



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

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

General Information

Nature of business and principal activities

Providing services to the community of Umzumbe

Executive Committee

Councillor Gumede ST (Mayor)
Councillor Dlamini NY (Deputy Mayor)
Councillor Ngcobo SR (Speaker)
Councillor Duma YL (Exco Member)
Councillor Mntambo JP (Exco Member)
Councillor Ndlovu M (Exco Member)
Councillor Shoji MP (Exco Member)
Councillor Zungu MPL (Exco Member)

Councillors

Councillor Caluza N
Councillor Cele SR
Councillor Doncabe KS
Councillor Gwabe CS
Councillor Hlongwa M
Councillor Hlongwa PA
Councillor Khuzwayo M
Councillor Khuzwayo T
Councillor Lushaba S
Councillor Luthuli MZ
Councillor Maluleka SP
Councillor Mbambo OJ
Councillor Mbayi TM
Councillor Mbele BI
Councillor Mbuto N
Councillor Mdletshe MS
Councillor Mhlangu NE
Councillor Mkhize MJ
Councillor Mqadi MR
Councillor Msani ZZ
Councillor Msomi DK
Councillor Ngcobo LMR
Councillor Peters TL
Councillor Qumbisa EB
Councillor Radebe SP
Councillor Shezi CL
Councillor Shoji NB
Councillor Shoji Z
Councillor Sikhosana MA
Councillor Zamisa P
Councillor Zindela AE

Accounting Officer

Ms NC Mgijima

Registered office

Sipofu Road
Mathulini Tribal Authority
4220

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

General Information

Business address	Sipofu Road Mathulini Tribal Authority 4220
Postal address	P.O. Box 561 Hibberdene 4220
Bankers	ABSA Bank Limited
Auditors	Auditor General South Africa Registered Auditors

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Index

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

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Abbreviations

VAT	Value Added Tax
SDL	Skills Development Levy
GRAP	Generally Recognised Accounting Practice
GIS	Geographical Information Systems
COGTA	Department of Cooperative Governance and Traditional Affairs
IAS	International Accounting Standards
DORA	Division of Revenue Act
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn
MSIG	Municipal Systems Improvement Grant

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The municipality is substantially dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's Chief Financial Officer.

The annual financial statements set out on pages 5 to 40, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by the accounting officer:

Ms NC Mgijima
Accounting Officer

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Financial Position as at June 30, 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Current Assets			
Receivables from exchange transactions	4	86,701	89,320
VAT receivable	5	20,898,485	7,484,687
Trade and other receivables from non-exchange transactions	6	6,809,940	4,485,662
Cash and Cash Equivalents	7	122,840,291	110,413,313
		150,635,417	122,472,982
Non-Current Assets			
Property, plant and equipment	2	304,260,598	252,263,885
Intangible Assets	3	584,597	455,710
		304,845,195	252,719,595
Total Assets		455,480,612	375,192,577
Liabilities			
Current Liabilities			
Operating lease liability	10	21,186	17,569
Trade and Other Payables	11	16,797,371	11,711,204
Unspent Conditional Grants and Receipts	8	5,412,389	8,492,304
Provisions	9	3,495,890	3,237,057
		25,726,836	23,458,134
Non-Current Liabilities			
Provisions	9	735,000	642,000
Total Liabilities		26,461,836	24,100,134
Net Assets		429,018,776	351,092,443
Accumulated Surplus		429,018,776	351,092,443

* See Note

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Other income	15	578,594	1,996,815
Interest received - investment		8,269,793	6,429,747
Property rates	12	5,787,993	4,975,846
Government grants & subsidies	13	204,652,466	179,053,070
Total revenue		219,288,846	192,455,478
Expenditure			
Employee Related Costs	17	36,427,048	32,945,237
Remuneration of Councillors	18	13,688,879	12,183,764
Depreciation Amortisation and Impairment	20	21,611,607	15,844,824
Finance costs		65,000	46,000
Debt Impairment	19	519,236	395,705
Repairs and Maintenance		8,478,260	6,944,727
General Expenses	16	60,471,910	44,405,411
Total expenditure		141,261,940	112,765,668
Operating surplus		78,026,906	79,689,810
Loss on disposal of assets		(100,573)	(2,886,641)
Surplus for the year		77,926,333	76,803,169

* See Note

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
Balance at July 1, 2014	274,322,663	274,322,663
Changes in net assets		
Surplus for the year	76,803,169	76,803,169
Correction of errors	(33,389)	(33,389)
Total changes	76,769,780	76,769,780
Restated* Balance at July 1, 2015	351,092,443	351,092,443
Changes in net assets		
Surplus for the year	77,926,333	77,926,333
Total changes	77,926,333	77,926,333
Balance at June 30, 2016	429,018,776	429,018,776

Note 26

* See Note

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Receipts from Customers		3,635,007	3,296,330
Grants		201,572,550	179,843,916
Interest income		8,269,793	6,429,747
		<u>213,477,350</u>	<u>189,569,993</u>
Payments			
Finance costs		(65,000)	(46,000)
Cash Paid to Suppliers and Employees		(127,147,592)	(95,566,468)
		<u>(127,212,592)</u>	<u>(95,612,468)</u>
Net cash flows from operating activities	22	<u>86,264,758</u>	<u>93,957,525</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(73,563,696)	(75,182,925)
Proceeds from sale of property, plant and equipment	2	-	212,664
Purchase of other intangible assets	3	(274,084)	(359,953)
Net cash flows from investing activities		<u>(73,837,780)</u>	<u>(75,330,214)</u>
Net increase/(decrease) in cash and cash equivalents		12,426,978	18,627,311
Cash and cash equivalents at the beginning of the year		110,413,313	91,786,002
Cash and cash equivalents at the end of the year	7	<u>122,840,291</u>	<u>110,413,313</u>

* See Note

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Appendix D1&D2)
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Other income	6,682,513	1,999,546	8,682,059	578,594	(8,103,465)
Interest Earned - External Investments	4,500,000	2,829,091	7,329,091	8,269,793	940,702
Total revenue from exchange transactions	11,182,513	4,828,637	16,011,150	8,848,387	(7,162,763)

Revenue from non-exchange transactions

Taxation revenue

Property rates	4,157,557	-	4,157,557	5,787,993	1,630,436
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Transfer revenue

Government grants & subsidies	196,693,887	13,492,304	210,186,191	204,652,466	(5,533,725)
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Total revenue from non-exchange transactions	200,851,444	13,492,304	214,343,748	210,440,459	(3,903,289)
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Total revenue	212,033,957	18,320,941	230,354,898	219,288,846	(11,066,052)
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Expenditure

Salary Related Costs	(53,109,927)	(270,000)	(53,379,927)	(50,115,927)	3,264,000
Repairs and Maintenance	(11,770,030)	-	(11,770,030)	(8,478,260)	3,291,770
General and Other Expenses	(90,017,000)	4,896,371	(85,120,629)	(82,667,753)	2,452,876

Total expenditure	(154,896,957)	4,626,371	(150,270,586)	(141,261,940)	9,008,646
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Operating surplus	57,137,000	22,947,312	80,084,312	78,026,906	(2,057,406)
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Loss on disposal of assets	-	-	-	(100,573)	(100,573)
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Surplus / (Deficit)	57,137,000	22,947,312	80,084,312	77,926,333	(2,157,979)
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Capital	-	-	-	-	-
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Capital Expenditure	(57,137,000)	(22,947,312)	(80,084,312)	(73,837,780)	6,246,532
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Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference (Appendix D1&D2)
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Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Net cash (from) from operating activities	154,896,957	(4,626,371)	150,270,586	86,264,758	(64,005,828)
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Cash flows from investing activities

Net cash from (used) investing activities	(57,137,000)	(22,947,312)	(80,084,312)	(73,837,780)	6,246,532
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Net increase/(decrease) in cash and cash equivalents	97,759,957	(27,573,683)	70,186,274	12,426,978	(57,759,296)
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Cash and cash equivalents at the beginning of the year	-	-	-	110,413,313	110,413,313
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Cash and cash equivalents at the end of the year	97,759,957	(27,573,683)	70,186,274	122,840,291	52,654,017
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Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

GRAP - 1 Presentation of Financial Statements

GRAP - 2 Cashflow Statements

GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP - 9 Revenue from Exchange Transactions

GRAP - 13 Leases

GRAP - 17 Property Plant and Equipment

GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP - 26 Impairment of Cash Generating Assets

GRAP - 31 Intangible Assets

GRAP - 14 Events after the reporting date

GRAP - 24 Presentation of Budget Information in Financial Statements

GRAP - 23 Revenue from Non-exchange Transactions

GRAP - 25 Employee Benefits

GRAP - 104 Financial Instruments

The following GRAP standards have been issued but are not yet effective

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:

GRAP 109 - Accounting by Principals and Agents

GRAP 20 - Related party disclosures

GRAP 32 Service concession agreements : Grantor

GRAP 108 Statutory Receivables

1.1 Presentation currency

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

1.2 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction or at a nominal cost, its cost is its fair value as at date of acquisition. Where the actual acquisition date or period in respect of assets can not be determined with accuracy, the assets are recognised at fair value on the date that they were identified.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

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

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

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

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

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

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

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

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

Item	Average useful life
• Solid Waste Disposal	05-55
• Dwellings	05-30
• Computer Equipment	05-10
• Electricity	05-80
• Furniture & Office Equipment	03-10
• Non Residential Dwellings	10-30
• Transport Assets	04-20
• Machinery & Equipment	02-20
• Roads	03-100

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. The depreciation formula changes when any of these parameters (remaining useful life, residual value, impairment) are changed or adjusted.

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

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

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

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

Assets Under Construction

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.3 Intangible Assets

An intangible asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.3 Intangible Assets (continued)

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

Item	Useful life
Computer software, other	3-5 years

1.4 Financial Instruments

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank Overdraft and Borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Receivables from non exchange transactions

Trade receivables from non-exchange transactions are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.

1.5 Leases

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

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

Finance leases - lessor

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.5 Leases (continued)

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

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

Finance leases - lessee

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

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

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

Operating leases - lessor

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

Income for leases is disclosed under revenue in 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.

1.6 Employee Benefits

Short-Term Employee Benefits

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

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

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

Defined Contribution Plans

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

The Municipality's employees are members of the Kwazulu - Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan) and Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan.

As the plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual municipalities participating in the plan. uMzumbe therefore accounts for the plan as if it were defined contribution plan.

Long Service Awards

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.6 Employee Benefits (continued)

The municipality has an obligation to provide Long Service Awards Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Pension, Provident, Retirement Benefits and Group Life Scheme

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing retirement benefits for the Councillors as they are now getting a total cost to company package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

1.7 Provisions and Contingencies

Provisions are recognised when:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements.

1.8 Revenue

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.

Measurement

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

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.8 Revenue (continued)

Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Conditional Grants and Receipts

Conditional grants, donations and funding are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.9 Comparative Figures

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

1.10 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.11 Fruitless and wasteful expenditure

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

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

1.12 Irregular expenditure

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

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.13 Use of estimates

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

1.14 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.15 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.16 Value Added Tax (VAT)

The municipality accounts for Value Added Tax on the cash basis with respect to the South African Revenue Service

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.17 Commitments

Commitments may be referred to as the intention to commit to an outflow from the municipality of 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. In determining the value of commitments, the Municipality may utilise savings among projects. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015

2. Property, plant and equipment

	2016			2015		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Machinery Equipment	16,484,317	(2,951,308)	13,533,009	14,503,717	(1,597,968)	12,905,749
Furniture and Office Equipment	3,895,211	(2,289,383)	1,605,828	3,570,223	(1,972,458)	1,597,765
Transport Assets	7,723,843	(2,455,246)	5,268,597	6,244,733	(1,509,233)	4,735,500
Computer Equipment	2,502,664	(1,526,594)	976,070	2,121,322	(1,303,511)	817,811
Solid Waste Disposal	311,044	(76,983)	234,061	265,544	(51,239)	214,305
Dwellings	942,676	(513,167)	429,509	942,676	(409,377)	533,299
Non Residential Dwellings	55,877,850	(19,187,954)	36,689,896	55,699,100	(16,364,887)	39,334,213
Roads	178,682,003	(50,218,458)	128,463,545	149,854,723	(34,793,450)	115,061,273
Assets under construction	117,060,083	-	117,060,083	77,063,970	-	77,063,970
Total	383,479,691	(79,219,093)	304,260,598	310,266,008	(58,002,123)	252,263,885

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Machinery Equipment	12,905,749	2,016,569	(15,383)	-	(1,361,604)	(12,322)	13,533,009
Furniture and Office Equipment	1,597,765	517,067	(60,807)	-	(443,436)	(4,761)	1,605,828
Transport Assets	4,735,500	1,479,110	-	-	(932,641)	(13,372)	5,268,597
Computer Equipment	817,811	473,638	(10,412)	-	(304,957)	(10)	976,070
Solid Waste Disposal	214,305	47,000	(1,026)	-	(26,218)	-	234,061
Dwellings	533,299	-	-	-	(103,790)	-	429,509
Assets Under Construction	77,063,970	68,234,562	-	(28,238,449)	-	-	117,060,083
Non Residential Dwellings	39,334,213	178,750	-	-	(2,469,572)	(353,495)	36,689,896
Roads	115,061,273	617,000	(11,932)	28,238,449	(14,765,981)	(675,264)	128,463,545
	252,263,885	73,563,696	(99,560)	-	(20,408,199)	(1,059,224)	304,260,598

Assets under construction comprises:

	Opening balance	Additions	Transfers	Closing balance
Buildings	37,958,125	33,294,824	-	71,252,949
Roads	39,105,845	34,939,738	(28,238,449)	45,807,134
	77,063,970	68,234,562	(28,238,449)	117,060,083

Impairment of Assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Fair value adjustments	Transfers	Depreciation	Impairment loss	Total
Machinery Equipment	8,175,145	4,872,738	(75,278)	691,234	-	(729,201)	(28,889)	12,905,749
Furniture and Office Equipment	1,213,929	725,083	(15,884)	-	-	(319,767)	(5,596)	1,597,765
Transport Assets	2,611,984	2,512,879	(166,718)	379,606	-	(579,107)	(23,144)	4,735,500
Computer Equipment	843,690	244,197	(2,925)	-	-	(264,391)	(2,760)	817,811
Solid Waste Disposal	202,651	31,500	-	-	-	(19,846)	-	214,305
Dwellings	634,298	-	-	-	-	(100,999)	-	533,299
Assets Under construction	43,127,077	66,730,728	-	-	(32,793,835)	-	-	77,063,970
Non Residential Dwellings	44,269,159	15,000	(2,726,425)	-	734,101	(2,551,810)	(405,812)	39,334,213
Roads	93,788,779	50,800	(112,003)	-	32,059,734	(10,549,414)	(176,623)	115,061,273
	194,866,712	75,182,925	(3,099,233)	1,070,840	-	(15,114,535)	(642,824)	252,263,885

Impairment of assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

3. Intangible Assets

	2016			2015		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	972,060	(387,463)	584,597	703,677	(247,967)	455,710

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	455,710	274,084	(1,013)	(144,184)	584,597

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	183,296	359,953	(72)	(87,467)	455,710

4. Receivables from exchange transactions

Sundry debtors	63,889	76,335
Interest	22,812	12,985
Rei Management	2,379,003	2,379,003
Rei Management (Provision for Bad debts)	(2,379,003)	(2,379,003)
	86,701	89,320

5. VAT receivable

Value Added Tax	20,898,485	7,484,687
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The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet.

6. Trade and other receivables from non exchange transactions

Gross balances

Rates	9,066,155	6,222,642
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Less: Allowance for impairment

Rates	(2,256,215)	(1,736,980)
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Net balance

Rates	6,809,940	4,485,662
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Rates

Current (0 -30 days)	-	4,000
>180 days	6,809,940	4,481,662
	6,809,940	4,485,662

Summary of debtors by customer classification

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
6. Trade and other receivables from non exchange transactions (continued)		
Residential		
> 180 days	2,656,681	1,904,330
	2,656,681	1,904,330
Less: Allowance for impairment	(2,256,215)	(1,736,980)
	400,466	167,350
Industrial/ commercial		
> 180 days	1,306,583	1,356,744
National and provincial government		
Current (0 -30 days)	-	4,000
> 180 days	5,102,892	2,957,568
	5,102,892	2,961,568
Total		
Current (0 -30 days)	-	4,000
> 180 days	9,066,155	6,218,642
	9,066,155	6,222,642
Less: Allowance for impairment	(2,256,215)	(1,736,980)
	6,809,940	4,485,662
Impairment Ageing		
> 181 days	2,256,215	1,736,980
Reconciliation of allowance for impairment		
Balance at beginning of the year	(1,736,980)	(1,341,275)
Contributions to allowance	(519,235)	(395,705)
	(2,256,215)	(1,736,980)

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on hand	779	126
Bank balances	113,275,555	100,848,996
Short-term deposits	9,563,957	9,564,191
	122,840,291	110,413,313

The short-term deposits refer to investments held in First National Bank Ltd in Port Shepstone.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
ABSA BANK LTD - Port Shepstone - 40-7276-2850	112,559,348	100,165,123	112,553,324	100,162,151
ABSA Housing Account - Port Shepstone - 40-7278-0715	588,227	558,677	588,227	558,677
ABSA MIG Account - Port Shepstone 40 - 7277-6506	134,005	128,168	134,005	128,168
FNB - Money market account	3,880,271	3,880,505	3,880,271	3,880,505
FNB 32 day fixed deposit account	5,683,686	5,683,686	5,683,686	5,683,686
Total	122,845,537	110,416,159	122,839,513	110,413,187

8. Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Project Consolidate	99,885	99,885
Low cost housing grant	568,408	538,858
GIS Grant	7,985	7,985
Municipal Infrastructure Grant	275,703	-
Disaster Management Grant	783,820	4,804,470
KZN Sports	524,774	1,974,171
Land Use Scheme	-	347,190
National Electrification	1,149,655	719,745
Massification Grant	2,002,159	-
	5,412,389	8,492,304

Movement during the year

Balance at the beginning of the year	8,492,304	7,701,558
Additions during the year	74,460,550	74,523,816
Income recognition during the year	(77,540,465)	(73,733,070)
	5,412,389	8,492,304

See Note13 for reconciliation of grants from National/Provincial Government.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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9. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service cost	Finance Cost	Total
Provision for Bonus	898,919	864,931	(898,919)	-	-	-	864,931
Long Service Awards	651,000	-	(8,706)	(90,294)	134,000	65,000	751,000
Leave Pay	2,329,138	806,995	(521,174)	-	-	-	2,614,959
	3,879,057	1,671,926	(1,428,799)	(90,294)	134,000	65,000	4,230,890

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service Cost	Finance Cost	Total
Provision for Bonus	680,206	898,919	(680,206)	-	-	-	898,919
Long Service Awards	541,000	-	(30,346)	(12,654)	107,000	46,000	651,000
Leave Pay	2,018,459	760,523	(449,844)	-	-	-	2,329,138
	3,239,665	1,659,442	(1,160,396)	(12,654)	107,000	46,000	3,879,057

Non-current liabilities	735,000	642,000
Current liabilities	3,495,890	3,237,057
	4,230,890	3,879,057

Provision for Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2016 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2016 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	9.36%	8.58%
CPI (Consumer Price Inflation)	7.63%	6.90%
Normal Salary Increase Rate	8.63%	7.90%
Net Effective Discount Rate	0.67%	0.63%

The effect of a 1 % increase movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	829,000	721,000
Current Service Cost	171,000	151,000
Interest Cost	90,000	72,000
	1,090,000	944,000

The effect of a 1 % decrease movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	683,000	591,000
Current Service Cost	135,000	119,000
Interest Cost	74,000	59,000
	892,000	769,000

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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10. Operating lease asset (liability)

Current liabilities	(21,186)	(17,569)
	(21,186)	(17,569)

Office equipment was leased by the Municipality. Operating lease payments are recognised as an expense on a straight line basis over the lease term.

The municipality entered into a long term lease agreement with Ingonyama Trust for the lease of land for the construction of office buildings. The operating lease payments are recognised as an expense on a straight line basis over the lease term.

Minimum Lease Payments due

Within one year	40,513	70,120
In second to fifth year inclusive	98,610	50,456
Over five years and until the end of the lease	418,361	432,115
	557,484	552,691

11. Trade and Other Payables

Trade payables	2,071,522	1,487,619
Other payables	588,083	154,131
Rental Deposits	20,000	20,000
Retention	14,117,766	10,049,454
	16,797,371	11,711,204

12. Property rates

Rates

Property Rates Billed	5,787,993	4,975,846
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Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
13. Government grants and subsidies		
Operating grants		
Equitable share	127,112,000	105,320,000
Municipal Systems Improvement Grant	930,000	934,000
Low Cost Housing Grant	-	19,911
Financial Management Grant	1,800,000	1,800,000
Disaster Management Grant	15,115,650	5,926,369
Ntelezi Msane	-	4,578,620
Municipal Infrastructure Grant	38,246,297	48,619,496
Expanded Public Works Program	1,084,000	1,020,000
Land Use Scheme	347,190	152,810
Intergrated National Electrification Programme	12,570,091	10,305,450
KZN Sports Grant	1,449,397	376,414
Massification Grant	5,997,841	-
	204,652,466	179,053,070
Project Consolidate		
Balance unspent at beginning of year	99,885	99,885
Conditions still to be met - remain liabilities (see note 8)		
Municipal Systems Improvement Grant		
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	-	-
Financial Management Grant		
Current-year receipts	1,800,000	1,800,000
Conditions met - transferred to revenue	(1,800,000)	(1,800,000)
	-	-
Low Cost Housing Grant		
Balance unspent at beginning of year	538,858	533,954
Current-year receipts	29,550	24,815
Conditions met - transferred to revenue	-	(19,911)
	568,408	538,858
Conditions still to be met - remain liabilities (see note 8)		
Ntelezi Msane Grant		
Balance unspent at beginning of year	-	578,620
Current-year receipts	-	4,000,000
Conditions met - transferred to revenue	-	(4,578,620)
	-	-
GIS Grant		
Balance unspent at beginning of year	7,985	7,985

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
13. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 8)		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	249,496
Current-year receipts	38,522,000	48,370,000
Conditions met - transferred to revenue	(38,246,297)	(48,619,496)
	275,703	-
Conditions still to be met - remain liabilities (see note 8)		
Expanded Public Works Program		
Current-year receipts	1,084,000	1,020,000
Conditions met - transferred to revenue	(1,084,000)	(1,020,000)
	-	-
Disaster Management Grant		
Balance unspent at beginning of year	4,804,470	730,839
Current-year receipts	11,095,000	10,000,000
Conditions met - transferred to revenue	(15,115,650)	(5,926,369)
	783,820	4,804,470
Conditions still to be met - remain liabilities (see note 8)		
KZN Sports		
Balance unspent at beginning of year	1,974,171	475,585
Current-year receipts	-	1,875,000
Conditions met - transferred to revenue	(1,449,397)	(376,414)
	524,774	1,974,171
Conditions still to be met - remain liabilities (see note 8).		
Scheme and Land Support Project		
Balance unspent at beginning of year	347,190	-
Current-year receipts	-	500,000
Conditions met - transferred to revenue	(347,190)	(152,810)
	-	347,190
National Electrification Grant		
Balance unspent at beginning of year	719,745	5,025,196
Current-year receipts	13,000,000	6,000,000
Conditions met - transferred to revenue	(12,570,090)	(10,305,451)
	1,149,655	719,745
Conditions still to be met - remain liabilities (see note 8).		
Massification Grant		
Current-year receipts	8,000,000	-
Conditions met - transferred to revenue	(5,997,841)	-
	2,002,159	-

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
13. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 8).		
14. Investment revenue		
Interest revenue		
Interest Received on Investments	8,269,793	6,429,747
15. Other income		
Tender Income	80,263	320,754
Sundry income	498,331	1,676,061
	578,594	1,996,815
16. General expenses		
Advertising	568,354	592,341
Auditors remuneration	859,595	1,192,279
Bank charges	210,838	165,116
Ward Committees	1,668,288	1,538,464
Consulting and professional fees	1,269,077	1,241,237
Consumables	343,705	264,973
Initiative Support	1,334,313	396,499
Functions and refreshments	280,003	293,085
Tourism Development	1,456,646	1,252,109
Insurance	672,978	592,803
Bursaries	538,325	497,480
Conferences and seminars	461,265	341,812
IT expenses	371,321	184,459
Marketing	339,916	370,831
Motor vehicle expenses	1,123,228	1,073,170
Printing and stationery	604,239	606,805
Security (Guarding of municipal property)	1,052,530	933,429
Telephone and fax	1,367,436	1,407,852
Training	443,809	817,380
Subsistence and Travel	1,708,094	2,076,991
Electricity	170,546	116,458
Free basic services (Electricity)	19,353,342	11,665,390
Uniforms	507,997	117,972
Lease Rentals on Operating Lease	498,440	232,829
Solid Waste	312,998	561,789
LED Projects	637,244	501,391
IDP & PMS Development	1,815,689	476,662
Social Programmes	4,352,568	4,351,221
Special Programmes	9,320,655	6,072,790
Community Participation	2,781,330	2,149,652
Other expenses	4,047,141	2,320,142
	60,471,910	44,405,411

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

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Figures in Rand	2016	2015
17. Employee related costs		
Basic Salary	23,508,551	21,152,402
Bonus	1,523,821	2,055,827
Medical aid - company contributions	1,185,420	990,952
Unemployment Insurance Fund	170,958	151,964
Skills Development Levy	309,162	276,312
Leave pay provision charge	806,995	760,523
Pension Contribution	2,623,552	2,181,336
Travel, motor car, accommodation, subsistence and other allowances	4,764,235	4,284,136
Overtime payments	559,272	469,748
Acting allowances	173,354	155,953
Other Salary costs	801,728	466,084
	36,427,048	32,945,237

Remuneration of Municipal Manager

Annual Remuneration	822,616	768,800
Car Allowance	274,205	256,266
Performance Bonus	-	136,993
Other	41,463	40,120
	1,138,284	1,202,179

Remuneration of Chief Financial Officer

Annual Remuneration	714,635	667,884
Car Allowance	238,211	222,627
Performance Bonuses	-	128,165
Other	37,673	34,945
	990,519	1,053,621

Remuneration Corporate Services Director

Annual Remuneration	666,433	624,662
Car Allowance	222,144	208,220
Performance Bonuses	-	111,309
Acting Allowance	33,683	-
Other	40,290	33,559
	962,550	977,750

Remuneration of Technical Services Director

Annual Remuneration	171,650	667,884
Car Allowance	57,216	222,627
Performance Bonuses	-	119,010
Leave Payout	80,195	-
Other	2,976	34,854
	312,037	1,044,375

The Director for Technical Services resigned in September 2015

Umzumbe Local Municipality

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Figures in Rand	2016	2015
17. Employee related costs (continued)		
Remuneration of Social & Economic Development Director		
Annual Remuneration	-	464,120
Car Allowance	-	154,706
Performance Bonuses	-	77,060
Other	-	40,065
Acting Allowance	-	16,464
Leave Payout	-	143,879
	-	896,294
The position of the Social & Economic Development Director was vacant during the year.		
18. Remuneration of councillors		
Mayor	775,097	684,366
Deputy Mayor	641,099	617,621
Speaker	640,098	597,030
Councillors	11,632,585	10,284,747
	13,688,879	12,183,764
19. Debt impairment		
Contributions to debt impairment provision	519,236	395,705
20. Depreciation, amortisation and Impairment		
Property, plant and equipment	21,467,423	15,757,357
Intangible assets	144,184	87,467
	21,611,607	15,844,824
21. Auditors' remuneration		
Fees	859,595	1,192,279
22. Cash generated from operations		
Surplus	77,926,333	76,803,169
Adjustments for:		
Depreciation and amortisation	21,611,607	15,844,824
Loss on sale of assets	100,573	2,886,641
Debt impairment	519,236	395,705
Movement in operating lease accrual	3,617	8,105
Movements in provisions	351,833	639,392
Other non-cash items	-	(1,104,225)
Changes in working capital:		
Receivables from exchange transactions	2,619	7,045
Trade and other receivables from non exchange transactions	(2,843,514)	(1,704,948)
Trade and Other Payables	5,086,167	358,538
VAT	(13,413,798)	(967,466)
Unspent Conditional Grants and Receipts	(3,079,915)	790,745
	86,264,758	93,957,525

Umzumbe Local Municipality

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23. Commitments		
Authorised capital expenditure		
Approved and contracted for:		
• Infrastructure	48,259,305	38,920,823
Approved but not yet contracted for:		
• Infrastructure	62,841,553	71,705,446
Total capital commitments		
Already contracted for but not provided for	48,259,305	38,920,823
Not yet contracted for and authorised by accounting officer	62,841,553	71,705,446
	111,100,858	110,626,269

This committed expenditure relates to Infrastructure and will be financed by Government Grants.

24. Unauthorised expenditure

Opening balance	2,379,003	2,379,003
Less: Amounts written off	-	-
	2,379,003	2,379,003

25. Fruitless and wasteful expenditure

Current year expenditure	15,314	16,206
Less: Amounts written off	(15,314)	(16,206)
	-	-

Incidents

- The municipality incurred fruitless and wasteful expenditure of R14 401 due to interest and penalties arising from late payments and an amount of R113.27 relating to disallowed VAT return.
- The municipality incurred fruitless and wasteful expenditure of R 800.00 in relation to traffic fines.

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

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26. Irregular expenditure

Add: Irregular Expenditure - current year	1,627,776	-
Less: Amounts written off	(1,627,776)	-
	<u>-</u>	<u>-</u>

Details of irregular expenditure - current year (2016)

Incident	Action	-
The municipality incurred irregular expenditure as a result of a service provider submitting a fraudulent tax clearance certificate	The expenditure was tabled to council for condonment.	1,627,776
		<u>1,627,776</u>

Umzumbe Local Municipality

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27. Effects of correction of prior year errors on financial statements

An amount of R 44 773 refers to staff debtors that were previously not raised

An amount of R 4 739 947 relating to repairs and maintenance was reclassified from general expenses.

An amount of R38 780,66 refers to a reversal of incorrect balance for SARS PAYE.

An amount of R872 refers to the reversal of reimbursements for interviewees paid with cheques which has since become stale.

An Amount of R234 638 refers to the reversal of prior year supplier invoices

Statement of Financial Position

	Note	As previously reported	Correction of errors	Reclassification	Total
Receivables from exchange transactions	4	83,328	5,992	-	89,320
VAT Receivable	5	7,484,687	-	-	7,484,687
Trade and Other Receivables from Non Exchange Transactions	6	4,485,662	-	-	4,485,662
Cash and Cash Equivalents	7	110,413,313	-	-	110,413,313
Property , Plant and Equipment	2	252,263,885	-	-	252,263,885
Intangible Assets	3	455,710	-	-	455,710
Total Assets	-	375,186,585	5,992	-	375,192,577
Operating Lease Liability	10	(17,569)	-	-	(17,569)
Trade and Other Payables	11	(11,952,107)	240,903	-	(11,711,204)
Unspent Conditional Grants and Receipts	8	(8,492,304)	-	-	(8,492,304)
Current : Provisions	9	(3,237,057)	-	-	(3,237,057)
Non Current Provisions	9	(642,000)	-	-	(642,000)
Accumulated Surplus	-	(350,845,548)	(246,895)	-	(351,092,443)
Total Liabilities and Surplus	-	375,186,585	5,992	-	375,192,577

Statement of financial performance

	Note	As previously reported	Correction of errors	Reclassification	Total
Other Income	15	1,996,815	-	-	1,996,815
Interest Received - Investment	-	6,429,747	-	-	6,429,747
Property Rates	12	4,975,846	-	-	4,975,846

Umzumbe Local Municipality

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Government Grants & Subsidies	13	179,053,070	-	-	179,053,070
Total Revenue	-	192,455,478	-	-	192,455,478
Employee Related Costs	17	(32,945,237)	-	-	(32,945,237)
Remuneration of Councillors	18	(12,183,764)	-	-	(12,183,764)
Depreciation Amortisation and Impairment	20	(15,844,824)	-	-	(15,844,824)
Finance Cost	-	(46,000)	-	-	(46,000)
Debt Impairment	19	(395,705)	-	-	(395,705)
Repairs and Maintenance	-	(2,204,780)	-	(4,739,947)	(6,944,727)
General Expenses	16	(49,425,642)	280,284	4,739,947	(44,405,411)
Loss on Disposal of Assets	-	(2,886,641)	-	-	(2,886,641)
Surplus for the year	-	76,522,885	280,284	-	76,803,169

Cashflow Statement

	Note	As previously reported	Correction of errors	Total
Government Grants and subsidies	-	179,843,916	-	179,843,916
Cash Receipts from Customers	-	3,296,330	-	3,296,330
Interest Income	-	6,429,747	-	6,429,747
Finance Costs	-	(46,000)	-	(46,000)
Cash Paid to Suppliers and Employees	-	(95,566,468)	-	(95,566,468)
Purchase of Property, Plant and Equipment	2	(75,182,925)	-	(75,182,925)
Purchase of intangible assets	3	(359,953)	-	(359,953)
Proceeds from Sale of Assets	-	212,664	-	212,664
Net increase in cash and cash equivalents	-	18,627,311	-	18,627,311

Umzumbe Local Municipality

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28. Contingencies

Contingent Liabilities

Incidents.

The municipality is currently involved in a legal dispute with Only If Management CC regarding waste collection services. The municipality believes that it is in a favourable position of winning the case. Should the municipality be held liable, the estimated cost regarding this matter will be R 526 315.26.

The municipality has not completed any employee job evaluations as prescribed in terms of the Salary and wage collective agreement between SALGA, IMATU and SAMWU - 27 July 2012. As a result the municipality is unable to measure, with sufficient reliability, the amount of such obligation for both the 30 June 2016 and 30 June 2015 year-ends.

Due to a VAT query raised by KPMG in October 2015 with regards to Ugu District Municipality, Ugu South Coast Tourism logged a VAT Ruling request with SARS, regarding whether the grant funding received from the municipalities should be raised including VAT or at the zero rate, which has been the case since the inception of the entity in 2009. To date, there is no written confirmation on this matter. However, Ugu South Coast Tourism reviewed the VAT Act and it appears that grant funding to municipal entities should include VAT at 14%. Further to this, Ugu South Coast Tourism has not been able to establish whether SARS will insist on the prior year VAT201 returns to be amended and resubmitted, to include the VAT portion. If this should happen, then the municipality would be required to pay South Coast Tourism an amount equal to R184 450.00.

Contingent assets

Due to a VAT query raised by KPMG in October 2015 with regards to Ugu District Municipality, Ugu South Coast Tourism logged a VAT Ruling request with SARS, regarding whether the grant funding received from the municipalities should be raised including VAT or at the zero rate, which has been the case since the inception of the entity in 2009. To date, there is no written confirmation on this matter. However, Ugu South Coast Tourism reviewed the VAT Act and it appears that grant funding to municipal entities should include VAT at 14%. Further to this, Ugu South Coast Tourism has not been able to establish whether SARS will insist on the prior year VAT201 returns to be amended and resubmitted, to include the VAT portion. If this should happen, then the municipality would claim R184 450.00 from SARS as VAT input.

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29. Risk management

Liquidity risk

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

Credit risk

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

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

Financial instrument		
Trade and other receivables from non exchange transactions (Rates)	6,809,940	4,485,662
Cash and Cash Equivalents	122,840,291	110,413,313

30. Going concern

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

31. Additional disclosure in terms of Municipal Finance Management Act

Contribution to Local Government Associations

Current year subscription	500,000	500,000
Amount paid	(500,000)	(500,000)
	-	-

Audit fees

Current year fee	859,595	1,192,279
Amount paid - current year	(859,595)	(1,192,279)
	-	-

PAYE and UIF

Current year deductions	8,257,555	7,691,281
Amount paid	(8,257,555)	(7,691,281)
	-	-

Pension and Medical Aid Deductions

Current year	6,248,989	5,304,020
Amount paid	(6,248,989)	(5,304,020)
	-	-

Umzumbe Local Municipality

Annual Financial Statements for the year ended June 30, 2016

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32. Multi employer retirement benefit

Umzumbe Local Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

DEFINED BENEFIT SCHEMES

Retirement Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

The interim actuarial valuation performed as at 31 March 2014 revealed that the fund had a shortfall of R 124 (31 March 2013: shortfall of R 203,7) million, with a funding level of 91,7% (31 March 2013: 86,0%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (34,22%) should be sufficient to eradicate the shortfall in the fund. However, the basic contribution payable is 0,5% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17.5% of pensionable emoluments, of which 1,65% is payable by members and 15,85% is payable by the local authority

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund.

Superannuation Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

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The interim actuarial valuation performed as at 31 March 2014 revealed that the fund had a shortfall of R 0 (31 March 2011: shortfall of R 549,5) million, with a funding level of 100,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 0,71% (31 March 2011: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% (31 March 2011 7,0%) of pensionable salaries. It was expected that the deficit will be fully funded by 2016.

This surcharge is payable until 31 July 2020. The surcharge to local authorities amounts to 9.50% (31 March 2011 7.00%). The "Scheme to eliminate deficiency" in terms of Section 18 of the Pension Funds Act was implemented with effect from 1 August 2012 for a period of 8 years.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund will merge with the Retirement Fund in the near future.

DEFINED CONTRIBUTION SCHEMES

Municipal Councillors Pension Fund:

The scheme is subject to an actuarial valuation. The last statutory valuation was performed as at 30 June 2015.

The valuation performed revealed that at the valuation date, the fair value of the Fund's adjusted net assets amounted to R 2 551.9 million.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2015, in that the assets of the Fund were sufficient to cover the accrued service liabilities including the recommended contingency reserves in full.

Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2014 by Argen Actuaries.

The interim actuarial valuation performed as at 31 March 2014 revealed that the market value of the fund was R 2 151,9 (31 March 2012: R 1 288,3) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2014.

None of the above mentioned plans are State Plans.

33. Related Party Transactions

Section 45 and 44 of SCM Regulations

Purchases from related parties

Odaleka Maintenance and Projects	6,000	61,100
Smakuhle General Trading	40,750	11,783

Odaleka Maintenance and Projects - The company is owned by the spouse of an employee (Manager Internal Audit) of Umzumbe Municipality.

Smakuhle General Trading - The company is owned by the sister of an employee (Municipal Driver) of Umzumbe Municipality.

34. Events after the reporting date

Municipal elections were held on the 3rd of August 2016 which gave rise to a new Council which was sworn in on the 22nd of August 2016. Whilst it is acknowledged that the outgoing councillors were largely responsible for presiding over the financial transactions and any resolutions that were taken during their tenure, there is a possibility that as the audit progresses there may be significant resolutions and judgements taken with the support of the new council. The new council will be responsible for the submission of the annual financial statements, report on performance management and any significant resolutions and judgements made in connection with these financial statements.

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34. Events after the reporting date (continued)

There is no financial impact expected from the inauguration of new councillors at the reporting date.

35. Section 36 deviations

During the year the Accounting Officer approved minor breaches amounting to R1 864 020.87 (2015 - R207 362.24)

During the year the Accounting Officer approved deviation for emergencies relating to disaster amounting to R31 025.79 (2015 - R4 885 015.26)