



Umkhanyakude District Municipality and its Municipal Entity  
Consolidated Annual Financial statements  
for the year ended 30 June 2017  
Auditor-General South Africa

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## General Information

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<b>Legal form of entity</b>	DC27 - Umkhanyakude District Municipality
<b>Mayoral committee</b>	Cllr Mkhombo T.S. (Mayor) Cllr Hlabisa F.C. (Deputy Mayor) Cllr Msane MS (Speaker) Cllr Moodley G.P. (Exco Member) Cllr Ngcobo M.S. (Exco Member) Cllr Zungu M.C. (Exco Member)
<b>Councillors</b>	Cllr Gina MA Cllr Gumede KS Cllr Gumede RH Cllr Gumede VE Cllr Gumede VM Cllr Hlabisa VF Cllr Khoza SJ Cllr Khumalo CT Cllr Mabika DP Cllr Mabika AV Cllr Madlopha PB Cllr Mathenjwa BS Cllr Mdaka SF Cllr Mhlongo ZM Cllr Mpontshane KN Cllr Mthembu MJ Cllr Mthethwa N.R Cllr Mthethwa NS Cllr Mthethwa SP Cllr Myeni SR Cllr Mzinyane SW Cllr Ngubane JG Cllr Sithole MB Cllr Zulu NR Cllr Zuma NE
<b>Grading of local authority</b>	Grade 4
<b>Chief Finance Officer (CFO)</b>	Dludla N.T
<b>Accounting Officer</b>	Bukhosini S.E
<b>Registered office</b>	Harlingen No. 13433 Kingfisher Road Mkuze 3965
<b>Postal address</b>	P.O. Box 449 Mkuze
<b>Primary Bankers</b>	ABSA
<b>Auditors</b>	Auditor-General South Africa

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

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

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### Abbreviations

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the economic entity's consolidated annual financial statements. The consolidated annual financial statements have been examined by the economic entity's external auditors and their report is presented on page 4.

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

The consolidated annual financial statements set out on pages 4 to 70, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2017 and were signed on its behalf by:

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**S.E Bukhosini**  
**Accounting Officer**

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2017	2016	2017	2016
<b>Assets</b>					
Current Assets					
Inventories	3	124 845 735	136 923 807	124 845 735	136 923 807
Receivables from exchange transactions	4	65 721 398	66 039 652	57 788 337	58 691 167
Other receivables from exchange transactions	5	10 030 411	11 497 680	10 030 411	11 497 680
VAT receivable	6	51 610 577	46 015 647	50 706 642	45 501 922
Cash and cash equivalents	7	36 797 979	32 523 410	34 626 017	27 315 140
		<b>289 006 100</b>	<b>293 000 196</b>	<b>277 997 142</b>	<b>279 929 716</b>
Non-Current Assets					
Property, plant and equipment	8	1 828 746 406	1 625 968 011	1 821 850 101	1 625 350 719
Intangible assets	9	301 656	385 802	301 656	385 802
Heritage assets	10	586 000	586 000	586 000	586 000
		<b>1 829 634 062</b>	<b>1 626 939 813</b>	<b>1 822 737 757</b>	<b>1 626 322 521</b>
Non-Current Assets		1 829 634 062	1 626 939 813	1 822 737 757	1 626 322 521
Current Assets		289 006 100	293 000 196	277 997 142	279 929 716
<b>Total Assets</b>		<b>2 118 640 162</b>	<b>1 919 940 009</b>	<b>2 100 734 899</b>	<b>1 906 252 237</b>
<b>Liabilities</b>					
Current Liabilities					
Payables from exchange transactions	11	248 526 705	248 707 528	246 777 031	247 955 799
Consumer deposits	12	1 377 510	1 193 053	1 377 510	1 193 053
Unspent conditional grants and receipts	13	72 995 711	34 385 211	64 576 002	24 101 775
Current portion of defined benefit plan obligation	14	534 000	223 000	534 000	223 000
Current portion of loans	15	1 003 312	1 016 484	1 003 312	1 016 484
Current tax payable	31	-	44 035	-	-
		<b>324 437 238</b>	<b>285 569 311</b>	<b>314 267 855</b>	<b>274 490 111</b>
Non-Current Liabilities					
Defined benefit plan obligation	14	6 512 000	5 946 000	6 512 000	5 946 000
Non-current loans	15	6 207 357	7 048 086	6 207 357	7 048 086
		<b>12 719 357</b>	<b>12 994 086</b>	<b>12 719 357</b>	<b>12 994 086</b>
Non-Current Liabilities		12 719 357	12 994 086	12 719 357	12 994 086
Current Liabilities		324 437 238	285 569 311	314 267 855	274 490 111
<b>Total Liabilities</b>		<b>337 156 595</b>	<b>298 563 397</b>	<b>326 987 212</b>	<b>287 484 197</b>
Assets		2 118 640 162	1 919 940 009	2 100 734 899	1 906 252 237
Liabilities		(337 156 595)	(298 563 397)	(326 987 212)	(287 484 197)
<b>Net Assets</b>		<b>1 781 483 567</b>	<b>1 621 376 612</b>	<b>1 773 747 687</b>	<b>1 618 768 040</b>
Accumulated surplus		1 781 483 567	1 621 376 612	1 773 747 687	1 618 768 040

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2017	2016	2017	2016
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	16	19 541 684	22 725 798	19 541 684	22 725 798
Rental of facilities and equipment	17	56 310	66 939	56 310	66 939
Interest income	18	5 305 018	7 323 413	5 115 213	7 214 593
Other income	19	16 245 792	34 530 556	16 048 647	34 355 684
Actuarial gains	14	124 705	-	124 705	-
<b>Total revenue from exchange transactions</b>		<b>41 273 509</b>	<b>64 646 706</b>	<b>40 886 559</b>	<b>64 363 014</b>
<b>Revenue from non-exchange transactions</b>					
Government grants & subsidies	20	556 436 934	522 463 700	525 375 773	499 263 523
		41 273 509	64 646 706	40 886 559	64 363 014
		556 436 934	522 463 700	525 375 773	499 263 523
<b>Total revenue</b>		<b>597 710 443</b>	<b>587 110 406</b>	<b>566 262 332</b>	<b>563 626 537</b>
<b>Expenditure</b>					
Employee related costs	21	(140 608 444)	(132 871 616)	(133 969 150)	(127 487 292)
Remuneration of councillors	22	(6 874 314)	(6 445 539)	(6 874 314)	(6 445 538)
Depreciation and amortisation	23	(37 911 260)	(36 515 366)	(37 751 156)	(36 347 769)
Finance costs	24	(1 423 952)	(2 352 023)	(1 339 122)	(2 225 598)
Debt Impairment	25	(5 262 800)	(18 465 364)	(5 262 800)	(18 465 364)
Repairs and maintenance	26	(70 857 776)	(33 221 518)	(70 857 085)	(33 218 155)
Bulk purchases	27	(80 929 566)	(73 600 999)	(80 929 566)	(73 600 998)
Contracted services	28	(46 426 932)	(31 035 955)	(23 264 678)	(13 431 591)
General Expenses	29	(47 308 449)	(118 412 583)	(51 034 815)	(119 731 913)
<b>Total expenditure</b>		<b>(437 603 493)</b>	<b>(452 920 963)</b>	<b>(411 282 686)</b>	<b>(430 954 218)</b>
		-	-	-	-
Total revenue		597 710 443	587 110 406	566 262 332	563 626 537
Total expenditure		(437 603 493)	(452 920 963)	(411 282 686)	(430 954 218)
<b>Operating surplus</b>		<b>160 106 950</b>	<b>134 189 443</b>	<b>154 979 646</b>	<b>132 672 319</b>
Operating surplus		160 106 950	134 189 443	154 979 646	132 672 319
		-	-	-	-
<b>Surplus before taxation</b>		<b>160 106 950</b>	<b>134 189 443</b>	<b>154 979 646</b>	<b>132 672 319</b>
Taxation	30	-	44 035	-	-
Operating surplus/deficit		-	-	-	-
Surplus before taxation		160 106 950	134 189 443	154 979 646	132 672 319
Taxation		-	44 035	-	-
<b>Surplus for the year</b>		<b>160 106 950</b>	<b>134 145 408</b>	<b>154 979 646</b>	<b>132 672 319</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Economic entity</b>		
Opening balance as previously reported	1 517 539 682	1 517 539 682
Adjustments		
Correction of errors	(30 308 478)	(30 308 478)
<b>Balance at 01 July 2015 as restated*</b>	<b>1 487 231 204</b>	<b>1 487 231 204</b>
Changes in net assets		
Surplus for the year	134 145 408	134 145 408
Total changes	134 145 408	134 145 408
<b>Balance at 01 July 2016</b>	<b>1 621 376 617</b>	<b>1 621 376 617</b>
Changes in net assets		
Surplus for the year	160 106 950	160 106 950
Total changes	160 106 950	160 106 950
<b>Balance at 30 June 2017</b>	<b>1 781 483 567</b>	<b>1 781 483 567</b>
<b>Controlling entity</b>		
Opening balance as previously reported	1 516 301 860	1 516 301 860
Adjustments		
Correction of errors	(30 206 139)	(30 206 139)
<b>Balance at 01 July 2015 as restated*</b>	<b>1 486 095 721</b>	<b>1 486 095 721</b>
Changes in net assets		
Surplus for the year	132 672 319	132 672 319
Total changes	132 672 319	132 672 319
<b>Balance at 01 July 2016</b>	<b>1 618 768 041</b>	<b>1 618 768 041</b>
Changes in net assets		
Surplus for the year	154 979 646	154 979 646
Total changes	154 979 646	154 979 646
<b>Balance at 30 June 2017</b>	<b>1 773 747 687</b>	<b>1 773 747 687</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Cash Flow Statement

Figures in Rand	Note(s)	Economic entity		Controlling entity	
		2017	2016	2017	2016
<b>Cash flows from operating activities</b>					
<b>Receipts</b>					
Sale of goods and services		16 064 408	36 143 829	16 648 983	35 173 898
Grants		602 467 237	517 140 177	565 848 000	490 940 000
Interest income		5 305 018	7 323 413	5 115 213	7 214 593
Other receipts		12 128 709	34 597 495	11 931 565	34 422 622
		<b>635 965 372</b>	<b>595 204 914</b>	<b>599 543 761</b>	<b>567 751 113</b>
<b>Payments</b>					
Employee costs		(147 482 759)	(139 317 524)	(140 843 464)	(133 932 830)
Suppliers		(249 978 431)	(193 181 272)	(223 622 816)	(175 682 973)
Finance costs		(780 626)	(2 352 023)	(695 796)	(2 225 598)
Taxes paid	31	(44 035)	-	-	-
		<b>(398 285 851)</b>	<b>(334 850 819)</b>	<b>(365 162 076)</b>	<b>(311 841 401)</b>
Total receipts		635 965 372	595 204 914	599 543 761	567 751 113
Total payments		(398 285 851)	(334 850 819)	(365 162 076)	(311 841 401)
<b>Net cash flows from operating activities</b>	<b>32</b>	<b>237 679 521</b>	<b>260 354 095</b>	<b>234 381 685</b>	<b>255 909 712</b>
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment	8	(232 527 833)	(240 792 604)	(226 193 689)	(240 448 174)
Purchase of intangible assets	9	(23 218)	(7 300)	(23 218)	(7 300)
<b>Net cash flows from investing activities</b>		<b>(232 551 051)</b>	<b>(240 799 904)</b>	<b>(226 216 907)</b>	<b>(240 455 474)</b>
<b>Cash flows from financing activities</b>					
Repayment of non-current loans		(853 901)	(835 511)	(853 901)	(835 511)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4 274 569</b>	<b>18 718 680</b>	<b>7 310 877</b>	<b>14 618 727</b>
Cash and cash equivalents at the beginning of the year		32 523 410	13 804 730	27 315 140	12 696 413
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>36 797 979</b>	<b>32 523 410</b>	<b>34 626 017</b>	<b>27 315 140</b>



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Economic entity</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	36 667 825	(4 239 043)	<b>32 428 782</b>	19 541 684	<b>(12 887 098)</b>	
Rental of facilities and equipment	93 819	35 266	<b>129 085</b>	56 310	<b>(72 775)</b>	
Interest received - Outstanding debt	4 995 123	(4 995 123)	-	-	-	
Interest received	3 772 000	228 000	<b>4 000 000</b>	5 305 018	<b>1 305 018</b>	
Other income	27 279 609	9 801 893	<b>37 081 502</b>	16 245 792	<b>(20 835 710)</b>	
Actuarial gains	-	-	-	124 705	<b>124 705</b>	
<b>Total revenue from exchange transactions</b>	<b>72 808 376</b>	<b>830 993</b>	<b>73 639 369</b>	<b>41 273 509</b>	<b>(32 365 860)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Transfer revenue</b>						
Government grants & subsidies	307 981 100	(2 516 000)	<b>305 465 100</b>	556 436 934	<b>250 971 834</b>	
'Total revenue from exchange transactions'	72 808 376	830 993	<b>73 639 369</b>	41 273 509	<b>(32 365 860)</b>	
'Total revenue from non-exchange transactions'	307 981 100	(2 516 000)	<b>305 465 100</b>	556 436 934	<b>250 971 834</b>	
<b>Total revenue</b>	<b>380 789 476</b>	<b>(1 685 007)</b>	<b>379 104 469</b>	<b>597 710 443</b>	<b>218 605 974</b>	
<b>Expenditure</b>						
Employee Related Costs	(127 744 512)	(287 414)	<b>(128 031 926)</b>	(140 608 444)	<b>(12 576 518)</b>	
Remuneration of councillors	(7 459 201)	-	<b>(7 459 201)</b>	(6 874 314)	<b>584 887</b>	
Depreciation and amortisation	(28 204 382)	-	<b>(28 204 382)</b>	(37 911 260)	<b>(9 706 878)</b>	
Finance costs	(1 048 709)	(1 070 998)	<b>(2 119 707)</b>	(1 423 952)	<b>695 755</b>	
Debt Impairment	(29 209 422)	16 965 508	<b>(12 243 914)</b>	(5 262 800)	<b>6 981 114</b>	
Repairs and maintenance	(35 613 729)	(21 411 281)	<b>(57 025 010)</b>	(70 857 776)	<b>(13 832 766)</b>	
Bulk purchases	(64 692 397)	(17 137 312)	<b>(81 829 709)</b>	(80 929 566)	<b>900 143</b>	
Contracted Services	(13 868 633)	(5 276 966)	<b>(19 145 599)</b>	(46 426 932)	<b>(27 281 333)</b>	
General Expenses	(66 966 586)	23 921 229	<b>(43 045 357)</b>	(47 308 449)	<b>(4 263 092)</b>	
<b>Total expenditure</b>	<b>(374 807 571)</b>	<b>(4 297 234)</b>	<b>(379 104 805)</b>	<b>(437 603 493)</b>	<b>(58 498 688)</b>	
	5 981 905	(5 982 241)	<b>(336)</b>	160 106 950	<b>160 107 286</b>	
	-	-	-	-	-	
<b>Surplus before taxation</b>	<b>5 981 905</b>	<b>(5 982 241)</b>	<b>(336)</b>	<b>160 106 950</b>	<b>160 107 286</b>	
Deficit before taxation	5 981 905	(5 982 241)	<b>(336)</b>	160 106 950	<b>160 107 286</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>5 981 905</b>	<b>(5 982 241)</b>	<b>(336)</b>	<b>160 106 950</b>	<b>160 107 286</b>	

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	60 000	136 863 807	<b>136 923 807</b>	124 845 735	<b>(12 078 072)</b>	
Receivables from exchange transactions	8 205 460	-	<b>8 205 460</b>	65 721 398	<b>57 515 938</b>	
Other receivables from exchange transactions	36 667 825	-	<b>36 667 825</b>	10 030 411	<b>(26 637 414)</b>	
VAT receivable	-	-	-	51 610 577	<b>51 610 577</b>	
Cash and cash equivalents	79 476 000	-	<b>79 476 000</b>	36 797 979	<b>(42 678 021)</b>	
	<b>124 409 285</b>	<b>136 863 807</b>	<b>261 273 092</b>	<b>289 006 100</b>	<b>27 733 008</b>	
<b>Non-Current Assets</b>						
Property, plant and equipment	-	-	-	1 828 746 406	<b>1 828 746 406</b>	
Intangible assets	-	-	-	301 656	<b>301 656</b>	
Heritage assets	-	-	-	586 000	<b>586 000</b>	
	-	-	-	<b>1 829 634 062</b>	<b>1 829 634 062</b>	
Non-Current Assets	124 409 285	136 863 807	<b>261 273 092</b>	289 006 100	<b>27 733 008</b>	
Current Assets	-	-	-	1 829 634 062	<b>1 829 634 062</b>	
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-	-	
<b>Total Assets</b>	<b>124 409 285</b>	<b>136 863 807</b>	<b>261 273 092</b>	<b>2 118 640 162</b>	<b>1 857 367 070</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	63 355 273	-	<b>63 355 273</b>	248 526 705	<b>185 171 432</b>	
Consumer deposits	21 510	1 171 543	<b>1 193 053</b>	1 377 510	<b>184 457</b>	
Unspent conditional grants and receipts	-	-	-	72 995 711	<b>72 995 711</b>	
Current portion of defined benefit obligation	-	-	-	534 000	<b>534 000</b>	
Current portion of loans	1 499 680	-	<b>1 499 680</b>	1 003 312	<b>(496 368)</b>	
	<b>64 876 463</b>	<b>1 171 543</b>	<b>66 048 006</b>	<b>324 437 238</b>	<b>258 389 232</b>	
<b>Non-Current Liabilities</b>						
Defined benefit obligation	-	-	-	6 512 000	<b>6 512 000</b>	
Non current loans	7 751 479	-	<b>7 751 479</b>	6 207 357	<b>(1 544 122)</b>	
	<b>7 751 479</b>	-	<b>7 751 479</b>	<b>12 719 357</b>	<b>4 967 878</b>	
	64 876 463	1 171 543	<b>66 048 006</b>	324 437 238	<b>258 389 232</b>	
	7 751 479	-	<b>7 751 479</b>	12 719 357	<b>4 967 878</b>	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>72 627 942</b>	<b>1 171 543</b>	<b>73 799 485</b>	<b>337 156 595</b>	<b>263 357 110</b>	
Assets	124 409 285	136 863 807	<b>261 273 092</b>	2 118 640 162	<b>1 857 367 070</b>	
Liabilities	(72 627 942)	(1 171 543)	<b>(73 799 485)</b>	(337 156 595)	<b>(263 357 110)</b>	
<b>Net Assets</b>	<b>51 781 343</b>	<b>135 692 264</b>	<b>187 473 607</b>	<b>1 781 483 567</b>	<b>1 594 009 960</b>	
<b>Net Assets</b>						

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Reserves</b>						
Accumulated surplus	51 781 343	135 692 264	<b>187 473 607</b>	1 781 483 567	<b>1 594 009 960</b>	

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accruals Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	21 995 828	(8 561 220)	<b>13 434 608</b>	16 064 408	<b>2 629 800</b>	
Grants	574 205 000	14 409 000	<b>588 614 000</b>	602 467 237	<b>13 853 237</b>	
Interest income	323 775	2 806 353	<b>3 130 128</b>	5 305 018	<b>2 174 890</b>	
Other receipts	26 914 734	11 524 000	<b>38 438 734</b>	12 128 709	<b>(26 310 025)</b>	
	<b>623 439 337</b>	<b>20 178 133</b>	<b>643 617 470</b>	<b>635 965 372</b>	<b>(7 652 098)</b>	
<b>Payments</b>						
Suppliers and Employee costs	(321 822 999)	-	<b>(321 822 999)</b>	(397 461 190)	<b>(75 638 191)</b>	
Finance costs	(1 049 000)	-	<b>(1 049 000)</b>	(780 626)	<b>268 374</b>	
Taxes paid	-	-	-	(44 035)	<b>(44 035)</b>	
	<b>(322 871 999)</b>	-	<b>(322 871 999)</b>	<b>(398 285 851)</b>	<b>(75 413 852)</b>	
Total receipts	623 439 337	20 178 133	<b>643 617 470</b>	635 965 372	<b>(7 652 098)</b>	
Total payments	(322 871 999)	-	<b>(322 871 999)</b>	(398 285 851)	<b>(75 413 852)</b>	
<b>Net cash flows from operating activities</b>	<b>300 567 338</b>	<b>20 178 133</b>	<b>320 745 471</b>	<b>237 679 521</b>	<b>(83 065 950)</b>	
<b>Net cash flows from investing activities</b>						
Purchase of property, plant and equipment	267 516 900	16 925 000	<b>284 441 900</b>	(232 527 833)	<b>(516 969 733)</b>	
Purchase intangible assets	-	-	-	(23 218)	<b>(23 218)</b>	
<b>Net cash flows from investing activities</b>	<b>267 516 900</b>	<b>16 925 000</b>	<b>284 441 900</b>	<b>(232 551 051)</b>	<b>(516 992 951)</b>	
<b>Cash flows from financing activities</b>						
Repayment of non-current loans	-	-	-	(853 901)	<b>(853 901)</b>	
Net increase/(decrease) in cash and cash equivalents	568 084 238	37 103 133	<b>605 187 371</b>	4 274 569	<b>(600 912 802)</b>	
Cash and cash equivalents at the beginning of the year	-	-	-	32 523 410	<b>32 523 410</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>568 084 238</b>	<b>37 103 133</b>	<b>605 187 371</b>	<b>36 797 979</b>	<b>(568 389 392)</b>	

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1. Presentation of Consolidated Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Consolidation

##### Basis of consolidation

The consolidated annual financial statements comprise the annual financial statements of Umkhanyakude District Municipality (Controlling entity) and Umhlosinga Development Agency (Municipal entity), which is controlled by the Municipality.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities, are included in the consolidated annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases.

The consolidated annual financial statements of the controlling entity and its controlled entity used in the preparation of the consolidated annual financial statements are prepared as of the same reporting date.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

##### Definitions:

**Economic entity** means a group of entities comprising a controlling entity and one or more controlled entities.

**Controlling entity** is an entity that has one or more controlled entities.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.4 Significant judgements and sources of estimation uncertainty

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates.

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

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

#### Trade and other receivables

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

#### Defined benefit obligations

Defined benefit obligations were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Defined benefit obligations.

#### Taxation

The Municipality's entity, Umhlosinga Development Agency, is a registered tax payer for income tax purposes.

Amounts included in taxable income have been provided for and recognised in the annual financial statements as normal tax payable.

Future tax benefits related to deferred income tax assets are recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future.

#### Allowance for doubtful debts

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

### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.5 Property, plant and equipment (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.

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

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

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

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

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

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

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Item	Average useful life
Land	Not depreciated
Buildings	
• Residential dwellings	10-15 years
• Non residential dwellings	15-25 years
• Electricity	5-60 years
• Water	5-100 years
• Sewerage	10-40 years
• Airports	15-30 years
Other	
• Furniture and office equipment	5-10 years
• Computer equipment	3-5 years
• Transport assets	5-7 years
• Other machinery and equipment	5-15 years

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

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

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

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

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.6 Intangible assets

Intangible assets are initially recognised at cost when they are identifiable.

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

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

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

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

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

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Item	Average useful life
Computer software	5

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Intangible assets are derecognised:

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

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

### 1.7 Heritage assets

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

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

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

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

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

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

#### Recognition

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



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.7 Heritage assets (continued)

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

#### Impairment

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

#### Derecognition

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

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

### 1.8 Financial instruments

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

A financial asset is:

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

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

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

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

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Loans payable	Financial liability measured at amortised cost

#### Initial recognition

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

#### Initial measurement of financial assets and financial liabilities

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at amortised cost.

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The economic entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the economic entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the economic entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the economic entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

##### Financial liabilities

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

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

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

##### Presentation

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

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

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

##### Receivables from trade transactions

Receivables from exchange transactions are measured at amortised cost.

##### Payables from exchange transactions

Trade and other payables are measured at amortised cost.

##### Loans payable

Loans payable are measured at amortised cost

##### Cash and cash equivalents

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.9 Tax

#### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

### 1.10 Leases

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

#### Operating leases - lessor

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

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

#### Operating leases - lessee

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

### 1.11 Inventories

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

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

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

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

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

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

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

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.11 Inventories (continued)

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

### 1.12 Impairment of cash-generating assets

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

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

#### Identification

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

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

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

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the economic entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the economic entity expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.12 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

### 1.13 Impairment of non-cash-generating assets

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

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

#### Identification

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

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

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



# Umkhanyakude District Municipality and its Municipal Entity

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### 1.13 Impairment of non-cash-generating assets (continued)

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

#### Reversal of an impairment loss

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

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

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

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

### 1.14 Employee benefits

#### Short-term employee benefits

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

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

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

#### Defined contribution plans

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

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

# Umkhanyakude District Municipality and its Municipal Entity

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### 1.14 Employee benefits (continued)

#### Pension Obligations

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

### 1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

### 1.16 Commitments

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

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.16 Commitments (continued)

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

### 1.17 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Rendering of services

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

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

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

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

Service revenue comprises of electricity, water and sewer and is recognised based on consumption by consumers. Service revenue from prepaid electricity is recognised based on electricity purchase by consumers. .

### 1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

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### 1.18 Revenue from non-exchange transactions (continued)

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

Control of an asset arises when the economic entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. Non-exchange transactions are defined as transactions where the economic entity receives value from another entity without directly giving approximately equal value in exchange.

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

#### Recognition

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

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

#### Measurement

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

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

### 1.19 Interest income

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

### 1.20 Borrowing costs

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

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

### 1.21 Comparative figures

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

### 1.22 Unauthorised expenditure

“Unauthorised expenditure”, in relation to a municipality or municipal entity, means any expenditure incurred by a economic entity otherwise than in accordance with section 15 or 11(3) of MFMA, and includes-

- overspending of the total amount appropriated in the municipality’s approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose; or
- spending of an allocation referred to in paragraph (b), (c), (d) or (e) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation;

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.23 Fruitless and wasteful expenditure

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

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

### 1.24 Irregular expenditure

Irregular expenditure in relation to a municipality or municipal entity, means -

- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of MFMA, and which has not been condoned in terms of section 170 of that Act;
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 30 No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure."

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic 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.

### 1.25 Use of estimates

The preparation of consolidated annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the economic entity's

accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated annual financial statements are disclosed in the relevant sections of the consolidated annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.26 Expenditure

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

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

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

Major expenses include:

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

### Offsetting

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

### 1.27 Consumer deposits

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

Consumer deposits are recognised at their nominal or carrying value.

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

### 1.28 Offsetting

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

### 1.29 Budget information

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

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

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.29 Budget information (continued)

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

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

Comparative information is not required.

### 1.30 Related parties

The economic entity 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.

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

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity 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 economic entity.

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

### 1.31 Events after reporting date

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

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

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

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

### 1.32 Changes accounting estimates and judgements

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

#### Assets Useful Lives

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

### 1.33 VAT

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.33 VAT (continued)

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



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The economic entity has not applied the following standards and interpretations, which have been published and are mandatory for the economic entity's accounting periods beginning on or after 01 July 2017 or later periods:

**Standard/ Interpretation:**

- GRAP 18: Segment Reporting
- GRAP 20: Related parties
- GRAP 32: Service Concession Arrangement: Grantor
- GRAP 34: Separate Financial Statements
- GRAP 35: Consolidated Financial statements
- GRAP 36: Investments in Associates and Joint Ventures
- GRAP 37: Joint Arrangements
- GRAP 38: Disclosure of interest in other entities
- GRAP 108: Statutory receivables
- GRAP 109: Accounting by Principals and Agents
- GRAP 110 : Living and Non-Living Resources
- IGRAP 17: Service Concession Arrangement Where a Grantor Controls a Significant Residual Interest in an Asset Service Concession Arrangement
- IGRAP 18: Recognition and Derecognition of Land

**Effective date:**

**Years beginning on or after**

No effective date determined.  
 No effective date determined.  
 No effective date determined.  
 No effective date determined.  
 No effective date determined.  
 No effective date determined.  
 No effective date determined.  
 No effective date determined.  
 No effective date determined.  
 No effective date determined.  
 No effective date.  
 No effective date.  
 No effective date.

# Umkhanyakude District Municipality and its Municipal Entity

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## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>3. Inventories</b>				
Materials	111 779 144	125 670 729	111 779 144	125 670 729
Water	1 026 231	1 238 246	1 026 231	1 238 246
Water meters	12 040 360	10 014 832	12 040 360	10 014 832
	<b>124 845 735</b>	<b>136 923 807</b>	<b>124 845 735</b>	<b>136 923 807</b>
Inventory is carried at its original cost and no inventory was written down.				
<b>4. Receivables from exchange transactions</b>				
<b>Gross balances</b>				
Electricity	21 954 072	24 297 058	21 954 072	24 297 058
Water	118 581 743	117 401 770	118 581 743	117 401 770
Sewerage	44 655 452	39 932 363	44 655 452	39 932 363
WSSA debtors	3 219 169	2 419 275	3 219 169	2 419 275
Department of education	7 933 061	7 348 486	-	-
	<b>196 343 497</b>	<b>191 398 952</b>	<b>188 410 436</b>	<b>184 050 466</b>
<b>Less: Allowance for impairment</b>				
Allowance for impairment - Service charges	(130 622 099)	(125 359 299)	(130 622 099)	(125 359 299)
<b>Net balance</b>				
Service charges	<b>65 721 398</b>	<b>66 039 652</b>	<b>57 788 337</b>	<b>58 691 167</b>
<b>Department of education</b>				
Current (0 -30 days)	2 840 280	2 443 874	-	-
31 - 60 days	2 334 030	2 460 461	-	-
61 - 90 days	530 929	2 444 151	-	-
91 - 120 days	2 227 823	-	-	-
	<b>7 933 062</b>	<b>7 348 486</b>	-	-
<b>Electricity</b>				
Current (0 -30 days)	98 795	798 263	98 795	798 263
31 - 60 days	166 851	383 385	166 851	383 385
61 - 90 days	182 219	278 744	182 219	278 744
91 - 120 days	81 230	204 970	81 230	204 970
121 - 365 days	21 424 977	22 631 696	21 424 977	22 631 696
	<b>21 954 072</b>	<b>24 297 058</b>	<b>21 954 072</b>	<b>24 297 058</b>
<b>Water</b>				
Current (0 -30 days)	515 531	4 965 262	515 531	4 965 262
31 - 60 days	870 675	389 589	870 675	389 589
61 - 90 days	950 869	1 798 722	950 869	1 798 722
91 - 120 days	423 881	747 464	423 881	747 464
121 - 365 days	115 820 787	109 500 733	115 820 787	109 500 733
	<b>118 581 743</b>	<b>117 401 770</b>	<b>118 581 743</b>	<b>117 401 770</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 4. Receivables from exchange transactions (continued)

#### Sewerage

Current (0 -30 days)	200 950	1 225 275	200 950	1 225 275
31 - 60 days	339 381	11 418	339 381	11 418
61 - 90 days	370 640	29 416	370 640	29 416
91 - 120 days	165 225	30 887	165 225	30 887
121 - 365 days	43 579 256	38 635 367	43 579 256	38 635 367
	<b>44 655 452</b>	<b>39 932 363</b>	<b>44 655 452</b>	<b>39 932 363</b>

# Umkhanyakude District Municipality and its Municipal Entity

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## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>4. Receivables from exchange transactions (continued)</b>				
<b>Summary of debtors by customer classification</b>				
<b>Consumers</b>				
Current (0 -30 days)	339 996	346 346	339 996	346 346
31 - 60 days	517 695	89 278	517 695	89 278
61 - 90 days	663 532	1 327 536	663 532	1 327 536
91 - 120 days	296 531	457 911	296 531	457 911
121 - 365 days	139 516 993	105 712 958	139 516 993	105 712 958
	<b>141 334 747</b>	<b>107 934 029</b>	<b>141 334 747</b>	<b>107 934 029</b>
Less: Allowance for impairment	(112 969 766)	(96 320 682)	(112 969 766)	(96 320 682)
	<b>28 364 981</b>	<b>11 613 347</b>	<b>28 364 981</b>	<b>11 613 347</b>
<b>Commercial</b>				
Current (0 -30 days)	299 749	417 212	299 749	417 212
31 - 60 days	644 949	106 544	644 949	106 544
61 - 90 days	520 711	275 638	520 711	275 638
91 - 120 days	283 944	178 494	283 944	178 494
121 - 365 days	27 865 460	26 149 261	27 865 460	26 149 261
	<b>29 614 813</b>	<b>27 127 149</b>	<b>29 614 813</b>	<b>27 127 149</b>
Less: Allowance for impairment	(16 879 912)	(16 036 782)	(16 879 912)	(16 036 782)
	<b>12 734 901</b>	<b>11 090 367</b>	<b>12 734 901</b>	<b>11 090 367</b>
<b>National and provincial government</b>				
Current (0 -30 days)	3 025 782	3 380 835	185 502	936 961
31 - 60 days	2 553 250	3 049 031	219 220	588 570
61 - 90 days	847 595	2 947 858	316 666	503 707
91 - 120 days	2 321 903	346 916	94 080	346 916
121 - 365 days	9 733 911	11 257 252	9 733 911	11 257 252
	<b>18 482 441</b>	<b>20 981 892</b>	<b>10 549 379</b>	<b>13 633 406</b>
<b>Total</b>				
Current (0 -30 days)	3 665 528	4 144 394	825 248	1 700 520
31 - 60 days	3 715 894	3 244 852	1 381 864	784 391
61 - 90 days	2 031 838	4 551 033	1 500 909	2 106 882
91 - 120 days	2 902 377	983 321	674 554	983 321
121 - 365 days	177 105 472	172 401 406	177 105 473	172 401 406
	<b>189 421 109</b>	<b>185 325 006</b>	<b>181 488 048</b>	<b>177 976 520</b>
Add: Credit balance debtors	3 703 219	3 654 671	3 703 219	3 654 671
Add: WSSA debtors	3 219 169	2 419 275	3 219 169	2 419 275
	<b>196 343 497</b>	<b>191 398 952</b>	<b>188 410 436</b>	<b>184 050 466</b>
<b>Less: Allowance for impairment</b>				
Current (0 -30 days)	-	(5 294 814)	-	(5 294 814)
31 - 60 days	-	(14 384)	-	(14 384)
61 - 90 days	-	(139 094)	-	(139 094)
91 - 120 days	(130 315)	(275 726)	(130 315)	(275 726)
121 - 365 days	(130 491 784)	(119 635 281)	(130 491 784)	(119 635 281)
	<b>(130 622 099)</b>	<b>(125 359 299)</b>	<b>(130 622 099)</b>	<b>(125 359 299)</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>4. Receivables from exchange transactions (continued)</b>				
<b>Reconciliation of allowance for impairment</b>				
Balance at beginning of the year	(125 359 299)	(118 987 103)	(125 359 299)	(118 987 103)
Contributions to allowance	(5 262 800)	(6 372 196)	(5 262 800)	(6 372 196)
	<b>(130 622 099)</b>	<b>(125 359 299)</b>	<b>(130 622 099)</b>	<b>(125 359 299)</b>
<b>5. Other receivables from exchange transactions</b>				
Other debtors	10 030 411	11 497 680	10 030 411	11 497 680
<b>6. VAT receivable</b>				
<b>The VAT receivable balance is comprised of:</b>				
Input VAT claimed through VAT 201 returns	51 062 763	41 325 728	51 062 763	41 325 728
Undeclared VAT output	(9 872 371)	(9 075 647)	(9 872 371)	(9 075 647)
Unclaimed VAT input	10 420 185	13 765 566	9 516 250	13 251 841
	<b>51 610 577</b>	<b>46 015 647</b>	<b>50 706 642</b>	<b>45 501 922</b>
<b>7. Cash and cash equivalents</b>				
Cash and cash equivalents consist of:				
Cash on hand	49 286	49 242	48 281	48 281
Bank balances	22 077 180	13 550 585	19 913 386	13 350 057
Call account balances	14 671 513	18 923 583	14 664 350	13 916 802
	<b>36 797 979</b>	<b>32 523 410</b>	<b>34 626 017</b>	<b>27 315 140</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 7. Cash and cash equivalents (continued)

The municipality and its municipal entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
<b>Municipality Accounts</b>						
First National Bank - Demand deposit - 62092993809	619 401	587 008	261 126	619 401	587 008	261 126
First National Bank - Demand deposit - 62027696478	94 147	90 241	86 976	94 147	90 241	86 976
First National Bank - Primary Account: 62026865321	13 607 279	11 418 571	1 264 063	13 607 279	11 418 571	1 264 063
ABSA Bank - 40-5310-7423	4 977 950	673 798	9 990 451	4 977 950	673 798	9 990 451
Ithala Bank - Club Account 23247671	614 609	580 439	541 799	614 609	580 439	541 799
ABSA Bank - Call Account - 91-1531-5268	361 234	13 886 098	469 586	361 234	13 886 098	469 586
First National Bank - Money Market Account - 62263733258	28 911	28 205	28 233	28 911	28 205	28 233
First National Bank - Business Call Account - 62309788498	2 651	2 499	2 213	2 651	2 499	2 213
ABSA Bank - Fixed deposit- 2076739152	14 271 554	-	-	14 271 554	-	-
<b>Municipal Entity Accounts</b>						
Nedbank - Primary Cheque Account-1029736839	2 163 794	200 528	-	2 163 794	200 528	-
Nedbank - Call Account	7 163	5 006 781	-	7 163	5 006 781	-
<b>Total</b>	<b>36 748 693</b>	<b>32 474 168</b>	<b>12 644 447</b>	<b>36 748 693</b>	<b>32 474 168</b>	<b>12 644 447</b>

### 8. Property, plant and equipment

Economic entity	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	101 977 297	(14 256 952)	87 720 345	99 786 429	(12 085 642)	87 700 787
Infrastructure	1 890 695 463	(170 669 259)	1 720 026 204	1 653 117 499	(139 088 194)	1 514 029 305
Other property, plant and equipment	46 912 164	(27 069 557)	19 842 607	46 143 833	(23 063 164)	23 080 669
<b>Total</b>	<b>2 040 742 174</b>	<b>(211 995 768)</b>	<b>1 828 746 406</b>	<b>1 800 205 011</b>	<b>(174 237 000)</b>	<b>1 625 968 011</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand 2017      2016      2017      2016

### 8. Property, plant and equipment (continued)

Controlling entity	2017			2016		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 157 250	-	1 157 250	1 157 250	-	1 157 250
Buildings	99 786 429	(14 256 952)	85 529 477	99 786 429	(12 085 642)	87 700 787
Infrastructure	1 886 234 776	(170 669 259)	1 715 565 517	1 652 791 709	(139 088 194)	1 513 703 515
Other property, plant and equipment	46 497 461	(26 899 604)	19 597 857	45 797 354	(23 008 187)	22 789 167
<b>Total</b>	<b>2 033 675 916</b>	<b>(211 825 815)</b>	<b>1 821 850 101</b>	<b>1 799 532 742</b>	<b>(174 182 023)</b>	<b>1 625 350 719</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Economic entity - 2017

	Opening balance	Additions	Donated assets	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	1 157 250
Buildings	87 700 787	2 190 868	-	(2 028 110)	(143 200)	87 720 345
Infrastructure	1 514 029 305	233 404 571	4 173 393	(27 893 315)	(3 687 750)	1 720 026 204
Other property, plant and equipment	23 080 669	813 457	-	(3 885 205)	(166 314)	19 842 607
	<b>1 625 968 011</b>	<b>236 408 896</b>	<b>4 173 393</b>	<b>(33 806 630)</b>	<b>(3 997 264)</b>	<b>1 828 746 406</b>

#### Reconciliation of property, plant and equipment - Economic entity - 2016

	Opening balance	Additions	Transfers to expense*	Depreciation	Closing balance
Land	1 157 250	-	-	-	1 157 250
Buildings	89 026 499	-	-	(1 325 712)	87 700 787
Infrastructure	1 362 878 509	229 683 171	(48 678 231)	(29 854 144)	1 514 029 305
Other property, plant and equipment	26 589 423	1 656 250	-	(5 165 004)	23 080 669
	<b>1 479 651 681</b>	<b>231 339 421</b>	<b>(48 678 231)</b>	<b>(36 344 860)</b>	<b>1 625 968 011</b>

#### Reconciliation of property, plant and equipment - Controlling entity - 2017

	Opening balance	Additions	Donated assets	Depreciation	Impairment loss	Closing balance
Land	1 157 250	-	-	-	-	1 157 250
Buildings	87 700 787	-	-	(2 028 110)	(143 200)	85 529 477
Infrastructure	1 513 703 515	229 269 674	4 173 393	(27 893 315)	(3 687 750)	1 715 565 517
Other property, plant and equipment	22 789 167	700 105	-	(3 725 101)	(166 314)	19 597 857
	<b>1 625 350 719</b>	<b>229 969 779</b>	<b>4 173 393</b>	<b>(33 646 526)</b>	<b>(3 997 264)</b>	<b>1 821 850 101</b>



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Controlling entity - 2016

	Opening balance	Additions	Transfers to expense*	Depreciation	Closing balance
Land	1 157 250	-	-	-	1 157 250
Buildings	89 026 499	-	-	(1 325 712)	87 700 787
Infrastructure	1 362 878 509	229 357 381	(48 678 231)	(29 854 144)	1 513 703 515
Other property, plant and equipment	26 131 459	1 655 116	-	(4 997 408)	22 789 167
	<b>1 479 193 717</b>	<b>231 012 497</b>	<b>(48 678 231)</b>	<b>(36 177 264)</b>	<b>1 625 350 719</b>

#### Pledged as security

As at 30 June 2017, Umkhanyakude District Municipality received assets from Umhlabuyalingana Municipality at their carrying amounts of R4 173 393. These assets were recognised in the books of Umkhanyakude District Municipality at their carrying amounts as the carrying amounts were accepted as the good indicators of the fair value of the assets considering that they were only used for one year.

There were no assets pledged as security during the year.

\*The municipality handed over completed toilets that were constructed during 2015 to the community in the prior year. These were expensed from assets under construction. Refer to not 29.

During the year management agreed to dispose items with a total carrying value of R851 549. These items were sold during the auction held after year end.

#### Reconciliation of Work-in-Progress Economic entity - 2017

	Included within Infrastructure	Included within Buildings	Total
Opening balance	588 686 701	44 815 431	633 502 132
Additions	233 404 571	2 190 868	235 595 439
Transferred to completed assets	(377 752 365)	(5 361 641)	(383 114 006)
	<b>444 338 907</b>	<b>41 644 658</b>	<b>485 983 565</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

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### 8. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress Economic entity - 2016

	Included within Infrastructure	Included within Building	Total
Opening balance	577 335 045	44 815 431	622 150 476
Additions	229 683 171	-	229 683 171
Transferred to completed assets	(169 653 284)	-	(169 653 284)
Transferred to completed expense*	(48 678 231)	-	(48 678 231)
	<b>588 686 701</b>	<b>44 815 431</b>	<b>633 502 132</b>

#### Reconciliation of Work-in-Progress Controlling entity - 2017

	Included within Infrastructure	Included within Buildings	Total
Opening balance	588 360 911	44 815 431	633 176 342
Additions	229 269 674	-	229 269 674
Transferred to completed assets	(377 752 365)	(5 361 641)	(383 114 006)
	<b>439 878 220</b>	<b>39 453 790</b>	<b>479 332 010</b>

#### Reconciliation of Work-in-Progress Controlling entity - 2016

	Included within Infrastructure	Included within Buildings	Total
Opening balance	577 335 045	44 815 431	622 150 476
Additions	229 357 381	-	229 357 381
Transferred to completed assets	(169 653 284)	-	(169 653 284)
Transferred to completed expense*	(48 678 231)	-	(48 678 231)
	<b>588 360 911</b>	<b>44 815 431</b>	<b>633 176 342</b>

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 9. Intangible assets

Economic entity	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	765 746	(464 090)	301 656	742 528	(356 726)	385 802

  

Controlling entity	2017			2016		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	765 746	(464 090)	301 656	742 528	(356 726)	385 802

#### Reconciliation of intangible assets - Economic entity - 2017

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

#### Reconciliation of intangible assets - Economic entity - 2016

	Opening balance	Additions	Amortisation	Closing balance
Computer software	549 007	7 300	(170 505)	385 802

#### Reconciliation of intangible assets - Controlling entity - 2017

	Opening balance	Additions	Amortisation	Closing balance
Computer software	385 802	23 218	(107 364)	301 656

#### Reconciliation of intangible assets - Controlling entity - 2016

	Opening balance	Additions	Amortisation	Closing balance
Computer software	549 007	7 300	(170 505)	385 802

### 10. Heritage assets

Economic entity	2017			2016		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

  

Controlling entity	2017			2016		
	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

### 10. Heritage assets (continued)

	Cost	Accumulated impairment losses	Carrying value	Cost	Accumulated impairment losses	Carrying value
Mayoral regalia	586 000	-	586 000	586 000	-	586 000

### Reconciliation of heritage assets Economic entity - 2017

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

### Reconciliation of heritage assets Economic entity - 2016

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

### Reconciliation of heritage assets Controlling entity - 2017

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

### Reconciliation of heritage assets Controlling entity - 2016

	Opening balance	Closing balance
Mayoral regalia	586 000	586 000

### Recognition of heritage assets

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

### 11. Payables from exchange transactions

Trade payables	205 601 687	204 078 307	204 135 085	203 509 643
Debtor prepayments	3 703 219	3 654 672	3 703 219	3 654 672
Employee deductions and suspense accounts	6 521 471	5 625 660	6 521 471	5 625 660
Operating lease payables	-	95 983	-	95 983
Accruals for overtime	329 699	329 699	329 699	329 699
Accruals for 13th cheque payments	3 234 937	3 131 127	3 234 937	3 131 127
Accruals for leave pay	13 530 026	10 562 086	13 246 954	10 379 021
Retentions	15 605 666	21 229 994	15 605 666	21 229 994
	<b>248 526 705</b>	<b>248 707 528</b>	<b>246 777 031</b>	<b>247 955 799</b>

### 12. Consumer deposits

Consumer deposits - water	1 377 510	1 193 053	1 377 510	1 193 053
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# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>13. Unspent conditional grants and receipts</b>				
<b>Unspent conditional grants and receipts comprises of:</b>				
<b>Unspent conditional grants and receipts</b>				
ACIP Grant	4 695	4 695	4 695	4 695
Disaster Management Grant	9 120	9 120	9 120	9 120
EDTEA Grant	6 289 012	5 015 037	-	-
Environmental Management Grant	405 600	405 600	405 600	405 600
Expanded Public Works Programme	-	2 331 774	-	2 331 774
Industrial Development Corporation Grant	700 135	700 873	-	-
Ingwavuma Prison Electrical Upgrade	101 506	101 506	101 506	101 506
Kwadapha	578 891	578 891	578 891	578 891
Kwazibi National Lottery Grant	122 667	122 667	122 667	122 667
Lake Tete	267 001	267 001	267 001	267 001
Mabibi National Lottery Grant	166 667	166 667	166 667	166 667
Massification Grant	4 172 492	4 172 492	4 172 492	4 172 492
Mkuze Market Stalls Grant	116 280	400 500	-	-
Mkuze Re-Generation Plan Grant	309 096	446 289	-	-
Mqobela National Lottery Grant	166 666	166 666	166 666	166 666
MTN Grant	515 703	515 703	-	-
Municipal Infrastructure Grant	15 410 451	-	15 410 451	-
National Treasury ILO Grant	212 173	212 173	-	-
Ndumo Groundnuts	-	353 847	-	353 847
Ndumo Learners Shelter Grant	9 441 505	9 441 505	9 441 505	9 441 505
Ndumo Market Stalls Grant	277 310	2 992 861	-	-
Nyezi Community HIV Centre	303 570	303 570	303 570	303 570
PIMMS/ NDT Operational Grant	300	300	300	300
Public Participation Customer Satisfaction Survey	154 000	154 000	154 000	154 000
Rural Households Infrastructure Grant	-	8 498	-	8 498
Rural Road & Transport Management Grant	-	2 446 932	-	2 446 932
Shared Services Grant	1	54 541	1	54 541
Umkhombe Tours	908 690	908 690	908 690	908 690
Waste Management Grant	145 565	145 565	145 565	145 565
Water Services Infrastructure Grant	32 205 315	-	32 205 315	-
Water Services Operating Subsidy	-	1 945 954	-	1 945 954
KwaJobe-Cezwana Water Purification Grant	-	(6)	-	(6)
Councillors training	11 300	11 300	11 300	11 300
	<b>72 995 711</b>	<b>34 385 211</b>	<b>64 576 002</b>	<b>24 101 775</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 14. Defined benefit plan Obligation

#### Reconciliation of defined benefit plan obligation - Economic entity - 2017

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

#### Reconciliation of defined benefit plan obligation - Economic entity - 2016

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	4 887 000	713 000	471 000	(161 060)	259 060	6 169 000

#### Reconciliation of defined benefit plan obligation - Controlling entity - 2017

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	6 169 000	817 000	649 000	(464 295)	(124 705)	7 046 000

#### Reconciliation of defined benefit plan obligation - Controlling entity - 2016

	Opening Balance	Service cost	Interest cost	Benefits paid	Actuarial gains	Closing balance
Long service awards	4 887 000	713 000	471 000	(161 060)	259 060	6 169 000

#### Defined benefit plan obligation disclosed in the Statement of Financial

##### Position as:

Non-current liabilities	6 512 000	5 946 000	6 512 000	5 946 000
Current liabilities	534 000	223 000	534 000	223 000
	<b>7 046 000</b>	<b>6 169 000</b>	<b>7 046 000</b>	<b>6 169 000</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 14. Defined benefit plan Obligation (continued)

#### Long service awards

##### Membership Data

As at 30 June 2017, the number of members entitled to receive long service leave awards from the Municipality were:

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

#### Long service awards Liabilities

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

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

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

The table below reflects a summary of the benefit policy:

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

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 14. Defined benefit plan Obligation (continued)

Valuation Assumptions - Key Financial Variables	Assumed value 30 June 2017	Assumed value 30 June 2016
Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve**	Difference between nominal and real yield curve**
Normal salary increase	CPI + 1%	6%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based
Average retirement age for all active employees	63	63
Mortality before retirement	SA 85-90	SA 85-90.

The table below sets out the assumed rates of withdrawal from services:

Age band	Males	Females
Age 20 - 24	16%	24%
Age 25 - 29	12%	18%
Age 30 - 34	10%	15%
Age 35 - 39	8%	10%
Age 40 - 44	6%	6%
Age 45 - 49	4%	4%
Age 50 - 54	2%	2%
Age 55 -59	1%	1%
Age 60+	0%	0%.

### Valuation of assets

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

### Amounts recognised in the Statement of Financial Position

Accrued defined benefit obligation	7 046 000	6 169 000	7 046 000	6 169 000
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### Reconciliation of accrued defined benefit obligation:

#### Long service awards

Accrued liability as at preceding valuation date	6 169 000	4 887 000	6 169 000	4 887 000
Current service cost	817 000	713 000	817 000	713 000
Interest cost	649 000	471 000	649 000	471 000
Benefits paid	(464 295)	(161 060)	(464 295)	(161 060)
Actuarial (gain)/loss	(124 705)	259 060	(124 705)	259 060
<b>Balance at year end</b>	<b>7 046 000</b>	<b>6 169 000</b>	<b>7 046 000</b>	<b>6 169 000</b>

### Net amounts recognised in Statement of Financial Performance

Current service cost	817 000	713 000	817 000	713 000
Interest cost	649 000	471 000	649 000	471 000
Benefits paid	(464 295)	(161 060)	(464 295)	(161 060)
Actuarial gain/(loss)	(124 705)	259 060	(124 705)	259 060
	<b>877 000</b>	<b>1 282 000</b>	<b>877 000</b>	<b>1 282 000</b>



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>15. Non-current loans</b>				
<b>Development Bank of Southern Africa Loans</b>				
Non-current portion of borrowings	6 207 357	7 048 086	6 207 357	7 048 086
Current portion of borrowings (including interest accrual)	1 003 312	1 016 484	1 003 312	1 016 484
	<b>7 210 669</b>	<b>8 064 570</b>	<b>7 210 669</b>	<b>8 064 570</b>

The municipality received two (2) loans from Development Bank of Southern Africa (DBSA) to fund the construction of the municipal buildings. The interest rates per each loan are as follows:

Loan 61000800, fixed interest rate at 6.75%

Loan 61000191, semi-floating interest rate. Interest reference is 6 Month Jibar (current base interest plus the margin).

Loan repayments are due bi-annually (i.e. on 31 March and 30 September each calendar year) with the final redemption date being 30 September 2025.

### 16. Service charges

Sale of electricity	5 262 044	4 883 908	5 262 044	4 883 908
Sale of water	13 771 141	17 411 917	13 771 141	17 411 917
Sewerage and sanitation charges	508 499	429 973	508 499	429 973
	<b>19 541 684</b>	<b>22 725 798</b>	<b>19 541 684</b>	<b>22 725 798</b>

### 17. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	56 310	66 939	56 310	66 939
Premises	-	-	-	-
Garages and parking	-	-	-	-
Facilities and equipment	56 310	66 939	56 310	66 939

### 18. Investment revenue

#### Interest income

Interest on investment balances	2 402 904	4 416 920	2 213 099	4 308 100
Interest on other bank balances	2 902 114	2 906 493	2 902 114	2 906 493
	<b>5 305 018</b>	<b>7 323 413</b>	<b>5 115 213</b>	<b>7 214 593</b>
	-	-	-	-
	5 305 018	7 323 413	5 115 213	7 214 593

### 19. Other income

Connection fees	21 723	9 763	21 723	9 763
Department of Water and Sanitation refund	11 666 297	34 216 370	11 666 297	34 216 370
Sale of tender documents	198 866	95 088	171 234	63 597
Sundry revenue	116 000	90 387	16 000	65 954
Airport fees	69 513	118 948	-	-
Donations received	4 173 393	-	4 173 393	-
	<b>16 245 792</b>	<b>34 530 556</b>	<b>16 048 647</b>	<b>34 355 684</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>20. Government grants and subsidies</b>				
<b>Operating grants</b>				
Equitable share	292 147 158	265 376 000	292 147 158	265 376 000
Expanded Public Works Programme	1 293 000	1 058 226	1 293 000	1 058 226
Rural Households Infrastructure Grant	-	3 999 498	-	3 999 498
Mbazwana Thusong Centre Grant	-	101 729	-	101 729
Finance Management Grant	1 250 000	1 250 000	1 250 000	1 250 000
Municipal Systems Improvement Grant	-	940 000	-	940 000
Ndumo Groundnuts	353 847	395 500	353 847	395 500
Shared Services Grant	54 540	195 459	54 540	195 459
Water Services Operating Subsidy	-	3 254 046	-	3 254 047
National school Nutrition Program	23 197 434	21 864 577	-	-
Other Operating Grants	7 863 727	1 335 601	-	-
	<b>326 159 706</b>	<b>299 770 636</b>	<b>295 098 545</b>	<b>276 570 459</b>
<b>Capital grants</b>				
Municipal Infrastructure Grant	192 111 543	222 693 064	192 111 543	222 693 064
Water services Infrastructure Grant	38 165 685	-	38 165 685	-
	<b>230 277 228</b>	<b>222 693 064</b>	<b>230 277 228</b>	<b>222 693 064</b>
	326 159 706	299 770 636	295 098 545	276 570 459
	230 277 228	222 693 064	230 277 228	222 693 064
	<b>556 436 934</b>	<b>522 463 700</b>	<b>525 375 773</b>	<b>499 263 523</b>
<b>Public Participation &amp; Customer Satisfaction Survey Grant</b>				
Balance unspent at beginning of year	154 000	154 000	154 000	154 000
Conditions still to be met - remain liabilities (see note 13).				
<b>PIMMS / NDT Operational Grant</b>				
Balance unspent at beginning of year	300	300	300	300
Conditions still to be met - remain liabilities (see note 13).				
<b>Financial Management Grant</b>				
Current-year receipts	1 250 000	1 250 000	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)	(1 250 000)	(1 250 000)
	-	-	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Massification Grant</b>				
Balance unspent at beginning of year	4 172 492	4 172 492	4 172 492	4 172 492
Conditions still to be met - remain liabilities (see note 13).				
<b>Kwazibi National Lottery Grant</b>				
Balance unspent at beginning of year	122 667	122 667	122 667	122 667

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>20. Government grants and subsidies (continued)</b>				
Conditions still to be met - remain liabilities (see note 13).				
<b>Mqobela National Lottery Grant</b>				
Balance unspent at beginning of year	166 666	166 666	166 666	166 666
Conditions still to be met - remain liabilities (see note 13).				
<b>Mabibi National Lottery Grant</b>				
Balance unspent at beginning of year	166 667	166 667	166 667	166 667
Conditions still to be met - remain liabilities (see note 13).				
<b>Disaster Management Grant</b>				
Balance unspent at beginning of year	9 120	9 120	9 120	9 120
Conditions still to be met - remain liabilities (see note 13).				
<b>Municipal Systems Improvement Grant</b>				
Current-year receipts	-	940 000	-	940 000
Conditions met - transferred to revenue	-	(940 000)	-	(940 000)
	-	-	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Ndumo Groundnuts Grant</b>				
Balance unspent at beginning of year	353 847	749 347	353 847	749 347
Conditions met - transferred to revenue	(353 847)	(395 500)	(353 847)	(395 500)
	-	<b>353 847</b>	-	<b>353 847</b>
<b>Expanded Public Works Programme</b>				
Balance unspent at beginning of year	2 331 774	2 082 000	2 331 774	2 082 000
Current-year receipts	1 293 000	1 308 000	1 293 000	1 308 000
Conditions met - transferred to revenue	(1 293 000)	(1 058 226)	(1 293 000)	(1 058 226)
Unspent Grant withheld from Equitable share	(2 331 774)	-	(2 331 774)	-
	-	<b>2 331 774</b>	-	<b>2 331 774</b>
<b>Lake Tete Grant</b>				
Balance unspent at beginning of year	267 001	267 001	267 001	267 001
Conditions still to be met - remain liabilities (see note 13).				
<b>Kwadapha Grant</b>				
Balance unspent at beginning of year	578 891	578 891	578 891	578 891

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>20. Government grants and subsidies (continued)</b>				
Conditions still to be met - remain liabilities (see note 13).				
<b>Nyezi Community HIV Centre Grant</b>				
Balance unspent at beginning of year	303 570	303 570	303 570	303 570
Conditions still to be met - remain liabilities (see note 13).				
<b>Umkhombe Tours Grant</b>				
Balance unspent at beginning of year	908 690	908 690	908 690	908 690
Conditions still to be met - remain liabilities (see note 13).				
<b>Waste Management Grant</b>				
Balance unspent at beginning of year	145 565	145 565	145 565	145 565
Conditions still to be met - remain liabilities (see note 13).				
<b>Environmental Management Grant</b>				
Balance unspent at beginning of year	405 600	405 600	405 600	405 600
Conditions still to be met - remain liabilities (see note 13).				
<b>Rural Road &amp; Transport Management Grant</b>				
Balance unspent at beginning of year	2 446 931	1 114 931	2 446 931	1 114 931
Current-year receipts	-	2 447 000	-	2 447 000
Unspent grants paid back	(2 446 931)	(1 115 000)	(2 446 931)	(1 115 000)
	-	<b>2 446 931</b>	-	<b>2 446 931</b>
Conditions still to be met - remain liabilities (see note 13).				
<b>Ndumo Learners Shelter Grant</b>				
Balance unspent at beginning of year	9 441 505	9 441 505	9 441 505	9 441 505
Conditions still to be met - remain liabilities (see note 13).				
<b>Municipal Infrastructure Grant</b>				
Balance unspent at beginning of year	-	12 274 058	-	12 274 058
Current-year receipts	207 522 000	210 419 000	207 522 000	210 419 000
Conditions met - transferred to revenue	(192 111 549)	(222 693 058)	(192 111 549)	(222 693 058)
	<b>15 410 451</b>	-	<b>15 410 451</b>	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Councillors Training Grant</b>				
Balance unspent at beginning of year	11 300	11 300	11 300	11 300

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>20. Government grants and subsidies (continued)</b>				
Conditions still to be met - remain liabilities (see note 13).				
<b>Ingwavuma Prison Electrical Upgrade</b>				
Balance unspent at beginning of year	101 506	101 506	101 506	101 506
Conditions still to be met - remain liabilities (see note 13).				
<b>Water Services Operating Subsidy</b>				
Balance unspent at beginning of year	1 945 954	-	1 945 954	-
Current-year receipts	-	5 200 000	-	5 200 000
Conditions met - transferred to revenue	-	(3 254 046)	-	(3 254 046)
Unspent Grant withheld from Equitable share	(1 945 954)	-	(1 945 954)	-
	-	<b>1 945 954</b>	-	<b>1 945 954</b>
Conditions still to be met - remain liabilities (see note 13).				
<b>Shared Services Grant</b>				
Balance unspent at beginning of year	54 540	250 000	54 540	250 000
Conditions met - transferred to revenue	(54 540)	(195 460)	(54 540)	(195 460)
	-	<b>54 540</b>	-	<b>54 540</b>
<b>Rural Households Infrastructure Grant</b>				
Balance unspent at beginning of year	8 498	7 996	8 498	7 996
Current-year receipts	-	4 000 000	-	4 000 000
Conditions met - transferred to revenue	-	(3 999 498)	-	(3 999 498)
Unspent Grant withheld from Equitable share	(8 498)	-	(8 498)	-
	-	<b>8 498</b>	-	<b>8 498</b>
<b>ACIP Grant</b>				
Balance unspent at beginning of year	4 695	4 695	4 695	4 695
Conditions still to be met - remain liabilities (see note 13).				
<b>Mbazwana Thusong Centre Grant</b>				
Current-year receipts	-	101 729	-	101 729
Conditions met - transferred to revenue	-	(101 729)	-	(101 729)
	-	-	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Water Service Infrastructure Grant</b>				
Current-year receipts	70 371 000	-	70 371 000	-
Conditions met - transferred to revenue	(38 165 685)	-	(38 165 685)	-
	<b>32 205 315</b>	-	<b>32 205 315</b>	-

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>20. Government grants and subsidies (continued)</b>				
Conditions still to be met - remain liabilities (see note 13).				
<b>Ndumo Market Stalls Grant: COGTA</b>				
Balance unspent at beginning of year	2 992 861	-	-	-
Current-year receipts	-	3 000 000	-	-
Conditions met - transferred to revenue	(2 715 551)	(7 139)	-	-
	<b>277 310</b>	<b>2 992 861</b>	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Mkuze Regeneration Framework</b>				
Balance unspent at beginning of year	446 289	-	-	-
Current-year receipts	-	1 029 288	-	-
Conditions met - transferred to revenue	(137 193)	(582 999)	-	-
	<b>309 096</b>	<b>446 289</b>	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Mkuze Market Stalls Grant</b>				
Balance unspent at beginning of year	400 500	-	-	-
Current-year receipts	-	700 000	-	-
Conditions met - transferred to revenue	(284 220)	(299 500)	-	-
	<b>116 280</b>	<b>400 500</b>	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>IDC Grant</b>				
Balance unspent at beginning of year	700 873	700 873	-	-
Conditions met - transferred to revenue	(738)	-	-	-
	<b>700 135</b>	<b>700 873</b>	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>National Treasury: ILO Grant</b>				
Balance unspent at beginning of year	212 173	212 173	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>MTN Grant</b>				
Balance unspent at beginning of year	515 703	515 703	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>Mkuze Fencing and Runway grant</b>				
Balance unspent at beginning of year	5 015 037	-	-	-
Current-year receipts	6 000 000	5 461 000	-	-

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>20. Government grants and subsidies (continued)</b>				
Conditions met - transferred to revenue	(4 726 025)	(445 963)	-	-
	<b>6 289 012</b>	<b>5 015 037</b>	-	-
Conditions still to be met - remain liabilities (see note 13).				
<b>National Schools Nutrition Programme Grant</b>				
Current-year receipts	23 197 434	21 864 577	-	-
Conditions met - transferred to revenue	(23 197 434)	(21 864 577)	-	-
	-	-	-	-

Conditions still to be met - remain liabilities (see note 13).

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 21. Employee related costs

Basic	104 497 012	98 804 400	99 441 280	94 716 904
Medical aid - company contributions	20 775 632	19 718 101	20 221 856	19 202 757
Staff retirement benefits	929 779	734 220	-	-
Defined contribution plans	-	811 000	-	811 000
Travel, motor car, accommodation, subsistence and other allowances	6 383 310	6 792 064	6 383 310	6 792 064
Overtime payments	3 145 630	2 703 607	3 145 630	2 703 607
13th Cheques	-	199 023	-	199 023
Housing benefits and allowances	556 085	2 001 676	556 085	2 001 676
Leave pay accrual charge	4 320 996	1 107 525	4 220 989	1 060 260
	<b>140 608 444</b>	<b>132 871 616</b>	<b>133 969 150</b>	<b>127 487 291</b>

### Remuneration of municipal manager

Annual Remuneration	799 521	727 288	799 521	727 288
Travel, housing and other allowances	69 891	333 122	69 891	333 122
Contributions to UIF, Medical and Pension Funds	5 343	11 168	5 343	11 168
	<b>874 755</b>	<b>1 071 578</b>	<b>874 755</b>	<b>1 071 578</b>

Two people acted for the position of Municipal Manager during the 2017 financial year. The permanent Municipal Manager was only appointed effective 01 August 2017.

### Remuneration of chief finance officer

Total remuneration	1 388 306	846 193	1 388 306	846 193
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During the 2017 financial year, there was an acting Chief Financial Officer (CFO) and he was paid total remuneration of R1 388 306 (R846 193) prior year. A new Acting CFO was appointed subsequent to year end on 01 September 2017.

### Remuneration of the Chief Executive Officer - Umhlozinga Development Agency

Annual Remuneration	1 054 100	963 000	-	-
Travel, housing and other allowances	343 470	321 000	-	-
Contributions to UIF, Medical and Pension Funds	256 160	239 445	-	-
	<b>1 653 730</b>	<b>1 523 445</b>	<b>-</b>	<b>-</b>

### Remuneration of Chief Finance Officer - Umhlozinga Development Agency

Annual Remuneration	778 425	722 250	-	-
Travel, housing and other allowances	257 602	240 750	-	-
Contributions to UIF, Medical and Pension Funds	179 930	168 321	-	-
	<b>1 215 957</b>	<b>1 131 321</b>	<b>-</b>	<b>-</b>

### Remuneration of General Manager - Corporate Service

Annual Remuneration	709 776	648 833	709 776	648 833
Travel, housing and other allowances	237 984	354 652	237 984	354 652
Contributions to UIF, Medical and Pension Funds	67 564	10 937	67 564	10 937
	<b>1 015 324</b>	<b>1 014 422</b>	<b>1 015 324</b>	<b>1 014 422</b>

The General Manager for Corporate Services resigned during the 2017 financial year and two people acted consecutively for the position.



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 21. Employee related costs (continued)

#### Remuneration of General Manager - Community Services and Planning & Economic Development

Annual Remuneration	782 568	771 550	782 568	771 550
Car Allowance	203 048	203 048	203 048	203 048
Travel, housing and other allowances	10 250	10 428	10 250	10 428
	<b>995 866</b>	<b>985 026</b>	<b>995 866</b>	<b>985 026</b>

#### Remuneration of General Manager - Technical Services

Annual Remuneration	946 623	353 389	946 623	353 389
Travel, housing and other allowances	860 566	168 806	860 566	168 806
Contributions to UIF, Medical and Pension Funds	107 657	7 479	107 657	7 479
Leave paid	-	119 301	-	119 301
	<b>1 914 846</b>	<b>648 975</b>	<b>1 914 846</b>	<b>648 975</b>

#### Remuneration of General Manager - Planning and Economic Development

Annual Remuneration	-	117 581	-	117 581
Travel, housing and other allowances	-	51 860	-	51 860
Contributions to UIF, Medical and Pension Funds	-	2 778	-	2 778
Leave paid	-	93 124	-	93 124
	-	<b>265 343</b>	-	<b>265 343</b>

During the 2017 Financial year, the department for Planning and Economic Development and for Community Services were grouped together. Refer to General Manager Community Services for 2017 salaries paid to the General manager.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 22. Remuneration of councillors

Mayor	677 605	731 529	677 605	731 529
Deputy Mayor	622 539	590 118	622 539	590 118
Speaker	592 872	591 426	592 872	591 426
Executive Committee Members	1 652 500	1 672 597	1 652 500	1 672 597
Councillors	3 328 798	2 859 868	3 328 798	2 859 868
	<b>6 874 314</b>	<b>6 445 538</b>	<b>6 874 314</b>	<b>6 445 538</b>

#### Mayor

Mayoral allowance	524 089	563 040	524 089	563 040
Travel allowance	127 310	140 760	127 310	140 760
Cellphone allowance	19 682	20 868	19 682	20 868
Contributions to UIF, Medical and Pension Funds	6 524	6 861	6 524	6 861
	<b>677 605</b>	<b>731 529</b>	<b>677 605</b>	<b>731 529</b>

#### Deputy Mayor

Annual remuneration	424 110	450 432	424 110	450 432
Travel allowance	103 316	112 608	103 316	112 608
Cellphone allowance	19 682	20 868	19 682	20 868
Reimbursable allowance	69 543	700	69 543	700
Contributions to UIF, Medical and Pension Funds	5 888	5 510	5 888	5 510
	<b>622 539</b>	<b>590 118</b>	<b>622 539</b>	<b>590 118</b>

#### Speaker

Annual remuneration	424 110	450 432	424 110	450 432
Travel allowance	102 315	112 608	102 315	112 608
Cellphone allowance	19 682	20 868	19 682	20 868
Reimbursable allowance	41 114	2 008	41 114	2 008
Contributions to UIF, Medical and Pension Funds	5 651	5 510	5 651	5 510
	<b>592 872</b>	<b>591 426</b>	<b>592 872</b>	<b>591 426</b>

### In-kind benefits

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

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

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

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

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

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

### 23. Depreciation, amortisation and impairment

Property, plant and equipment	37 911 260	36 515 366	37 751 156	36 347 769
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# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 24. Finance costs

Trade and other payables	84 830	126 425	-	-
Current borrowings	1 339 122	2 225 598	1 339 122	2 225 598
	<b>1 423 952</b>	<b>2 352 023</b>	<b>1 339 122</b>	<b>2 225 598</b>

### 25. Debt impairment

Contributions to debt impairment provision	5 262 800	6 372 196	5 262 800	6 372 196
Bad debts written off	-	12 093 168	-	12 093 168
	<b>5 262 800</b>	<b>18 465 364</b>	<b>5 262 800</b>	<b>18 465 364</b>

### 26. Repairs and maintenance

Expenditure on repairs and maintenance comprised the following:

Electricity infrastructure	1 484 096	413 337	1 484 096	413 337
Motor vehicles	602 110	1 637 900	602 110	1 637 900
Buildings	572 488	680 237	571 797	676 874
Water distribution	68 199 082	30 490 044	68 199 082	30 490 044
	<b>70 857 776</b>	<b>33 221 518</b>	<b>70 857 085</b>	<b>33 218 155</b>

### 27. Bulk purchases

Electricity	38 071 116	29 793 680	38 071 116	29 793 680
Water	42 858 450	43 807 319	42 858 450	43 807 318
	<b>80 929 566</b>	<b>73 600 999</b>	<b>80 929 566</b>	<b>73 600 998</b>

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

Bulk purchases of water comprises water purchased for resale.

### 28. Contracted services

Contracted expenditure incurred during the year	46 426 932	31 035 955	23 264 678	13 431 591
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Contracted services comprised the following :

Consultancy fees	3 577 858	1 893 446	3 577 858	1 893 446
Insurance	1 041 898	685 613	1 041 898	685 613
Fleet management	5 718 679	778 342	5 718 679	778 342
Vehicle hire	14 856	369 734	14 856	369 734
Photocopies and office equipment rental	1 524 518	1 477 305	1 446 165	1 412 832
Cellular and data services	1 309 836	2 093 794	1 309 836	2 093 794
IT services	121 203	424 240	121 203	424 240
Internal audit fees	272 910	2 125 002	272 910	2 125 002
Communication	2 788 505	806 500	2 788 505	806 500
Security services	6 146 725	2 332 965	6 146 725	2 332 965
School nutrition programme	23 083 901	17 539 891	-	-
Other services	826 043	509 123	826 043	509 123
	<b>46 426 932</b>	<b>31 035 955</b>	<b>23 264 678</b>	<b>13 431 591</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>29. General expenses</b>				
Accommodation	481 672	1 647 600	337 462	1 557 230
Advertising	362 279	144 588	43 688	133 804
Audit fees	3 644 349	3 695 419	3 031 181	3 057 443
Audit committee fees	354 086	32 014	354 086	32 014
Administration expenses	24 221	23 277	-	-
Bank charges	338 114	476 846	318 207	461 474
Cleaning	348 167	56 712	345 182	52 761
Community development and training	70	138 500	70	138 500
Consulting and professional fees	1 783 353	1 371 968	1 706 385	1 342 847
Fuel and oil	876 102	1 614 014	876 021	1 613 282
Fines and penalties	-	515 584	-	515 584
Gender, Youth, Children & Senior Citizen	-	165 815	-	165 815
Grants & Subsidies - ACIP Water*	-	48 678 231	-	48 678 231
Grants & Subsidies - Disaster Management	-	2 043 135	-	2 043 135
Grants & Subsidies - Extended Public Works	2 343 709	1 048 195	2 343 709	1 048 195
Grants & Subsidies - Jozini RHIG Sanitation	3 508 772	7 013 596	3 508 772	7 013 596
Grants & Subsidies - Rural Transport Management	-	403 825	-	403 825
Grants & Subsidies - Mseleni Ground Nuts	359 071	749 347	359 071	749 347
Grants & Subsidies - MSIG Operational Costs	-	385 550	-	385 550
Grants & Subsidies - Umhlosinga Development Agency	-	-	5 558 077	3 000 000
Hire of Plant & Equipment	18 985 125	2 234 434	18 985 125	2 234 434
Entertainment	13 745	18 784	13 745	18 784
Legal Fees	5 111 381	3 195 138	5 111 381	3 195 138
Fleet	11 000	3 000	11 000	3 000
Licences	307 667	574 592	307 667	574 592
Other expenses	3 326 347	2 692 989	3 326 347	2 692 989
Mayoral Descretionary Fund	-	26 169	-	26 169
Medical expenses	45 500	43 904	45 500	43 904
Municipal Health	58 280	12 492	58 280	12 492
Operation Turn Around	123	599 590	123	599 590
Consumables	64 899	15 992	-	-
Insurance	31 933	37 612	-	-
Conferences and seminars	31 274	10 338	-	-
Postage and courier	1 556	1 621	1 012	961
Publicity	293 780	26 419	293 780	26 419
Training	64 205	397 363	13 679	397 363
Printing and stationery	573 141	36 048	551 629	20 803
Royalties and license fees	296 000	-	296 000	-
Sports DC27	489 115	135 605	489 115	135 605
Small tools	216 718	8 712	212 015	3 770
Systems Support	2 459 042	525 705	2 459 042	525 705
Telephone and fax	33 784	1 232 679	-	1 221 155
Tourism Projects	-	300 000	-	300 000
Inventory expensed - Umhlatuze Water	365 253	7 213 767	-	6 445 857
Inventory loss	-	27 434 751	-	27 434 751
Community and Social services	2 500	-	2 500	-
Electricity and Water	20 344	-	-	-
Arts and Culture	5 486	4 864	-	-
VAT impairment	-	1 424 799	-	1 424 799
Uniforms	76 286	-	74 964	-
Events Organisations	-	1 000	-	1 000
	<b>47 308 449</b>	<b>118 412 583</b>	<b>51 034 815</b>	<b>119 731 913</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>29. General expenses (continued)</b>				
*R48 678 231 was incurred by the municipality during the 2015 financial year for the provision of VIP toilets. These toilets were handed over to the community in the prior year and were expensed from assets under construction. Refer to note 8.				
**During the 2017 financial year, telephone and fax expenses for the controlling entity were all reclassified to contacted services (Note 28) and are disclosed under sub line item communication.				
<b>30. Taxation</b>				
<b>Major components of the tax expense</b>				
<b>Current</b>				
Local income tax - current period	-	44 035	-	-
Current	-	44 035	-	-
Deferred	-	-	-	-
<b>31. Tax paid</b>				
Balance at beginning of the year	(44 035)	-	-	-
Current tax for the year recognised in surplus or deficit	-	(44 035)	-	-
Balance at end of the year	-	44 035	-	-
<b>32. Cash generated from operations</b>				
Surplus	160 106 950	134 145 408	154 979 646	132 672 319
<b>Adjustments for:</b>				
Depreciation and amortisation	37 911 260	36 515 366	37 751 156	36 347 769
Interest income	(5 305 018)	(7 323 413)	(5 115 213)	(7 214 594)
Finance costs	1 423 952	2 352 023	1 339 122	2 225 598
Debt impairment	5 262 800	18 465 364	5 262 800	18 465 364
Movements in defined benefit obligations	877 000	1 282 000	877 000	1 282 000
VIP toilets expensed (refer to note 29)	-	48 678 231	-	48 678 231
Donations received in kind (refer to note 8)	(4 173 393)	-	(4 173 393)	-
Movement in tax receivable and payable	(44 035)	44 035	-	-
<b>Changes in working capital:</b>				
Inventories	12 078 072	23 572 430	12 078 072	23 572 430
Receivables from exchange transactions	(4 944 546)	23 568 696	(4 359 971)	22 598 764
Other receivables from exchange transactions	1 467 269	(10 150 665)	1 467 269	(10 150 665)
Payables from exchange transactions	(180 817)	22 189 202	(1 178 767)	24 305 561
VAT	(5 594 930)	(27 683 568)	(5 204 720)	(27 446 652)
Unspent conditional grants and receipts	38 610 500	(5 313 124)	40 474 227	(9 438 523)
Consumer deposits	184 457	12 110	184 457	12 110
	<b>237 679 521</b>	<b>260 354 095</b>	<b>234 381 685</b>	<b>255 909 712</b>

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 33. Prior period errors

#### Error 1

Receivables from exchange transactions were overstated in the prior year due to incorrect recognition of interest totaling R13 001 668 on overdue payments from customers. The interest was never charged to individual customers and no communication was sent to customers to notify them of the intention to charge them interest on overdue amounts. The error was corrected by reversing the interest receivable incorrectly raised in the prior year.

The full amount raised as interest receivable on overdue amounts was also included in the allowance for doubtful debts in the 2016 financial year and the provision was accordingly reversed. Therefore the net effect of this error on both the statement of financial position and statement of financial performance is R0. Receivables from exchange transactions were also overstated as a result of error on preparation of financial statements. The total amount of the error was R15 682 585. This amount was incorrectly included in receivables (WSSA debtors) and accumulated surplus and was reversed accordingly in the current year. A further R608 567 was incorrectly recognised as income and included as debtors from WSSA.

Other receivables from exchange transactions were incorrectly impaired in the prior year by R7 740 285

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

#### Statement of financial position

Decrease in gross receivables from exchange transactions	-	(29 292 820)	-	(29 292 820)
Decrease in allowance for doubtful debts	-	(13 001 668)	-	(13 001 668)
Decrease in impairment on other receivables	-	(7 740 285)	-	(7 740 285)
Decrease in accumulated surplus	-	(3 602 474)	-	(3 602 474)

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 33. Prior period errors (continued)

#### Statement of financial performance

Decrease in interest revenue	-	(5 288 280)	-	(5 288 280)
Increase in allowance for doubtful debts expense	-	6 256 494	-	6 256 494
Decrease in service charges revenue	-	(608 567)	-	(608 567)

#### Error 2

Payables from exchange transactions were overstated in the prior year due to invoices that were double accounted for in 2015 financial year going back.

Actuarial losses on long service awards were also understated by R80 060.

The effect of the adjustments is as follows.

#### Statement of financial position

Decrease Trade payables	-	(3 366 719)	-	(3 366 719)
Decrease in VAT input	-	(242 499)	-	(242 499)
Increase in equity	-	2 657 078	-	2 657 078
Increase in defined benefit plan obligation	-	80 060	-	80 060
	-		-	

#### Statement of financial performance

Increase in employee costs (long service awards provision)	-	80 060	-	80 060
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#### Error 3

Property, plant and equipment and intangible assets were understated in prior year due to fixed asset register that was not accurately maintained. Some invoices for property plant and equipment amounting to R1 327 864 were also incorrectly not accrued in the 2015 financial year.

This error was corrected in the current year. The net effect of the adjustment is as follows:

#### Statement of financial position

Decrease in Property, plant and equipment	-	(35 625 465)	-	(35 625 465)
Increase in intangible assets	-	20 495	-	20 495
Decrease in accumulated surplus	-	36 932 834	-	36 932 834
Increase in payables	-	(1 327 864)	-	(1 327 864)

#### Error 4

An invoice relating to 2014/15 financial period for the Municipal entity was only received in the 2016/17 financial period and was never accrued for. This error was adjusted retrospectively.

The net effect of the adjustment is as follows:

#### Statement of financial position

Increase in payables	-	102 435	-	-
Decrease in accumulated surplus	-	(102 435)	-	-

### 34. Prior-year adjustments

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

#### Statement of financial position - extract

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 34. Prior-year adjustments (continued)

#### Controlling entity - 2016

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions		74 982 319	(16 291 152)	58 691 167
Other receivables from exchange transactions		3 757 395	7 740 285	11 497 680
VAT receivable		45 744 421	(242 499)	45 501 922
Property, plant and equipment		1 660 976 184	(35 625 465)	1 625 350 719
Intangible assets		365 307	20 495	385 802
Payables from exchange transactions		249 994 654	(2 038 855)	247 955 799
Defined benefit plan obligation		5 865 940	80 060	5 946 000
Accumulated surplus		1 661 207 580	(42 439 540)	1 618 768 040
		<b>3 702 893 800</b>	<b>(88 796 671)</b>	<b>3 614 097 129</b>

#### Statement of financial performance - extract

#### Controlling entity - 2016

	Note	As previously reported	Correction of error	Restated
Service charges revenue		23 334 365	(608 567)	22 725 798
Interest income		12 502 873	(5 288 280)	7 214 593
Employee related costs (long service awards provision)		127 407 232	80 060	127 487 292
Debt impairment expense		12 208 870	6 256 494	18 465 364
<b>Net effect on surplus for the year</b>		<b>175 453 340</b>	<b>439 707</b>	<b>175 893 047</b>

### 35. Comparative figures

Comparative figures have been reclassified as follows:

- Taxation payable for the economic entity was reclassified from trade and other payables and disclosed separately.
- Interest accrual on DBSA loan was reclassified from long term portion to current portion.

The effects of the reclassification are as follows:

#### Economic entity

#### Statement of financial position - extract

	Comparative figures previously reported	Reclassification on	After reclassification
Payables from exchange transactions (after prior period adjustments)	248 649 128	(44 035)	248 605 093
Tax payable	-	44 035	44 035
Current portion of loans	839 102	177 382	1 016 484
Non-current loans	7 225 468	(177 382)	7 048 086
<b>Total</b>	<b>256 713 698</b>	<b>-</b>	<b>256 713 698</b>

#### Controlling entity



# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 35. Prior-year adjustments (continued)

#### Statement of financial position - extract

	Comparative figures previously reported	Reclassification	After reclassification
Current portion of loans	839 102	177 382	1 016 484
Non-current loans	7 225 468	(177 382)	7 048 086
<b>Total</b>	<b>8 064 570</b>	<b>-</b>	<b>8 064 570</b>

### 36. Unauthorised expenditure

Opening balance	213 475 910	178 548 229	213 475 910	178 548 229
Add: Unauthorised expenditure - Current year	72 731 586	34 927 618	72 731 586	34 927 618
	<b>286 207 496</b>	<b>213 475 847</b>	<b>286 207 496</b>	<b>213 475 847</b>

Unauthorised expenditure in the current financial year was incurred as a result of expenditure which exceeded the approved budget. No disciplinary actions or criminal proceedings were instituted due to reasons provided on Appendix A.

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

### 37. Fruitless and wasteful expenditure

Opening balance	8 971 561	8 329 553	8 845 136	8 329 553
Add: Fruitless and wasteful expenditure - Current year	566 112	642 008	481 282	515 583
	<b>9 537 673</b>	<b>8 971 561</b>	<b>9 326 418</b>	<b>8 845 136</b>

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

No disciplinary actions or criminal proceedings were instituted as a result of fruitless expenditure incurred.

### 38. Irregular expenditure

Opening balance	367 995 469	132 094 334	1 550 748 518	1 313 437 186
Add: Irregular Expenditure - current year	111 600 764	237 560 487	111 387 128	237 311 395
Written off by board	-	(1 659 352)	-	-
	<b>479 596 233</b>	<b>367 995 469</b>	<b>1 662 135 646</b>	<b>1 550 748 581</b>

No disciplinary actions or criminal proceedings were instituted as a result of irregular expenditure incurred.

### 39. Additional disclosure in terms of Municipal Finance Management Act

#### Material losses

Opening balance	28 198 445	763 694	28 198 445	763 694
Add: Material losses - Current year	-	27 434 751	-	27 434 751
	<b>28 198 445</b>	<b>28 198 445</b>	<b>28 198 445</b>	<b>28 198 445</b>

No material losses were incurred in the current year. The municipality recognised inventory losses for the comparative period. Inventory losses incurred in the prior year were as a result of water pipe movements which could not be accounted and were included in general expenses.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>39. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>				
<b>Audit fees</b>				
Opening balance	34 753	44 292	-	4 102
Current year subscription / fee	3 879 109	3 705 077	3 463 422	3 067 101
Amount paid - current year	(3 894 065)	(3 710 514)	(3 416 464)	(3 067 101)
Amount paid - previous years	-	(4 102)	-	(4 102)
	<b>19 797</b>	<b>34 753</b>	<b>46 958</b>	<b>-</b>
<b>PAYE and UIF</b>				
Opening balance	2 193 973	1 040 137	1 483 426	923 319
Current year subscription / fee	20 776 108	21 166 129	19 588 062	20 188 286
Amount paid - current year	(21 727 176)	(18 972 156)	(19 508 240)	(18 704 860)
Amount paid - previous years	(1 216 130)	(1 040 137)	(1 483 426)	(923 319)
	<b>26 775</b>	<b>2 193 973</b>	<b>79 822</b>	<b>1 483 426</b>
<b>Pension and Medical Aid Deductions</b>				
Opening balance	4 095 467	4 010 328	4 095 467	4 010 328
Current year subscription / fee	29 781 655	18 489 076	28 298 100	17 175 107
Amount paid - current year	(27 415 121)	(14 393 609)	(25 931 566)	(13 079 640)
Amount paid - previous years	(4 095 467)	(4 010 328)	(4 095 467)	(4 010 328)
	<b>2 366 534</b>	<b>4 095 467</b>	<b>2 366 534</b>	<b>4 095 467</b>
<b>SALGA Fees</b>				
SALGA fees paid	1 271 884	1 665 784	1 271 884	1 665 784
<b>VAT</b>				
VAT receivable	51 610 577	46 015 647	50 706 642	45 501 922

VAT output payables and VAT input receivables are shown in note . The VAT return for the month of November 2016 was submitted late.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>40. Commitments</b>				
<b>Authorised capital expenditure</b>				
<b>Approved and contracted for</b>				
• Infrastructure	296 218 857	331 066 994	296 218 857	331 066 994
• Airport establishment	6 000 000	4 000 000	-	-
• Scholl nutrition project	10 629 754	22 000 000	-	-
	<b>312 848 611</b>	<b>357 066 994</b>	<b>296 218 857</b>	<b>331 066 994</b>
<b>Total capital commitments</b>				
Approved and contracted for	312 848 611	357 066 994	296 218 857	331 066 994
<b>Authorised operational expenditure</b>				
<b>Approved and contracted for</b>				
• Operating expenditure	43 260 391	980 399	43 260 391	980 399
	<b>43 260 391</b>	<b>980 399</b>	<b>43 260 391</b>	<b>980 399</b>
<b>Total operational commitments</b>				
Approved and contracted for	43 260 391	980 399	43 260 391	980 399
<b>Total commitments</b>				
<b>Total commitments</b>				
Authorised capital expenditure	312 848 611	357 066 994	296 218 857	331 066 994
Authorised operational expenditure	43 260 391	980 399	43 260 391	980 399
	<b>356 109 002</b>	<b>358 047 393</b>	<b>339 479 248</b>	<b>332 047 393</b>
<b>Operating leases - as lessee (expense)</b>				
<b>Minimum lease payments due</b>				
- within one year	925 635	798 610	876 732	749 707
- in second to fifth year inclusive	1 031 590	279 595	982 687	230 692
	<b>1 957 225</b>	<b>1 078 205</b>	<b>1 859 419</b>	<b>980 399</b>

## 41. Contingencies

### Disciplinary matters

As at 30 June 2017, the economic entity had pending employee related disciplinary matters. Should the outcome of both matters favour respective claimants, the economic entity may be liable for compensation of up to R300 000.

### Supplier disagreements

During the year ended 30 June 2017, suppliers provided services to the economic entity without approval of the work and they claimed for payment from the economic entity. The economic entity disputed the payment and there is a possibility that the suppliers will open a case against the economic entity. The total amount claimed by suppliers is R32 028 701.

The economic entity also has pending court cases with seven suppliers. Should the economic entity lose the cases, a total amount of 15 550 000 may be payable.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 42. Related parties

#### Relationships

Umhloosinga Development Agency

Umhloosinga Development Agency is a municipal entity under the control of Umkhanyakude District Municipality to spearhead the economic development within the District.

#### Related party balances

##### Payables owing to related parties

Umhloosinga Development Agency	(5 030 158)	(5 030 158)
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#### Related party transactions

##### Transfers paid to related parties

Umhloosinga Development Agency	5 558 077	3 000 000
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### 43. Events after the reporting date

The municipality was not aware of any material events that may have occurred between 30 June 2017 and the date when the annual financial statements were authorised.

### 44. Risk management

#### Financial risk management

The economic entity's activities expose it to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk.

The economic entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the economic entity's financial performance.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 44. Risk management (continued)

#### Liquidity risk

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

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

#### Economic entity

##### At 30 June 2017

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	844 512	852 256	2 599 119	2 755 981
Interest accrual on long term loan	158 800	-	-	-
Payables from exchange transactions	248 526 705	-	-	-
Consumer deposits	1 377 510	-	-	-

##### At 30 June 2016

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	839 102	844 512	2 573 398	3 630 175
Interest accrual on long term loan	177 382	-	-	-
Payables from exchange transactions	248 707 528	-	-	-
Consumer deposits	1 193 053	-	-	-

#### Controlling entity

##### At 30 June 2017

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	844 512	852 256	2 599 119	2 755 981
Interest accrual on long term loan	158 800	-	-	-
Payables from exchange transactions	246 777 031	-	-	-
Consumer deposits	1 377 510	-	-	-

##### At 30 June 2016

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term loans	839 102	844 512	2 573 398	3 630 175
Interest accrual on long term loan	177 382	-	-	-
Payables from exchange transactions	247 955 799	-	-	-
Consumer deposits	1 393 053	-	-	-

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016

### 44. Risk management (continued)

#### Credit risk

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

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

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

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

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

Financial instrument	Economic entity - 2017	Economic entity - 2016	Controlling entity - 2017	Controlling entity - 2016
Receivables from exchange transactions	65 721 398	66 039 652	57 788 337	58 691 167
Other receivables from exchange transactions	10 030 411	11 497 680	10 030 411	11 497 680

#### Market risk

##### Interest rate risk

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

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

- Loan from Development Bank of South Africa.
- FNB Bank Call deposits.
- FNB Bank, ABSA and Ithala Bank Notice deposits.

### 45. Deviation from supply chain management regulations

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

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

Items of goods and services were procured during the current financial year which deviated from the provisions of paragraph 12(1)(d)(i) as reflected above. As at 30 June 2017, deviations from Municipal Supply Chain Management Regulations amounted to R14 995 900.

# Umkhanyakude District Municipality and its Municipal Entity

Consolidated Annual Financial Statements for the year ended 30 June 2017

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2017	2016	2017	2016
<b>46. Other 2</b>				
<b>Distribution losses</b>				
Electricity distribution losses	9 950 568	7 775 791	9 950 568	7 775 791
Electricity distribution loss calculated as:				
	2017		2016	
	kWh units	Rand	kWh units	Rand
Electricity purchases	11 456 649	15 359 979	11 357 178	12 659 699
Less: Electricity sales	(4 701 621)	(5 409 411)	(4 933 146)	(4 883 908)
Subtotal	6 755 028	9 950 568	6 424 032	7 775 791
	<b>6 755 028</b>	<b>9 950 568</b>	<b>6 424 032</b>	<b>7 775 791</b>
Water distribution loss calculated as:				
	2017		2016	
	Kl	Rand	Kl*	Rand
	6 218 683	30 382 985	-	17 745 527
Subtotal	6 218 683	30 382 985	-	17 745 527

\*Meter readings as at 30 June 2016 for water were not conducted therefore the kilolitre losses could not be disclosed.

### 47. Going concern

As at 30 June 2017, the economic entity had accumulated surplus of R 1 781 483 567 (Controlling entity R1 773 747 687), however, we draw attention to the fact that the municipality's current liabilities exceeds its current assets by R 35 431 138 (Controlling entity R36 270 713).

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

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

### 48. Actual operating expenditure versus budgeted operating expenditure

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

### 49. Actual capital expenditure versus budgeted capital expenditure

Capital expenditure	Original budget	Adjustment	Final budget	Actual amounts on a comparable basis	Difference between final budget and actual
	267 516 900	16 925 000	284 441 900	236 408 896	48 033 004

R284 million was budgeted for capital expenditure for 2016/17, however, actual expenditure reported per Note 8 was below the final budget by approximately 16.89%.