 346	314	1 340 661	432 600
Furniture & Fixtures	2 188 470	1 569	2 190 040	981 488
Motor Vehicles	4 561 603	-	4 561 603	894 700
Office Equipment	344 879	6 982	351 861	-
IT Equipment	686 829	4 736	691 565	388 591
Finance Leased Asset	433 932	-	433 932	310 075
Total	251 908 022	1 063 844	252 971 867	51 500 152

Year Ended 30 June 2017 - Reconciliation of WIP/Work In Progress

	Opening Balance	Adjustments to the Opening Balance	Restated Opening Balance	Additions
Buildings	-	-	-	1 863 005
Infrastructure	21 762 816	-	21 762 816	7 623 997
Community Assets	8 832 229	(33 167)	8 799 062	12 436 475
Total WIP/Work In Progress	30 595 045	(33 167)	30 561 878	21 923 477

Cash Flow from Additions disclosed in the Recon Above

Additions Disclosed above	51 500 152
Less: Transfers included as additions	(39 527 289)
Add Closing WIP disclosed separately in recon note	12 958 067
Amount Disclosed in Cash Flow	24 930 930

9 Property, plant and equipment - continued

Work In Progress/WIP:

Additions to WIP: are disclosed under the additions column in the reconciliation above and are recognised in the financial statement when the invoice is received from the contractor.

Transfer out of WIP: are disclosed under the Transfers column in the reconciliation above and represent transfers out from WIP to Community and Infrastructure assets. These transfer occurs on the date that the contractor has certified the completion of the project.

Fixed Asset Register:

A Fixed Asset Register that is compliant with the requirement of GRAP 17 is maintained by the municipality

Leased assets recorded in the Fixed Asset Register serve as security for the finance lease liability

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

10 Intangible Assets

30 JUNE 2017	Cost/valuation	Accumulated Amortisation	Carrying value
Computer software	1 653 252	(1 314 776)	338 476
Total	1 653 252	(1 314 776)	338 476

Reconciliation of intangible assets

	Opening balance	Additions	Scrapping	Amortisation
Computer software	496 955	88 125	-	(246 601)
Total	496 955	88 125	-	(246 601)

Intangible Asset Register:

A Fixed Asset Register that is compliant with the requirement of GRAP is maintained by the municipality

11 Deposits

30 JUNE 2017

Deposits	14 200
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12 Finance Leases

30 JUNE 2017

	Minimum lease Payment	Future finance Income	Present value of minimum lease payments
Amounts payable under finance leases			
Within one year	96 321	11 753	108 074
Within two to five years	192 632	9 370	202 001
	288 952	21 123	310 075

The average lease term is 5 years and the average effective borrowing rate is 0.37% per annum

The nature of the Finance lease liabilities are agreements in place with the supplier Vodacom 4U for the supply of Laptop Computer.

Finance lease liabilities are secured with lease assets that are located at the municipality.

12.1 Operating Leases

30 JUNE 2017

Operating Lease Liability (Smoothing of Lease rentals)	17 006
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**Minimum lease
Payment**

Amounts payable under operating leases

Within one year	401 700
Within two to five years	40 108
	441 808

The average lease term is 3 years.

The nature of the Operating lease liability is the smoothing of lease rentals relating to agreements in place with the supplier Nashua Zululand for the supply of Photocopying machines.

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

13 Payables	30 JUNE 2017
13.1 Payables from exchange transactions	
Trade payables	22 115 766
Deposits received	18 755
Retentions	5 210 224
Site Deposits	2 502 925
Other Creditors	415 060
National Electrification Unspent Loan/Grant	19 490
Debtors with Credit balance	1 741 202
	<u>32 023 421</u>

13.2 Payables from non-exchange transactions	30 JUNE 2017
Leave accruals	4 603 987
Annual bonus accrual	1 736 423
Sundry payables	5 124 293
Other creditors	936 037
	<u>12 400 739</u>

14 Value Added Tax	30 JUNE 2017
VAT receivable from SARS	<u>11 810 497</u>

15 Unspent conditional grants and receipts	30 JUNE 2017
Corridor Development Grant	652 752
Municipal Demarcation Grant	-
DOH - Disaster Management Grant	1 267 785
Municipal Systems Improvement Grant	(0)
Extended Public Works Program Grant	135 720
Hlabisa Sewerage System Project	1 798 319
Municipal Infrastructure Grant - MIG	(0)
Work/Study Grant	700 000
Library Grant - Department of Arts & Culture	1
Finance Management Grant	-
LGSETA	25 475
Migration of Records Grants	200 000
Municipal By Law Grant	26 000
	<u>4 806 052</u>

Movement during the year

Grant Description	Opening Balance	Adjustment to Opening Balance	Adjusted Opening Balance	Receipts
Corridor Development Grant	652 752	-	652 752	-
Municipal Demarcation Grant	3 424 287	-	3 424 287	5 828 000
DOH - Disaster Management Grant	1 267 785	-	1 267 785	-
Municipal Systems Improvement Grant	356 400	344 713	701 113	-
Extended Public Works Program Grant	256 769	-	256 769	3 545 000
Hlabisa Sewerage System Project	1 798 319	-	1 798 319	-
Municipal Infrastructure Grant - MIG	7 948 862	-	7 948 862	23 800 000
Work/Study Grant	-	-	-	700 000
Library Grant - Department of Arts & Culture	233 786	-	233 786	1 880 000
Finance Management Grant	45 929	-	45 929	3 650 000
LGSETA	25 475	-	25 475	-
Migration of Records Grants	-	-	-	200 000
COGTA By Laws	-	-	-	200 000
	<u>16 010 363</u>	<u>344 713</u>	<u>16 355 076</u>	<u>39 803 000</u>

16 Provision for rehabilitation of landfill site	30 JUNE 2017
Opening balance	7 384 828
Current year movement: Interest Charge	82 096
Current year movement: Movement in Provision	430 619
Closing balance	<u>7 897 543</u>

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

16 Provision for rehabilitation of landfill site - Continued

Short term portion of provision for rehabilitation of landfill site	245 614
Long term portion of provision for rehabilitation of landfill site	7 651 929
	<u>7 897 543</u>

17 Service charges

30 JUNE 2017

Refuse removal	1 469 654
	<u>1 469 654</u>

18 Interest earned - external investments

30 JUNE 2017

18.1 Interest earned - non exchange transaction

Short-term deposits	<u>561 198</u>
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18.2 Interest earned - exchange transaction

30 JUNE 2017

Bank	<u>171 608</u>
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19 Other revenue

30 JUNE 2017

Sundry income	149 576
Commission earned	14 986
	<u>164 562</u>

20 Rental of facilities and equipment

30 JUNE 2017

Rental of facilities	192 914
Rental of equipment	1 159
	<u>194 072</u>

21 Property rates

30 JUNE 2017

Municipal rates	7 114 889
Property rates penalties	1 162 297
	<u>8 277 186</u>

22 Government grants and subsidies

30 JUNE 2017

Equitable share	66 132 598
Government grant expenditure transferred to revenue	42 316 666
	<u>108 449 264</u>

23 Employee related costs

30 JUNE 2017

Basic Salary	38 746 066
Bonus	3 157 003
Medical Aid Contributions	2 223 196
Unemployment Insurance Fund - UIF	311 349
Skills Development Levy - SDL	469 571
Pension Fund Contributions	4 944 176
Disability & Other Allowance	231 492
Travel and all other travelling allowances	3 937 271
Overtime	209 965
Housing benefits and allowances	407 580
Telephone allowance	155 673
Leave	1 671 303
Social Contributions	11 000
Contribution to long service award	(677 798)
Local Government Bargaining Council Contributions	16 531
	<u>67 531 126</u>

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Remuneration of Municipal Manager

30 JUNE 2017

Annual remuneration	559 571
Travel allowance and travel claims	227 653
Cellphone allowance	22 765
Housing allowance	122 631
Contributions to UIF,Medical aid and pension funds	112 670
	<u>1 045 290</u>

23 Employee related costs (continued)

30 JUNE 2017

Remuneration of Chief Finance Officer

Annual remuneration, including acting allowance	461 712
Travel allowance and travel claims	87 061
Cell phone allowance	3 446
Contributions to UIF,Medical aid and pension funds	735 788
Annual Bonus	38 301
	<u>1 326 307</u>

There has not been a permanent appointment of the Chief Finance Officer during the financial year. The Chief Financial Officer is currently acting.

Remuneration of Director Corporate Services

Annual remuneration	417 672
Travel allowance and travel claims	182 122
Cellphone allowance	22 765
Housing allowance	73 560
Contributions to UIF,Medical aid and pension funds	30 081
	<u>726 201</u>

Remuneration of Director Planning and Infrastructure

Annual remuneration	417 672
Travel allowance and travel claims	170 740
Cellphone allowance	22 765
Housing allowance	84 943
Contributions to UIF,Medical aid and pension funds	1 679
	<u>697 800</u>

Remuneration of Director Community Services

Annual remuneration	477 434
Travel allowance and travel claims	12 731
Cellphone allowance	79 572
Housing & Disability allowance	73 207
Contributions to UIF,Medical aid and pension funds	154 458
	<u>797 403</u>

24 Councilors remuneration

30 JUNE 2017

Total Remuneration	5 766 120
Made Up:	
Mayor	628 488
Deputy Mayor	277 845
Speaker	284 633
Exco Member	265 981
Councilors	4 309 173
	<u>5 766 120</u>

In-Kind Benefits

The Deputy Mayor, and Mayoral Committee Members are part-time employees. The Mayor is a full-time employee. The Mayor, Deputy Mayor and Speaker have offices and secretarial support at the cost of the Council.

The Mayor, has the use of separate Council owned vehicle for official duties.

The Mayor has two full-time bodyguards. The Deputy Mayor and the Speaker has one full-time bodyguard.

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

25 Depreciation and amortisation

30 JUNE 2017

PPE	10 022 085
Intangible assets	246 601
	10 268 685

26 Interest paid

30 JUNE 2017

Finance leases	147 900
Long Service Award - interest	135 701
Interest - Land fill site	82 096
	365 698

27 Contracted services

30 JUNE 2017

Contracted services	425 265
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28 General Expenses

30 JUNE 2017

Administration expenses - Committee expenses	483 388
Advertising	1 571 642
Auditors Remuneration	3 633 851
Bank Charges	173 920
Bursary	462 208
Cleaning Expenses	1 268 172
Consulting and professional fees	3 383 679
Extended Public Works Grant Expenditure (Salaries, admin cost)	3 171 826
Municipal Demarcation Grant Expenditure (Admin cost, Advertising etc)	1 090 182
Municipal By law Grant Expenditure (Admin cost, Advertising etc)	152 632
Poverty Alleviation (Groceries, donations, sponsorship for communities)	556 778
Fuel and Oil	1 219 733
Special programs expenditure (Transport, venue hire, Functions cost)	986 230
Insurance	574 936
Legal Fees	443 164
Office Machine Rental Expense	827 827
Postage and telephone	2 954 113
Printing & stationary	817 187
Promotions: Arts & Culture events	546 936
Public Participation (Catering, Road shows expenditure)	13 300
Security Services - Contracted	5 661 005
Sports and Recreation	393 461
Subsistence and travel	1 541 849
Staff Training Costs	2 181 241
Uniform	282 836
Electricity & Water Costs	1 018 267
Youth Support (Transport, venue hire, Functions cost)	56 833
Licenses & Memberships	236 244
IDP Expenditure (Transport, venue hire, Functions cost)	1 153 044
Car Hire	44 234
Other Expenditure	2 083 363
	38 984 077

28.1 Repairs & Maintenance

30 JUNE 2017

Buildings	760 302
Infrastructure	54 029
Plant & Machinery	196 800
Motor Vehicles	1 277 345
	2 288 476

29 Cash generated from operations**30 JUNE 2017**

Surplus/Loss for the year	(2 325 552)
Adjustment for:	
Depreciation and amortisation	10 268 685
Loss on sale of assets	345 995
Provision for doubtful debts	9 499 409
Other non-cash items	119 193
Provision for Refuse Site Rehabilitation	430 619
Interest Paid - Landfill Site & Long Service Award	217 797
Service cost and actuarial gain on Long Service Award	(677 798)
Prior Year grant deduction netted off against equitable share	(9 035 358)
Income on Asset donated	(487 314)
Change in working capital:	
Movement on Trade and other receivables from exchange & non exchange transactions	7 959 417
Movement in Vat Receivable	(2 426 257)
Movement on Payables from exchange transactions	17 325 129
Unspent conditional grant	(11 549 024)
	<u><u>19 664 941</u></u>

30 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 Onepangaea , a 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 principal actuarial assumptions used were as follows:**30 JUNE 2017**

Discount rate per annum	8.89%
General Inflation	5.68%
Salary inflation	6.68%
Real rate	2.07%

Examples of mortality rates used were as follows:

Average retirement age	63
Mortality during employment	SA85-90

The amounts recognised in the Statement of Financial Position were determined as follows:**30 JUNE 2017**

Present value of funded obligations	1 557 789
Fair value of plan assets	-
Liability in the Statement of Financial Position	<u><u>1 557 789</u></u>

Current Portion of Liability in the Statement of Financial Position	78 911
Long Term Portion of Liability in the Statement of Financial Position	1 478 878
	<u><u>1 557 789</u></u>

Movements in the defined benefit obligation is as follows:

Balance at beginning of the year	2 099 886
Interest cost	135 701
Current service cost	246 011
Benefit payments	(456 453)
Actuarial (gains)/losses	(467 356)
Balance at end of year	<u><u>1 557 789</u></u>

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

Interest cost	135 701
Current service cost	246 011
Benefit payments	(456 453)
Actuarial (gains)/losses	(467 356)
Total Employee Benefit included in Employee Related Costs	<u><u>(542 097)</u></u>

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

In conclusion:

Statement of Financial Position obligation for:
Long Services Award.

30 JUNE 2017
1 557 789
1 557 789

Statement of Financial performance obligation for:
Long Service Award gain

(542 097)
(542 097)

31 Fruitless and wasteful expenditure

30 JUNE 2017

Opening balance	1 754 984
Current year	356 990
Less: condoned	-
	2 111 974

Nature of fruitless and wasteful expenditure

Interest and penalties on late payments(SARS, Auditor General, Telkom & Eskom)

356 990
356 990

32 Irregular Expenditure

30 JUNE 2017

Opening balance	147 322 273
Current year	70 249 417
Less: condoned	-
	217 571 690

33 Unauthorised

30 JUNE 2017

Opening balance	48 497 156
Over expenditure - Appropriation Statement	8 612 289
Conditional grants not cash backed	2 879 391
	59 988 835

34 Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government
Current year

Auditors remuneration - AGSA

30 JUNE 2017

Current year charge	3 414 513
Amount paid	(2 207 275)
	1 207 238

PAYE AND UIF

Current year charge	10 435 655
Amount paid	(8 327 308)
	2 108 347

Pension and Medical Aid Contribution

Current year charge	7 960 659
Amount paid	(5 582 103)
	2 378 556

VAT

VAT Receivable	11 810 497
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35 Commitments**Authorised capital expenditure****Approved and contracted for**

Capital	
Property, plant and equipment and electrification projects	42 447 884
Operating	
Open orders	782 566
Outsourced IT Services	1 519 861
	<u>44 750 311</u>

Approved but not yet contracted for

Property, plant and equipment and electrification projects	<u>8 450 000</u>
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36 Events after reporting date**Non Adjusting Event - Traffic Building Burnt - GRAP 14**

The traffic building located in Hlabisa was burnt down during the month of September 2017 (This occurred after the reporting date being the 30th of June 2017).

A case of arson was suspected. As a result supporting information/documentation and physical items of Property Plant and Equipment stored in the building were destroyed. The municipality has lodged a claim with the insurance service provider and the claim is being assessed.

These assets are to be assessed for impairment during the year ended 30-06-2018

Storm Damage - September 2017

During the month of September 2017, several assets including buildings and infrastructure were effected by storm damage caused by a severe storm which had effected the entire KZN Province.

The municipality is to assess these immoveable assets for impairment in the next financial year.

37 Key Sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant and equipment
- Recoverable amount of property, plant and equipment
- Provision for doubtful debts
- Impairment of assets

38 Risk Management**Maximum credit risk exposure**

Credit risk consists mainly of cash deposits, cash and cash equivalents and trade debtors. The only 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 financial position, past experience and other factors. 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.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality facilities.

Interest rate risk

As municipality has no significant interest-bearing assets, the municipality's income and operating cashflows are

39 Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

30 JUNE 2017

Trade and receivables from exchange transactions	4 902 856
Trade and receivables from non - exchange transactions	14 101 855
Cash and cash equivalents	1 926 661
VAT receivables	11 810 497
	<u>32 741 870</u>

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

40 Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

30 JUNE 2017

Payables from exchange transactions	32 023 421
Payables from non-exchange transactions	12 400 739
Unspent Conditional Grants	4 806 052
Bank overdraft	-
Lease liability	310 075
Provisions	9 130 807
	58 671 095

41 Contingent liabilities & Assets

41.1 Contingent liabilities

Current Year Litigation:

Republic Watch -

The municipality is in dispute with this service provider who provided physical security to the to the Hluhluwe offices as after the merger the municipality determined that the monthly charge being levied exceeded the market rate.

To date the High Court granted the final order where the court ordered that the applicant has a valid agreement with the municipality and had ordered that the municipality comply with such order and furthermore effect payments in terms of a monthly charge , claimed by Republic Watch.

As at the end of August 2017, the legal council of the municipality has instituted proceedings to set aside the final order granted in the High Court. It is the municipality's contention that no service agreement exists and furthermore that the applicant has not rendered services, which would justify payment being made.

The exposure amount confirmed by the legal council amounted to R 1.8 Million.

Legal Cost Incurred to date: R 105 000

Contingent Liability

Contingent liability relating to legal cost: R 100 000

Contingent liability relating to Potential Settlement: R 1 800 000

Wamkelqa:

The legal council of the municipality has opposed an action brought by Wamkhele which has been instituted out of the High Court. The claim is in region of R1.6 M.

As at the end of August 2017, the date for the convening of a pre-trial conference has not yet been determined, where after the matter will be set down for trial.

Legal Cost Incurred to date: R 20 000

Contingent Liability

Contingent liability relating to settlement: R 600 000

Mazars Incorporated:

A judgment was granted against the municipality in the local regional civil court relating to the service rendered by Mazars Incorporated to prepare the Fixed Asset register for the Hlabisa Local Municipality prior to the existence of the Big 5 Hlabisa Local Municipality. The total amount granted in the judgment being R 217 170.

As at the end of August 2017, the legal council of the municipality were instructed to make application to rescind a judgment granted against the municipality.

Contingent Liability

1. Contingent liability relating to Legal Cost: R 30 000

2. Contingent liability relating to Settlement: R 124 190

NB: The contingent liability of R 124 190 was calculated taking the judgment granted or R 250 000 and removing the amount reflected in the trade creditor balance for the supplier Mazars of R 125 810

Maximum Profit Recovery

A judgment was granted against the municipality in the local regional civil court relating to the service rendered by Maximum Profit Recovery relating to vat oversight/review for the Hlabisa Local Municipality prior to the existence of the Big 5 Hlabisa Local Municipality. The total amount granted in the judgment being R 101 719.

The legal confirmation received states that the matter has been resolved.

Contingent Liability

Contingent liability relating to Settlement: R 101 719

Veze Investments CC

Contingent liability relating to Settlement: R 265 000

41 Prior period Error

Property Plant & Equipment

The prior period error relates to:

> Incorrect capitalisation of asset cost and accumulated depreciation effect relating to moveable's(Plastic Chairs).

> Assets with a nil book value at the beginning of the year on the register (Restating accumulated depreciation)

Opening Balance - 10 AUGUST 2016	251 908 022
Incorrect Asset Cost - Land	(259)
Asset Cost - Plast Chairs Cost Incorrectly Capitalised - Big 5	(32 484)
Accumulated Depreciation Plast Chairs Incorrectly Capitalised	22 284

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Assets with a Nil Book Value at begin of the year	318 094
Reduction of Retention effect on Accumulated Depreciation - Nkanjini Mpholo Road	1 554
Accumulated Depreciation on additional invoices of assets transferred out of WIP	<u>(3 113)</u>
Adjusted opening balance as at 10 AUGUST 2016	<u>252 214 099</u>

BIG 5 HLABISA LOCAL MUNICIPALITY

NOTES TO FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2017

Trade & other Payables from exchange transactions

The prior period error relates to:

- > Incorrect accruals raised in the prior year (Where the payment was made and the accrual not reversed)
- > Duplicate invoices raised on creditor balances at the beginning of the year
- > Creditor balances not owed at the beginning of the year

Opening Balance - 10 AUGUST 2016	22 844 346
Incorrect Accruals raised in Prior Year - Hlabisa	(171 651)
Duplicate Creditor Raised in Prior year	(642 158)
Adjustments to opening creditors	<u>383 258</u>
Adjusted opening balance as at 10 AUGUST 2016	<u>22 413 795</u>

Unspent Conditional Grants

The prior period error relates to:

- > Adjustment to the Municipal Systems Improvement Grant opening balance as the amount deducted of R 701K during the financial year was based on the section 71 reports submitted by the municipality to Provincial Treasury and not the audited AFS for Hlabisa.
- > The opening balance reflected was R 356 K and hence the adjusted of R 344k in order to allow the deduction total of R 701K

Opening Balance - 10 AUGUST 2016	16 010 363
Adjustment to opening Balance to National Treasury Deduction amount	<u>344 713</u>
Adjusted opening balance as at 10 AUGUST 2016	<u>16 355 076</u>

Accumulated Surplus

Opening Balance- 10 AUGUST 2016	243 842 737
Effect on Surplus relating to PPE	306 077
Effect on Surplus relating to Creditors	813 809
Effect on Surplus relating to Creditors	(383 258)
Effect on Surplus relating to Unspent Conditional Grants	<u>(344 713)</u>
Adjusted balance as at 10 AUGUST 2016	<u>(244 234 652)</u>
Surplus/Deficit for the Year	<u>2 325 552</u>
Adjusted Closing Balance 30 June 2017	<u>(241 909 100)</u>

42 Cash flows from operating activities

30 JUNE 2017

Receipts: Sale of goods and services

Total revenue as per Statement of Financial Performance	121 517 176
Less: Interest received	(732 806)
Less: Government grants and subsidies received	(108 449 264)
Less: Prior Year grant deduction netted off against equitable share	(9 035 358)
Less: Income recognised on receipt on asset donation	(487 314)
Add: Loss on scrapping of assets	345 995
Movement in receivables from exchange & Non exchange transactions	7 959 416
Movement in VAT receivables	<u>(2 426 257)</u>
	<u>8 691 589</u>

Payables: Suppliers

Total expenditure as per Statement of Financial Performance	(123 842 729)
Employee costs	61 580 498
Actuarial Gain included in employee cost	(677 798)
Interest paid	365 698
Depreciation and amortisation	10 268 685
Other non-cash items	119 193
Contribution to landfill site	430 619
Provision for doubtful debts	9 499 409
Movement in payables	17 325 129
Movement in unspent conditional grants	<u>(11 549 024)</u>
	<u>(36 480 319)</u>

43 Accumulated surplus

Opening balance - 09 AUGUST 2016	243 842 737
Adjustment to Opening Balance	<u>391 915</u>
Adjusted Opening balance	<u>(244 234 652)</u>
Net profit for the year	<u>2 325 552</u>
Closing balance	<u>(241 909 100)</u>

44 Going Concern

We draw attention to the fact that as at 30 June 2017 the municipality had an accumulated surplus of R 241 909 100.

The current liabilities exceeded its current assets by R16 920 942. Certain unspent conditional grants are not cash backed.

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

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

45 Deviations

	DEVIATION DETAILS	DATE OF AWARD	AWARDED TO	AMOUNT	APPROVED BY ACCOUNTING OFFICER