

**UMSOBOMVU LOCAL MUNICIPALITY**

*Continuously Rising*

**NC 072**

***ANNUAL FINANCIAL STATEMENTS***

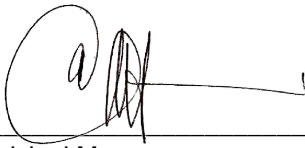
**2016/2017**

**UMSOBOMVU LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2017

**Approval of annual financial statements**

I am responsible for the preparation of these annual financial statements, which are set out on pages 9 to 93, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in Note 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



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Municipal Manager:

**Thursday, 31 August 2017**

**UMSOBOMVU LOCAL MUNICIPALITY**  
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for the year ended 30 June 2017

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**UMSOBOMVU LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2017**

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**1. INTRODUCTION**

It gives me great pleasure to present the Annual Financial Statements of Umsobomvu Local Municipality at 30 June 2017.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2011/12 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2017 indicates a decrease in Net Assets, and an increase in Non-current Liabilities and a decrease in Current Liabilities.

The decrease in Net Assets is ascribed primarily to the decrease in Accumulated Surplus as a result of the surplus generated on the operating account. The increase in Non-current Liabilities is primarily as a result of the increase of finance leases. The decrease in Current Liabilities is primarily as a result of a decrease in accounts payables at yearend

**2. KEY FINANCIAL INDICATORS**

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

**2.1 Financial Statement Ratios:**

INDICATOR	2017	2016
Surplus / (Deficit) before Appropriations	(1,671,762)	14,878,816
Surplus / (Deficit) at the end of the Year	505,071,428	506,743,190
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	29.85%	25.23%
Remuneration of Councilors	2.63%	2.09%
Depreciation and Amortisation	21.31%	19.02%
Impairment Losses	8.72%	21.41%
Repairs and Maintenance	2.42%	1.97%
Interest Paid	1.51%	1.23%
Bulk Purchases	17.55%	14.24%
General Expenses	15.16%	12.62%
Current Ratio:		
Trade Creditors Days	47	88
Debtors from Exchange Transactions Days	115	81

## 2. KEY FINANCIAL INDICATORS (Continued)

### 2.2 Performance Indicators:

INDICATOR	2017	2016
Borrowing Management:		
Capital Charges to Operating Expenditure	2.10%	1.69%
Capital Charges to Own Revenue	4.46%	3.95%
Borrowed Funding to Own Capital Expenditure	54.98%	0.00%
Borrowing to Total Capital Assets	0.44%	0.24%
Safety of Capital:		
Gearing	0.46%	0.25%
Liquidity:		
Current Ratio	0.87	0.81
Liquidity Ratio	0.40	0.44
Capital Expenditure Management:		
Capital Expenditure on Infrastructure to Total Capital Expenditure	88.75%	99.53%
Revenue Management:		
Current Debtors Collection Rate	63.04%	51.80%
Outstanding Debtors to Revenue	32.43%	24.33%
Creditors Management:		
Creditors to Cash and Investments	71.73%	104.71%
Financial Viability:		
Debt Coverage	16.44	18.66
Outstanding Service Debtors to Revenue	37.05%	30.76%
Cost Coverage	0.17	0.16

For detailed ratio analysis and explanation regarding these refer to appendix H attached.

## 3. OPERATING RESULTS

Details of the operating results per segmental classification of expenditure are included in Appendix "D".

The services offered by Umsobomvu Municipality can generally be classified as Rates and General, Economic and Trading Services and are discussed in more detail below.

The overall operating results for the year ended 30 June 2017 are as follows:

DETAILS	Actual 2016/17 R	Actual 2015/16 R	Percentage Variance %	Budgeted 2016/17 R	Variance actual/ budgeted %
<b>Income:</b>					
Opening surplus / (deficit)	506,549,845	492,955,579	2.76	572,459,307	(11.51)
Operating income for the year	128,914,532	162,839,010	(20.83)	162,549,974	(20.69)
	635,464,377	655,794,590	(3.10)	735,009,281	(13.54)
<b>Expenditure:</b>					
Operating expenditure for the year	130,586,294	147,960,194	(11.74)	155,321,923	(15.93)
Closing surplus / (deficit)	504,878,083	506,549,845	(0.33)	579,687,357	(12.91)
	635,464,377	655,794,590	(3.10)	735,009,280	(13.54)

### 3. OPERATING RESULTS (Continued)

#### 3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2016/17 R	Actual 2015/16 R	Percentage Variance %	Budgeted 2016/17 R	Variance actual/ budgeted %
Income	55,183,865	57,845,908	(4.60)	79,426,843	(30.52)
Expenditure	60,922,635	63,509,298	(4.07)	80,561,265	(24.38)
Surplus / (Deficit)	(5,738,769)	(5,663,391)	1.33	(1,134,422)	405.88
Surplus / (Deficit) as % of total income	(10.40)%	(9.79)%		(1.43)%	

#### 3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2016/17 R	Actual 2015/16 R	Percentage Variance %	Budgeted 2016/17 R	Variance actual/ budgeted %
Income	1,559	-	100.00	-	100.00
Expenditure	790,820	578,029	36.81	818,073	(3.33)
Surplus / (Deficit)	(789,261)	(578,029)	36.54	(818,073)	(3.52)
Surplus / (Deficit) as % of total income	(50619.94)%	(100.00)%		(100.00)%	

#### 3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2016/17 R	Actual 2015/16 R	Percentage Variance %	Budgeted 2016/17 R	Variance actual/ budgeted %
Income	23,191,045	21,122,377	9.79	17,375,682	33.47
Expenditure	15,748,947	25,340,537	(37.85)	19,214,950	(18.04)
Surplus / (Deficit)	7,442,099	(4,218,160)	(276.43)	(1,839,268)	(504.62)
Surplus / (Deficit) as % of total income	32.09%	(19.97)%		(10.59)%	

#### 3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R22,353,189 (2016: R20,671,934). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2016/17 R	Actual 2015/16 R	Percentage Variance %	Budgeted 2016/17 R	Variance actual/ budgeted %
Income	34,831,765	33,486,341	4.02	50,414,506	(30.91)
Expenditure	27,674,021	25,542,160	8.35	28,065,043	(1.39)
Surplus / (Deficit)	7,157,745	7,944,181	(9.90)	22,349,463	(67.97)
Surplus / (Deficit) as % of total income	20.55%	23.72%		44.33%	

### 3. OPERATING RESULTS (Continued)

#### 3.5 Water Services:

Water is bought in bulk from Lepelle Northern Water and "Uitloop Water Beleggings" and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R563,812 (2016: R393,286 ). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2016/17 R	Actual 2015/16 R	Percentage Variance %	Budgeted 2016/17 R	Variance actual/ budgeted %
Income	15,706,297	50,384,385	(68.83)	15,332,943	2.43
Expenditure	25,449,871	32,990,170	(22.86)	26,662,592	(4.55)
Surplus / (Deficit)	(9,743,575)	17,394,215	(156.02)	(11,329,649)	(14.00)
Surplus / (Deficit) as % of total income	(62.04)%	34.52%		(73.89)%	

### 4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Assets during the year amounted to R26,379,467 (2015/16: R65,598,449). Full details of Assets are disclosed in Notes 7, 8, 9 and Appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of R26,379,467 was financed as follows:

DETAILS	Actual 2016/17 R	Actual 2015/16 R	Percentage Variance %	Budgeted 2016/17 R	Variance actual/ budgeted %
Finance Leases	1,631,000	-	100.00	-	100.00
Grants and Subsidies	23,412,958	63,779,809	(63.29)	28,090,800	(16.65)
Own Funds (Accumulated Surplus)	1,335,509	798,874	67.17	1,550,000	(13.84)
	26,379,467	64,578,683	(59.15)	29,640,800	(11.00)

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2017	2016
Finance Leases	6.18%	-
Grants and Subsidies	88.75%	98.76%
Own Funds (Accumulated Surplus)	5.06%	1.24%
	100.00%	100.00%

## 5. RECONCILIATION OF BUDGET TO ACTUAL

### 5.1 Operating Budget:

DETAILS	2017	2016
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	7,228,051	56,925,403
Revenue variances	(33,635,442)	(41,476,044)
Expenditure variances:		
Employee Related Costs	6,993,683	4,978,867
Remuneration of Councilors	31,876	27,186
Depreciation and Amortisation	1,619,109	1,336,895
Impairment Losses	(260)	(25,485,091)
Repairs and Maintenance	557,635	1,127,031
Interest Paid	(1,741,973)	(1,470,714)
Bulk Purchases	45,420	219,244
General Expenses	18,317,324	21,928,023
Loss on disposal of Property, Plant and Equipment	(1,087,186)	(3,231,984)
Actual surplus before appropriations	(1,671,762)	14,878,816

DETAILS	2017	2016
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	7,228,051	56,925,403
Executive and Council	826,844	977,976
Finance and Administration	603,177	3,981,576
Community and Social Services	3,722,807	11,678,023
Technical Services	(14,052,641)	(58,684,162)
Actual surplus before appropriations	(1,671,762)	14,878,816

Details of the operating results per segmental classification of expenditure are included in Appendix "D", whilst operational results per category of expenditure, together with a cryptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (1)".

### 5.2 Capital Budget:

DETAILS	Actual 2016/17 R	Actual 2015/16 R	Variance actual 2016/17 / 2015/16 R	Budgeted 2016/17 R	Variance actual/ budgeted R
Executive & Council	-	20,488	(20,488)	-	-
Finance & Admin	2,966,509	581,923	2,384,586	2,057,210	909,299
Community Services	4,690,515	291,353	4,399,162	-	4,690,515
Technical Services	18,722,443	58,452,423	(39,729,980)	29,690,800	(10,968,357)
	26,379,467	59,346,187	(32,966,720)	31,748,010	(5,368,543)

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with a cryptic explanation of significant variances of more than 10% from budget, are included in Appendix "E (2)".



## 6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2017 amounted to R505,071,428 (30 June 2016: R506,743,190) and is made up as follows:

Capital Replacement Reserve	193,344
Accumulated Surplus	<u>504,878,083</u>
	<u><u>505,071,428</u></u>

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the reserve.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to Note 19 and the Statement of Change in Net Assets for more detail.

## 7. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2017 was R2,309,503 (30 June 2016: R1,256,313).

Refer to Note 16 and Appendix "A" for more detail.

## 8. EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities amounted R12,434,224 as at 30 June 2017 (30 June 2016: R12,665,959) and is made up as follows:

Post-retirement Health Care Benefits Liability	11,106,113
Provision for Long Service Awards	<u>1,328,111</u>
	<u><u>12,434,224</u></u>

The Post-retirement Health Care Benefits Liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

The Long Service liability is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees. This liability is unfunded.

Refer to Note 17 for more detail.

## 9. NON-CURRENT PROVISIONS

Non-current Provisions amounted R4,307,465 as at 30 June 2017 (30 June 2016: R3,910,555) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites	<u>4,307,465</u>
	<u><u>4,307,465</u></u>

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 18 for more detail.

## 10. CURRENT LIABILITIES

Current Liabilities amounted R39,310,705 as at 30 June 2017 (30 June 2016: R43,324,956) and is made up as follows:

Consumer Deposits	Note 10	813,266
Provisions	Note 11	1,004,441
Payables	Note 12	12,276,516
Unspent Conditional Grants and Receipts	Note 14	15,690,173
VAT Payable	Note 15	8,478,085
Current Portion of Long-term Liabilities	Note 16	1,048,223
		<u>39,310,705</u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

## 11. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R527,480,222 as at 30 June 2017 (30 June 2016: R530,689,313).

Refer to Note 7 and Appendices "B, C and E (2)" for more detail.

## 12. INTANGIBLE ASSETS

The net value of Intangible Assets were R205,779 as at 30 June 2017 (30 June 2016: R53,826).

Intangible Assets are assets which cannot physically be identified and verified and are in respect of computer software obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 8 and Appendix "B" for more detail.

## 13. INVESTMENT PROPERTY

The net value of Investment Properties were R2,060,899 as at 30 June 2017 (30 June 2016: R2,060,899).

Investment Property is property held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of operations.

Refer to Note 9 and Appendix "B" for more detail.

## 14. CURRENT ASSETS

Current Assets amounted R37,472,576 as at 30 June 2017 (30 June 2016: R35,096,934) and is made up as follows:

Inventories	Note 2	437,405
Receivables from Exchange Transactions	Note 3	15,928,241
Receivables from Non-exchange Transactions	Note 4	3,992,275
Cash and Cash Equivalents	Note 5	17,114,154
Operating Lease Assets	Note 6	500
		<u>37,472,576</u>

The increase in the amount for Current Assets is mainly due to the increased amount held in Bank and Cash Equivalents.

Refer to the indicated Notes for more detail.

## 15. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 48.

## 16. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, Councilors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.



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**CHIEF FINANCIAL OFFICER**

31 August 2017

**UMSOBOMVU LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017**

2016	Budget		2017 Adjusted	Note	Actual	
	2017 Original	2017 Original			2017	2016
R	R	R	R		R	R
<b>ASSETS</b>						
<b>78,544,038</b>	<b>82,402,939</b>	<b>78,733,318</b>	<b>Current Assets</b>		<b>37,472,576</b>	<b>35,096,934</b>
401,000	401,000	401,000	Inventories	2	437,405	409,848
50,344,679	50,384,797	50,384,797	Receivables from Exchange Transactions	3	15,928,241	10,410,122
4,075,342	4,075,342	4,075,342	Receivables from Non-exchange Transactions	4	3,992,275	5,027,234
23,723,017	27,541,800	23,872,179	Cash and Cash Equivalents	5	17,114,154	19,248,106
-	-	-	Operating Lease Receivables	6	500	1,624
<b>556,222,587</b>	<b>550,188,679</b>	<b>550,338,679</b>	<b>Non-Current Assets</b>		<b>529,746,900</b>	<b>532,804,038</b>
554,087,949	546,577,780	546,577,780	Property, Plant and Equipment	7	527,480,222	530,689,313
73,739	1,550,000	1,700,000	Intangible Assets	8	205,779	53,826
2,060,899	2,060,899	2,060,899	Investment Property	9	2,060,899	2,060,899
<b>634,766,625</b>	<b>632,591,618</b>	<b>629,071,997</b>	<b>Total Assets</b>		<b>567,219,475</b>	<b>567,900,973</b>
<b>LIABILITIES</b>						
<b>33,132,707</b>	<b>27,167,006</b>	<b>23,497,385</b>	<b>Current Liabilities</b>		<b>43,096,855</b>	<b>43,324,956</b>
760,885	906,000	906,000	Consumer Deposits	10	813,266	774,489
961,006	961,006	961,006	Provisions	11	1,004,441	734,800
21,000,000	21,000,000	17,330,379	Payables from Exchange Transactions	12	12,276,516	20,154,505
-	-	-	Payables from Non-exchange Transactions	13	3,786,151	3,494,203
7,500,000	-	-	Unspent Conditional Grants and Receipts	14	15,690,173	9,810,902
2,000,000	3,500,000	3,500,000	VAT Payable	15	8,478,085	7,115,173
910,816	800,000	800,000	Current Portion of Long-term Liabilities	16	1,048,223	1,240,883
<b>26,187,652</b>	<b>25,887,255</b>	<b>25,887,255</b>	<b>Non-Current Liabilities</b>		<b>19,051,192</b>	<b>17,832,827</b>
1,279,397	979,000	979,000	Long-term Liabilities	16	2,309,503	1,256,313
12,515,345	12,515,345	12,515,345	Employee Benefit Liability	17	12,434,224	12,665,959
12,392,910	12,392,910	12,392,910	Non-current Provisions	18	4,307,465	3,910,555
<b>59,320,359</b>	<b>53,054,261</b>	<b>49,384,640</b>	<b>Total Liabilities</b>		<b>62,148,047</b>	<b>61,157,783</b>
<b>575,446,266</b>	<b>579,537,357</b>	<b>579,687,357</b>	<b>Total Assets and Liabilities</b>		<b>505,071,428</b>	<b>506,743,190</b>
<b>575,446,266</b>	<b>579,537,357</b>	<b>579,687,357</b>	<b>NET ASSETS</b>		<b>505,071,428</b>	<b>506,743,190</b>
575,446,266	579,537,357	579,687,357	Accumulated Surplus / (Deficit)	19	505,071,428	506,743,190
<b>575,446,266</b>	<b>579,537,357</b>	<b>579,687,357</b>	<b>Total Net Assets</b>		<b>505,071,428</b>	<b>506,743,190</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017**

Budget				Actual		
2016 R	2017 Original R	2017 Adjusted R		Note	2017 R	2016 R
<b>REVENUE</b>						
<b>Revenue from Non-exchange Transactions</b>						
8,405,668	8,741,895	8,741,895	Property Rates	20	8,591,233	8,144,051
207,800	216,112	290,000	Property Rates - Penalties imposed and collection charges	25	289,933	217,246
5,320,879	5,585,876	5,585,876	Fines		24,053	671,518
2,412,554	2,532,982	2,662,358	Licences and Permits		-	-
117,693,000	69,016,000	70,616,000	Government Grants and Subsidies Received	21	67,483,155	99,389,539
<b>Revenue from Exchange Transactions</b>						
61,506,093	65,571,847	66,271,600	Service Charges	22	42,021,064	38,892,697
886,587	938,146	314,208	Rental of Facilities and Equipment	23	356,565	758,723
470,600	422,000	560,000	Interest Earned - External Investments	24	453,176	538,281
2,054,657	2,046,979	2,242,072	Interest Earned - Outstanding Debtors	24	2,513,333	2,168,573
5,357,217	5,256,025	5,265,965	Other Revenue	25	7,182,020	12,058,383
<b>204,315,055</b>	<b>160,327,862</b>	<b>162,549,974</b>	<b>Total Revenue</b>		<b>128,914,532</b>	<b>162,839,010</b>
<b>EXPENDITURE</b>						
42,311,911	47,215,689	45,978,901	Employee Related Costs	26	38,985,218	37,333,044
3,122,360	3,246,332	3,460,789	Remuneration of Councillors	27	3,428,913	3,095,174
29,480,306	29,406,915	29,442,204	Depreciation and Amortisation	28	27,823,095	28,143,411
6,196,324	6,194,054	11,388,256	Impairment Losses	29	11,388,516	31,681,415
4,043,090	3,721,980	3,721,980	Repairs and Maintenance	30	3,164,345	2,916,059
343,695	310,000	230,000	Finance Costs	31	1,971,973	1,814,409
21,284,464	22,962,421	22,962,421	Bulk Purchases	32	22,917,001	21,065,220
40,606,273	40,352,459	38,117,372	General Expenses	33	19,800,048	18,678,250
1,228	20,000	20,000	Loss on Disposal of Property, Plant and Equipment		1,107,186	3,233,212
<b>147,389,651</b>	<b>153,429,850</b>	<b>155,321,923</b>	<b>Total Expenditure</b>		<b>130,586,294</b>	<b>147,960,194</b>
<b>56,925,403</b>	<b>6,898,012</b>	<b>7,228,051</b>	<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>		<b>(1,671,762)</b>	<b>14,878,816</b>

Refer to Appendix E(1) for explanation of budget variances

**UMSOBOMVU LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017**

Description	Accumulated Surplus / (Deficit) Account		Total for Accumulated Surplus/(Deficit) Account	Total
	Capital Replacement Reserve	Accumulated Surplus / (Deficit)		
	R	R	R	R
<b>2016</b>				
Balance at 30 June 2015	193,344	492,955,579	493,148,923	493,148,923
Correction of Error (Note 34)	-	(1,284,551)	(1,284,551)	(1,284,551)
<b>Restated Balance</b>	<b>193,344</b>	<b>491,671,029</b>	<b>491,864,373</b>	<b>491,864,373</b>
Surplus / (Deficit) for the year	-	14,878,816	14,878,816	14,878,816
<b>Balance at 30 June 2016</b>	<b>193,344</b>	<b>506,549,845</b>	<b>506,743,189</b>	<b>506,743,189</b>
<b>2017</b>				
<b>Restated Balance</b>	<b>193,344</b>	<b>506,549,845</b>	<b>506,743,189</b>	<b>506,743,189</b>
Surplus / (Deficit) for the year	-	(1,671,762)	(1,671,762)	(1,671,762)
<b>Balance at 30 June 2017</b>	<b>193,344</b>	<b>504,878,083</b>	<b>505,071,427</b>	<b>505,071,428</b>
	-			-

Details on the movement of the Funds and Reserves are set out in Note 19.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2017**

2016 R	Budget		Note	Actual	
	2017 Original R	2017 Adjusted R		2017 R	2016 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Receipts</b>					
8,613,468	8,958,006	8,741,894	Property Rates	8,241,550	9,254,081
110,617,000	69,016,000	70,616,000	Government Grant and Subsidies	73,362,426	98,966,116
52,433,587	57,167,450	55,510,172	Service Charges	25,429,513	16,349,244
2,995,857	2,468,979	2,802,072	Interest Received	2,966,509	2,706,854
14,109,237	14,313,029	13,828,407	Other Receipts	10,573,690	21,395,379
<b>Payments</b>					
(56,645,012)	(58,651,625)	(58,153,805)	Employee Related Costs	(39,449,466)	(36,228,507)
(3,095,174)	(3,428,913)	(3,428,913)	Remuneration of Councillors	(3,428,913)	(3,095,174)
(343,695)	(310,000)	(230,000)	Interest Paid	(1,152,249)	(1,814,409)
(42,661,242)	(45,881,393)	(45,881,393)	Suppliers Paid	(52,614,599)	(42,344,661)
(8,966,670)	(9,536,950)	(6,777,352)	Other Payments	(734,718)	1,888,337
<b>77,057,356</b>	<b>34,114,583</b>	<b>37,027,082</b>	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>23,193,743</b>	<b>67,077,260</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
(71,001,300)	(29,640,800)	(31,748,010)	Purchase of Property, Plant and Equipment	(26,174,792)	(65,558,766)
-	-	-	Purchase of Intangible Assets	(188,637)	(25,147)
			Proceeds on Disposal of Property, Plant and Equipment	130,000	-
			Profit on Sale of Land	45,203	-
<b>(71,001,300)</b>	<b>(29,640,800)</b>	<b>(31,748,010)</b>	<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(26,188,226)</b>	<b>(65,583,913)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
130,000	-	-	Proceeds from Borrowings	1,631,000	-
(910,816)	(800,000)	(800,000)	Repayment of Borrowings	(770,469)	(693,018)
	145,000	145,000	Increase (decrease) in consumer deposits	-	-
<b>(780,816)</b>	<b>(655,000)</b>	<b>(655,000)</b>	<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>860,531</b>	<b>(693,018)</b>
<b>5,275,240</b>	<b>3,818,783</b>	<b>4,624,072</b>	<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,133,952)</b>	<b>800,329</b>
18,447,777	23,723,017	19,248,107	Cash and Cash Equivalents at Beginning of Period	19,248,106	18,447,777
23,723,017	27,541,800	23,872,179	Cash and Cash Equivalents at End of Period	17,114,154	19,248,106

## UMSOBOMVU LOCAL MUNICIPALITY

### STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2017

30 June 2017

Description	2016/2017							
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R		R	R	R	R	R
<b>FINANCIAL POSITION</b>								
<b>Current Assets</b>								
Inventories	401,000	-	401,000	401,000	437,405	36,405	109.08	109.08
Receivables from Exchange Transactions	50,384,797	-	50,384,797	50,384,797	15,928,241	(34,456,556)	31.61	31.61
Receivables from Non-exchange Transactions	4,075,342	-	4,075,342	4,075,342	3,992,275	(83,067)	97.96	97.96
Cash and Cash Equivalents	27,541,800	(3,669,621)	23,872,179	23,872,179	17,114,154	(6,758,025)	71.69	62.14
Operating Lease Receivables	-	-	-	-	500	500	0.00	0.00
<b>Non-Current Assets</b>								
Property, Plant and Equipment	546,577,780	-	546,577,780	546,577,780	527,480,222	(19,097,558)	96.51	96.51
Intangible Assets	1,550,000	150,000	1,700,000	1,700,000	205,779	(1,494,221)	12.10	13.28
Investment Property	2,060,899	-	2,060,899	2,060,899	2,060,899	-	100.00	100.00
<b>Total Assets</b>	<b>632,591,618</b>	<b>(3,519,621)</b>	<b>629,071,997</b>	<b>629,071,997</b>	<b>567,219,475</b>	<b>(61,852,522)</b>	<b>90.17</b>	<b>89.67</b>
<b>Current Liabilities</b>								
Consumer Deposits	906,000	-	906,000	906,000	813,266	(92,734)	89.76	89.76
Provisions	961,006	-	961,006	961,006	1,004,441	43,435	104.52	104.52
Payables	21,000,000	(3,669,621)	17,330,379	17,330,379	16,062,667	(1,267,712)	92.69	76.49
Unspent Conditional Grants and Receipts	-	-	-	-	15,690,173	15,690,173	0.00	0.00
VAT Payable	3,500,000	-	3,500,000	3,500,000	8,478,085	4,978,085	242.23	242.23
Current Portion of Long-term Liabilities	800,000	-	800,000	800,000	1,048,223	248,223	131.03	131.03
<b>Non-Current Liabilities</b>								
Long-term Liabilities	979,000	-	979,000	979,000	2,309,503	1,330,503	235.90	235.90
Employee Benefit Liability	12,515,345	-	12,515,345	12,515,345	12,434,224	(81,121)	99.35	99.35
Non-current Provisions	12,392,910	-	12,392,910	12,392,910	4,307,465	(8,085,445)	34.76	34.76
<b>Total Liabilities</b>	<b>53,054,261</b>	<b>(3,669,621)</b>	<b>49,384,640</b>	<b>49,384,640</b>	<b>62,148,047</b>	<b>12,763,408</b>	<b>125.84</b>	<b>117.14</b>
<b>Total Assets and Liabilities</b>	<b>579,537,357</b>	<b>150,000</b>	<b>579,687,357</b>	<b>579,687,357</b>	<b>505,071,428</b>	<b>(74,615,929)</b>	<b>87.13</b>	<b>87.15</b>
<b>Net Assets (Equity)</b>								
Accumulated Surplus / (Deficit)	579,537,357	150,000	579,687,357	579,687,357	505,071,428	(74,615,931)	87.13	87.15
<b>Total Net Assets</b>	<b>579,537,357</b>	<b>150,000</b>	<b>579,687,357</b>	<b>579,687,357</b>	<b>505,071,428</b>	<b>(74,615,931)</b>	<b>87.13</b>	<b>87.15</b>



Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R		R	R	R	R	R
<b>FINANCIAL PERFORMANCE</b>								
<b>Revenue from Non-exchange Transactions</b>								
Property Rates	8,741,895	-	8,741,895	8,741,895	8,591,233	(150,662)	98.28	98.28
Property Rates - Penalties imposed and collection charges	216,112	73,888	290,000	290,000	289,933	(67)	99.98	134.16
Fines	5,585,876	-	5,585,876	5,585,876	24,053	(5,561,823)	0.43	0.43
Licences and Permits	2,532,982	129,376	2,662,358	2,662,358	-	(2,662,358)	0.00	0.00
Government Grants and Subsidies Received	40,925,200	(85,000)	40,840,200	40,840,200	48,661,952	7,821,752	119.15	118.90
<b>Revenue from Exchange Transactions</b>								
Service Charges	65,571,847	699,753	66,271,600	66,271,600	42,021,064	(24,250,536)	63.41	64.08
Rental of Facilities and Equipment	938,146	(623,938)	314,208	314,208	356,565	42,357	113.48	38.01
Interest Earned - External Investments	422,000	138,000	560,000	560,000	453,176	(106,824)	80.92	107.39
Interest Earned - Outstanding Debtors	2,046,979	195,093	2,242,072	2,242,072	2,513,333	271,261	112.10	122.78
Other Income	5,256,025	9,940	5,265,965	5,265,965	7,182,020	1,916,055	136.39	136.64
<b>Total Revenue</b>	<b>132,237,062</b>	<b>537,112</b>	<b>132,774,174</b>	<b>132,774,174</b>	<b>110,093,329</b>	<b>(22,680,845)</b>	<b>82.92</b>	<b>83.25</b>
<b>Expenditure</b>								
Employee Related Costs	47,215,689	(1,236,788)	45,978,901	45,978,901	38,985,218	(6,993,683)	84.79	82.57
Remuneration of Councillors	3,246,332	214,457	3,460,789	3,460,789	3,428,913	(31,876)	99.08	105.62
Depreciation and Amortisation	29,406,915	35,289	29,442,204	29,442,204	27,823,095	(1,619,109)	94.50	94.61
Impairment Losses	6,194,054	5,194,202	11,388,256	11,388,256	11,388,516	260	100.00	183.86
Repairs and Maintenance	3,721,980	-	3,721,980	3,721,980	3,164,345	(557,635)	85.02	85.02
Finance Costs	310,000	(80,000)	230,000	230,000	1,971,973	1,741,973	857.38	636.12
Bulk Purchases	22,962,421	-	22,962,421	22,962,421	22,917,001	(45,420)	99.80	99.80
General Expenses	40,352,459	(2,235,087)	38,117,372	38,117,372	19,800,048	(18,317,324)	51.94	49.07
Loss on Disposal of Property, Plant and Equipment	20,000	-	20,000	20,000	1,107,186	1,087,186	5,535.93	5,535.93
<b>Total Expenditure</b>	<b>153,429,850</b>	<b>1,892,073</b>	<b>155,321,923</b>	<b>155,321,923</b>	<b>130,586,294</b>	<b>(24,735,629)</b>	<b>84.07</b>	<b>85.11</b>
<b>Surplus/(Deficit)</b>	<b>(21,192,788)</b>	<b>(1,354,961)</b>	<b>(22,547,749)</b>	<b>(22,547,749)</b>	<b>(20,492,965)</b>	<b>2,054,784</b>	<b>90.89</b>	<b>96.70</b>
Transfers Recognised - Capital	28,090,800	1,685,000	29,775,800	29,775,800	18,821,203	(10,954,597)	63.21	67.00
<b>Surplus/(Deficit) after Capital Transfers and Contributions</b>	<b>6,898,012</b>	<b>330,039</b>	<b>7,228,051</b>	<b>7,228,051</b>	<b>(1,671,762)</b>	<b>(8,899,813)</b>	<b>0.00</b>	<b>0.00</b>
<b>Surplus/(Deficit for the Year)</b>	<b>6,898,012</b>	<b>330,039</b>	<b>7,228,051</b>	<b>7,228,051</b>	<b>(1,671,762)</b>	<b>(8,899,813)</b>	<b>-</b>	<b>-</b>
<b>CAPITAL EXPENDITURE PER FUNCTION</b>								
Finance & Admin	1,550,000	507,210	2,057,210	2,057,210	2,966,509	909,299	144.20	191.39
Community Services	-	-	-	-	4,690,515	4,690,515	0.00	0.00
Technical Services	28,090,800	-	29,690,800	29,690,800	18,722,443	(10,968,357)	63.06	66.65
<b>Total Sources of Capital Funds</b>	<b>29,640,800</b>	<b>507,210</b>	<b>31,748,010</b>	<b>31,748,010</b>	<b>26,379,467</b>	<b>(5,368,543)</b>	<b>83.09</b>	<b>89.00</b>

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R		R	R	R	R	R
<b>CASH FLOW</b>								
<b>Cash Flows from/(used in) Operating Activities</b>								
Property Rates	8,958,006	(216,112)	8,741,894	8,741,894	8,241,550	(500,344)	94.28	92.00
Grants	69,016,000	1,600,000	70,616,000	70,616,000	73,362,426	2,746,426	103.89	106.30
Service Charges	57,167,450	(1,657,278)	55,510,172	55,510,172	25,429,513	(30,080,659)	45.81	44.48
Interest Received	2,468,979	333,093	2,802,072	2,802,072	2,966,509	164,437	105.87	120.15
Other Receipts	14,313,029	(484,622)	13,828,407	13,828,407	10,573,690	(3,254,717)	76.46	73.87
Employee Related Costs	(58,651,625)	497,820	(58,153,805)	(58,153,805)	(39,449,466)	18,704,339	67.84	67.26
Remuneration of Councillors	(3,428,913)	-	(3,428,913)	(3,428,913)	(3,428,913)	-	100.00	100.00
Interest Paid	(310,000)	80,000	(230,000)	(230,000)	(1,152,249)	(922,249)	500.98	371.69
Suppliers Paid	(45,881,393)	-	(45,881,393)	(45,881,393)	(52,614,599)	(6,733,205)	114.68	114.68
Other Payments	(9,536,950)	2,759,598	(6,777,352)	(6,777,352)	(734,718)	6,042,634	10.84	7.70
<b>Cash Flows from/(used in) Investing Activities</b>								
Purchase of Property, Plant and Equipment	(29,640,800)	(2,107,210)	(31,748,010)	(31,748,010)	(26,174,792)	5,573,218	82.45	88.31
Purchase of Intangible Assets	-	-	-	-	(188,637)	(188,637)	0.00	0.00
<b>Cash Flows from/(used in) Financing Activities</b>								
Increase (decrease) in consumer deposits	145,000	-	145,000	145,000	-	(145,000)	0.00	0.00
Increase (decrease) in finance leases					1,631,000	1,631,000	0.00	
Loans repaid	(800,000)	-	(800,000)	(800,000)	(770,469)	29,531	96.31	96.31
<b>Cash and Cash Equivalents at End of the Year</b>	<b>3,818,783</b>	<b>805,289</b>	<b>4,624,072</b>	<b>4,624,072</b>	<b>(2,133,952)</b>	<b>(6,758,024)</b>	<b>0.00</b>	<b>0.00</b>

**Financial Position: Explanation of Variances between Approved Budget and Actual**

Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Position are explained below:

Receivables from Exchange Transactions

{The collection rate decreased resulting that the outstanding debt increased, contributed in an increase in debt impairment}

Cash and Cash Equivalents:

{A withdrawal of about R 5 619 604 was made in October. The cash and cash equivalents were not adjusted because we expected to receive about R 5 000 000 through a sale of land which has not materialized yet.}

Operating Lease Receivables:

{We didn't budget for this line item as the contracts were not renewed}

Intangible Assets:

{We planned to make the first payment of the acquisition of the new system before the end of June but unfortunately the service provider that we initially had an agreement with decided not to go through with the deal and made an agreement with another service provider to provide us with another financial system that is mSCOA compliant.}

Consumer Deposits:

{Tenants terminated their accounts and the services went back to the owner's account.}

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R		R	R	R	R	R
Unspent Conditional Grants and Receipts:								
<p>{Initially the Department of Sports, Arts and Culture wanted to implement the project then later relegated the responsibility to the municipality to implement the project. There was also a change of scope from an indoor sports complex to an outdoor sports complex. The MIG approval letter for the sport ground was only received in May 2017, therefore the municipality could only spend on the MIG allocation funds in May and June 2017. On the New Oubox Arterial Streets project, the PSP took longer to complete the evaluation report, due to a bigger number of tenders that showed interest in the project. The municipality could not appoint the contractor on the anticipated time therefore no expenditure could be made for to the contractor as planned. The contractor was only appointed in April 2017 to commence with the work in May 2017.}</p>								
VAT Payable:								
<p>{Outstanding debt increased due to a low collection rate which resulted in an increase to the Vat Payable.}</p>								
Long-term Liabilities								
<p>{Management did not budget for the new telephone system that was acquired through a finance lease}</p>								
Non-Current Provisions								
<p>{Management did not adjust this line item after the correction done at the 2016 audit, which resulted in a decrease in the provision}</p>								
<b>Financial Performance: Explanation of Variances between Approved Budget and Actual</b>								
<p>For reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Statement of Financial Performance, are as follow:</p>								
<p>Fines: Management budgeted for this under Fines, but the actual amount was reallocated to Other Income as disclosed as commission to comply with GRAP 9</p>								
<p>Licenses and permits: Management budgeted for this under Fines, but the actual amount was reallocated to Other Income as disclosed as commission to comply with GRAP 9</p>								
<p>Service Charges: This is a result of customers who are tempering with their Electricity meters as it can be witnessed in the increase of distribution losses. There's also a lot of water which is unaccounted for as the amount of water billed decreased this year as compared to the previous financial year. Management did also not account for the "own consumption" that was allocated to this line item, which decrease the actual amount disclosed.</p>								
<p>Rental of Facilities and Equipment: The budget was adjusted downwards during the adjustment budget due to low income from rental facilities, unfortunately the income increased during the last couple of months of the financial year.</p>								
<p>Interest Earned - External Investments: As a result of the withdrawal in investments and the sale that didn't realise in this financial year, the expected interest income decreased.</p>								
<p>Interest Earned - Outstanding Debtors: Outstanding Debtors: Due to the decrease in the collection rate, interest on outstanding debtors increased.</p>								
<p>Other Income: Management did not include the reallocation of the commission on fines and Licenses and Permits</p>								
<p>Employee Related Costs: This is a result of vacant positions that were not filled and a few resignations during the financial year.</p>								
<p>Repairs and Maintenance: Repairs on buildings was less than expected as well as maintenance on the sewerage network</p>								
<p>Finance Costs: Management did not budget for the increase in finance leases. Furthermore management, did not include the interest portion for landfill sites and Post retirement obligation under this line item</p>								
<p>General Expenses: Management did not account for the Indigent support amount that was allocated under service charges as revenue forgone. Other items that contributed to the variance was traffic TVS payments and marketing of the municipality's brand</p>								
<p>Loss on Disposal of Property, Plant and Equipment: Some assets could not be verified during the assets verification therefore the amount of loss was more than the budgeted amount.</p>								
<b>Capital Expenditure per Function: Explanation of Variances between Approved Budget and Actual</b>								
<p>For reasons for Variances greater than 10% between Approved Budget and Actual Amount, are as follow:</p>								
<p>Finance &amp; Admin: Management bought a new telephone system which was not included in the budget</p>								
<p>Community Services: The allocation received from MIG was for two projects, but we didn't split the allocation while preparing the budget as we received the letter detailing the split very late and management completely forgot to split it during the adjustment budget as well.</p>								

Description	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R		R	R	R	R	R
<p>Technical Services: Initially the Department of Sports, Arts and Culture wanted to implement the project then later relegated the responsibility to the municipality to implement the project. There was also a change of scope from an indoor sports complex to an outdoor sports complex. The MIG approval letter for the sport ground was only received in May 2017, therefore the municipality could only spend on the MIG allocation funds in May and June 2017. On the New Oubox Arterial Streets project, the PSP took longer to complete the evaluation report, due to a bigger number of tenders that showed interest in the project. The municipality could not appoint the contractor on the anticipated time therefore no expenditure could be made for to the contractor as planned. The contractor was only appointed in April 2017 to commence with the work in May 2017.</p>								
<p><b>Cash Flow: Explanation of Variances between Approved Budget and Actual</b></p> <p>Reasons for Variances greater than 10% between Approved Budget and Actual Amount on the various items disclosed in the Cash Flow Statement are explained below:</p> <p>Proper procedures to budget for Cash Flow have not been developed and implemented. Furthermore, the system utilised does not carry budget for Cash Flow and no budgetary control can be performed.</p> <p>Service Charges</p> <p>This is a result of customers who are tempering with their Electricity meters as it can be witnessed in the increase of distribution losses. There's also a lot of water which is unaccounted for as the amount of water billed decreased this year as compared to the previous financial year. Management did also not account for the "own consumption" that was allocated to this line item, which decrease the actual amount disclosed.</p> <p>Other Receipts</p> <p>Management did not include the reallocation of the commission on fines and Licenses and Permits</p> <p>Employee Related Costs</p> <p>This is a result of vacant positions that were not filled and a few resignations during the financial year.</p> <p>Interest Paid</p> <p>Management did not budget for the increase in finance leases. Furthermore management, did not include the interest portion for landfill sites and Post retirement obligation under this line item</p> <p>Purchase of Property, Plant and Equipment</p> <p>Spending was less due to timing issues on the sports ground project</p> <p>Purchase of Intangible Assets</p> <p>Management accidentally did not include an amount under this line item</p> <p>Increase (decrease) in consumer deposits</p> <p>Management incorrectly budgeted for this item</p> <p>Increase (decrease) in finance leases</p> <p>Management accidentally did not include the new finance lease for the year</p>								

**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. BASIS OF PRESENTATION**

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), as approved by the Minister of Finance, including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

**1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY**

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2014 and 30 June 2015 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flow.

**1. 2 CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS**

In the application of the municipality's accounting policies, which are described below, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments and estimations that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

**1. 2. 1 Revenue Recognition**

Accounting Policy 11.2 on *Revenue from Exchange Transactions* and Accounting Policy 11.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgment, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from non-exchange transactions. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

**1. 2. 2 Financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is based on judgment by management. Accounting Policy 8.1 on *Financial Assets Classification* and Accounting Policy 8.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgment, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: *Financial Instruments*.

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015

1. **BASIS OF PRESENTATION (continued)**

1. 2 **CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)**

1. 2. 3 ***Impairment of Financial Assets***

Accounting Policy 8.4 on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments* and used its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness.

This was performed per service-identifiable categories across all classes of debtors. The total increase in estimation of the impairment of trade and other receivables from exchange transactions amounted to R10 041 294 and that of trade and other receivable from non exchange transactions to R1 032 137

1. 2. 4 ***Useful lives of Property, Plant and Equipment, Intangible assets and Investment property***

As described in Accounting Policies 3.3. 5 and 6 the municipality depreciates / amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets is based on management's judgment as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

The municipality has opted to early adopt the changes to GRAP 17: Property, Plant and Equipment as evident from Exposure Draft 126. Therefore, the useful lives and residual values of items of Property, Plant and Equipment, Intangible Assets and Investment Property shall only be amended if there has been any indicators that require such change to be made.

1. 2. 5 ***Impairment: Write down of Property, Plant and Equipment, Investment property, Intangible assets, Heritage assets and Inventories***

Accounting Policy 7 on *Impairment of assets* and Accounting Policy 5.2 on *Intangible assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 9.2 on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgments are made relating to PPE impairment testing, Intangible assets impairment testing and write down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgment, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Cash generating Assets and GRAP 26: Impairment of non-Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgment by management. During the year the estimated impairments to Property, plant and equipment amounted to R315 083, whilst no impairments were made to intangible assets or inventory.

1. 2. 6 ***Water inventory***

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, where the level indicates the depth of the water in the reservoir, which is then converted into volumes based on the total capacity of the relevant reservoir. Furthermore the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end. Refer to Note 9.2 of the accounting policy to the Annual Financial Statements.

1. 2. 7 ***Defined Benefit Plan Liabilities***

As described in Accounting Policy 13, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 19. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in Notes 17 and 18 to the Annual Financial Statements.

**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. BASIS OF PRESENTATION (continued)**

**1. 2 CRITICAL JUDGMENTS, ESTIMATIONS AND ASSUMPTIONS (continued)**

**1. 2. 8 Provisions and contingent liabilities**

**Provision for Rehabilitation of Refuse Landfill Sites**

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. The cost factors as determined have been applied and projected at an inflation rate of 6% (2016: 6%) and discounted to the present value:

a) For landfill sites with the remaining operating life of 15 years, were aligned to the yield of South African Government bonds with a similar maturity date i.e. 9.96% (2016:9.83%)

**1. 2. 9 Budget information**

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements

**1. 3 PRESENTATION CURRENCY**

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

**1. 4 GOING CONCERN ASSUMPTION**

The Annual Financial Statements have been prepared on a going concern basis.

**1. 5 OFFSETTING**

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

**1. 6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

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

GRAP 18 Segment Reporting - issued March 2005  
GRAP 20 Related Party Disclosures (Revised)  
GRAP 32 Service Concession Arrangement Grantor  
GRAP 108 Statutory Receivables  
IGRAP 17 Service Concession Arrangements where a Grantor controls a significant Residual Interest in an Asset  
Directive 12 The Selection of an Appropriate Reporting Framework by Public Entities

The Minister of Finance announced that the application of GRAP 25 will be effective for the period starting after 1 April 2013. All other standards as listed above will only be effective when a date is announced by the Minister of Finance.

The ASB Directive 5 paragraph 29 sets out the principles for the application of the GRAP 3 guidelines in the determination of the GRAP Reporting Framework hierarchy, as set out in the standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet in effect, an entity may select to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph .12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The Municipality applied the principles established in the following Standards of GRAP that have been issued, but is not yet in effect, in developing an appropriate accounting policies dealing with the following transactions, but have not early adopted these Standards:  
Related Parties - GRAP 20

**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. BASIS OF PRESENTATION (continued)**

**1. 6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)**

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

**GRAP 18 - Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management. Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

Requires additional disclosures on the various segments of the business in a manner that is consistent with the information reported internally to management of the entity. The precise impact of this on the financial statements of the Municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting. This standard does not yet have an effective date.

**GRAP 20 – Related party disclosures**

The effective date of the standard has not been determined yet. The standard of GRAP on related parties will replace the IPSAS 20 standard on related party disclosure currently used. No significant impact on the financial statements of the Municipality is expected.

**GRAP 105 – Transfer of Function Between Entities Under common Control**

This standard provides the accounting treatment for transfers of functions between entities under common control. However the impact on the Municipality's financial statements is not expected to be significant due to the fact that the Municipality rarely enters into such transactions. The standard is only expected to have an impact on the Municipality in respect of any future transfers of functions. This standard does not yet have an effective date.

**GRAP 106 – Transfer of Function Between Entities Not Under common Control**

This standard deals with other transfers of functions (i.e. between entities not under common control) and requires the entity to measure transferred assets and liabilities at fair value. It is unlikely that the Municipality will enter into any such transactions in the near future. This standard does not yet have an effective date.

**GRAP 107 – Mergers**

This standard deals with requirements for accounting for a merger between two or more entities, and is unlikely to have an impact on the financial statements of the Municipality in the foreseeable future. This standard does not yet have an effective date.

**2. ACCUMULATED SURPLUS**

Included in the accumulated surplus of the municipality, are the following reserves that are maintained in terms of specific requirements:

**2. 1. 1 Capital replacement reserve (CRR)**

In order to finance the provision of infrastructure and other property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the investment policy of the Entity.
  - The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment, and may not be used for the maintenance of these items.
  - Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR, and the accumulated surplus is credited by a corresponding amount.
  - If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance, and is then transferred via the Statement of Changes in Net Assets to the CRR, provided that it is cash backed.
- Profit on the sale of land is not transferred to the CRR, as it is regarded as revenue.



**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**3. PROPERTY, PLANT AND EQUIPMENT**

**3. 1 Initial Recognition**

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 year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

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

**3. 2 Subsequent Measurement**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, excluding land and building and including for Infrastructure Assets, are measured at cost, less accumulated depreciation and accumulated impairment losses.

**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**3. PROPERTY, PLANT AND EQUIPMENT (continued)**

**3. 2 Subsequent Measurement (continued)**

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

**3. 3 Depreciation**

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. 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 shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

	<b>Years</b>		<b>Years</b>
<b><i>Infrastructure</i></b>		<b><i>Buildings</i></b>	<b><i>20 - 25</i></b>
Roads and Paving	10 - 15		
Electricity	5 - 50	<b><i>Other</i></b>	
Water	15 - 100	Specialist Vehicles	1 - 5
Sewerage	15 - 60	Other Vehicles	1 - 5
Landfill Sites	23 - 25	Office Equipment	3 - 7
		Furniture and Fittings	7 - 10
<b><i>Community</i></b>		Plant and Equipment	2 - 10
Recreational Facilities	20 - 25		

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

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.

**3. 4 Incomplete Construction Work**

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

**3. 5 Finance Leases**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

**3. 6 Land**

Land is not depreciated as it is deemed to have an indefinite useful life.

**3. 7 Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

**3. 8 Derecognition of property, plant and equipment**

The carrying amount of an item of property, plant and equipment is derecognised 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 an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**4. Heritage Assets**

An heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

**4. 1 Initial Recognition**

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

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

**4. 2 Subsequent Measurement**

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets are measured at cost, less accumulated impairment losses. Heritage assets are not depreciated.

**4. 3 Derecognition of Heritage assets**

The carrying amount of an item of heritage assets is derecognised 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 an item of heritage assets is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of heritage assets.

**Transitional provisions**

The municipality utilised the transitional provisions under Directive 4, which allows 3 year for the measurement of heritage assets.

**5. INTANGIBLE ASSETS**

**5. 1 Initial Recognition**

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**5. INTANGIBLE ASSETS (Continued)**

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with GRAP 21 / GRAP 26.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

**5. 2 Subsequent Measurement, Amortisation and Impairment**

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 102, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The useful lives per category of intangible assets are detailed below:

	<b>Years</b>
<b><i>Intangible asset</i></b>	
Software	3-Indefinite
Website	5

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

**5. 3 Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**5. INTANGIBLE ASSETS (continued)**

**Transitional provisions**

Intangible assets recognised in terms of GRAP 102 have been presented for the financial year ended 30 June 2013 (and retrospectively where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 4.

**6. INVESTMENT PROPERTY**

**6. 1 Initial Recognition**

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

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

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

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

**6. 2 Subsequent Measurement - Fair Value Model**

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined by external valuers at the date of the last general valuation (30 July 2013). Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

**6. 3 Derecognition**

An investment property shall be derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

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**7. IMPAIRMENT OF ASSETS**

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

**7. 1. Impairment of Cash generating assets**

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

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

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset"

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

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

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

**7. 2 Impairment of Non-Cash generating assets**

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

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

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

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

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

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

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

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

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**7. IMPAIRMENT OF ASSETS (continued)**

**7. 2 Impairment of Non-Cash generating assets (continued)**

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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

**8. FINANCIAL INSTRUMENTS**

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or residual interests in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

**Initial recognition**

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument

The Entity does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Fair value methods and assumptions**

The fair values of financial instruments are determined as follows:

The fair values of quoted investments are based on current bid prices.

If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**The effective interest rate method**

**Amortised cost**

**8. 1 Financial Assets - Classification**

A financial asset is any asset that is a cash or contractual right to receive cash.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial asset at amortised cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Financial asset at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Financial assets measured at fair value are financial assets that meet either of the following conditions:

- (a) derivatives;
- (b) combined instruments that are designated at fair value
- (c) instruments held for trading.
- (d) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- (e) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Financial assets measured at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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**8. FINANCIAL INSTRUMENTS (continued)**

**8. 1 Financial Assets - Classification (continued)**

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial asset at amortised cost
Bank Balances and Cash	Financial asset at amortised cost
Long-term Receivables	Financial asset at amortised cost
Consumer Debtors	Financial asset at amortised cost
Other Debtors	Financial asset at amortised cost
Investments in Fixed Deposits	Financial asset at amortised cost

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

**8. 2 Financial Liabilities - Classification**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

There are three main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured at:

- (i) Financial liabilities measured at fair value or
- (ii) Financial liabilities measured at amortised cost
- (iii) Financial liabilities measured at cost

The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Liabilities	Classification in terms of GRAP 104
Long term Liabilities	Financial liability at amortised cost
Other Creditors	Financial liability at amortised cost
Bank overdraft	Financial liability at amortised cost
Short-term Loans	Financial liability at amortised cost
Current portion of Long-Term Liabilities	Financial liability at amortised cost

Financial liabilities that are measured at fair value financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

**8. 3 Initial and Subsequent Measurement**

**8. 3. 1 Financial Assets:**

*Financial asset at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis. .*

*Financial Assets measured at fair value are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.*



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**8. FINANCIAL INSTRUMENTS (continued)**

**8. 3 Initial and Subsequent Measurement (continued)**

**8. 3. 2 Financial Liabilities:**

**Financial liabilities measured at fair value**

Financial liabilities measured at fair value are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

**Financial Liabilities measured at amortised cost**

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Prepayments are carried at cost less any accumulated impairment losses.

**8. 4 Impairment of Financial Assets**

Financial assets, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

**Financial assets carried at amortised cost**

Accounts receivables encompasses long term debtors, consumer debtors and other debtors.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of accounts receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

**Impairment of Financial Assets measured at cost**

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

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**8. FINANCIAL INSTRUMENTS (continued)**

**8. 5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**8. 6 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

The municipality recognises the difference between the carrying amount of the 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, in the Statement of Financial Performance.

**9. INVENTORIES**

**9. 1 Initial Recognition**

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

**9. 2 Subsequent Measurement**

**Consumable stores, raw materials, work-in-progress and finished goods**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an entity expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

**Water inventory**

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

**Unsold properties**

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

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**9. INVENTORIES (continued)**

**9. 2 Subsequent Measurement (continued)**

**Redundant and slow-moving inventories**

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

**10. NON-CURRENT ASSETS HELD-FOR-SALE**

**10. 1 Initial Recognition**

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**10. 2 Subsequent Measurement**

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

The gain or loss on the eventual sale of non-current assets held for sale is included in the Statement of Financial Performance as gain or loss on sale of assets. The gain or loss on the eventual sale of non-current assets held for sale, is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset or the disposal group.

**11. REVENUE RECOGNITION**

**11. 1 General**

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

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

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

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**11. REVENUE RECOGNITION (continued)**

**11. 2 Revenue from Exchange Transactions**

**11. 2. 1 Service Charges**

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

**11. 2. 2 Pre-paid Electricity**

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made in the last month of the financial year are recognised as an unutilised portion based on an estimate of the prepaid electricity consumed as at the reporting date.

**11. 2. 3 Finance income**

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on trust funds is allocated directly to the fund.
- Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

**11. 2. 4 Tariff Charges**

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

**11. 2. 5 Income from Agency Services**

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

**11. 2. 6 Sale of Goods (including Houses)**

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

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

**11. 2. 7 Rentals**

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

**11. 2. 8 Dividends**

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

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**11. REVENUE RECOGNITION (continued)**

**11. 3 Revenue from Non-exchange Transactions**

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

**11. 3. 1 Rates and Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

**11. 3. 2 Fines**

Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the entity and the amount of the revenue can be measured reliably.

Fines consist of spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

An estimate is made for revenue from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue is recognised based on all fines issued for that current financial year..

**11. 3. 3 Public contributions**

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired in non-exchange transactions are measured at fair value in accordance with the Standards of GRAP.

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**11. REVENUE RECOGNITION (continued)**

**11. 3 Revenue from Non-exchange Transactions (continued)**

**11. 3. 4 Government Grants and receipts**

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

**Conditional Grants and receipts**

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

**11. 3. 5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

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

**12. PROVISIONS**

Provisions for environmental restoration, rehabilitation, restructuring costs and legal claims are recognised when the municipality has a present legal or constructive obligation as a result of past events, 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 best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

**13. EMPLOYEE BENEFITS**

**13. 1 Short-term Employee Benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

UMSOBOMVU LOCAL MUNICIPALITY

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

**13. EMPLOYEE BENEFITS (continued)**

**13. 2 Post employment benefits**

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

**13. 2 1 Defined Contribution Plans**

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**13. 3 Defined Benefit Plans**

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

**13. 3. 1 Post-retirement Health Care Benefits:**

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in the Statement of Financial Performance.

**13. 3. 2 Long-service Allowance**

The municipality has an obligation to provide Long-service Allowance 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.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the "corridor method". Actuarial gains and losses are eligible for recognition in the Statement of Financial Performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**14. LEASES**

**Lease Classification**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases of property, plant and equipment, in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

**14. 1 The Municipality as Lessee**

**Finance leases**

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

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

**Operating leases**

The municipality recognises operating lease rentals as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**14. 2 The Municipality as Lessor**

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

**14. 3 Determining whether an arrangement contains a lease**

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

**15. BORROWING COSTS**

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2013 in accordance with the requirements of GRAP 5. To the extent that an entity borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the entity shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that an entity capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

The municipality ceases to capitalise borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use has been completed. Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the entity shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.



**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**16. GRANTS-IN-AID**

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

**17. VALUE ADDED TAX**

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

**18. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). 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. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**19. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**20. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. 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. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**21. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 35 for details of changes in accounting policies.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 36 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

**22. 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. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

**23. 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.

**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**24. FOREIGN CURRENCIES**

Transactions in foreign currencies are translated to the functional currency of the entity at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost or fair value in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in surplus or deficit.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Cash flows arising from transactions in a foreign currency are recorded in Rand's by applying, to the foreign currency amount, the exchange rate between the Rand and the foreign currency at the date of the cash flow.

**25. COMPARATIVE INFORMATION**

**25. 1 Prior year comparatives**

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

**25. 2 Budget Information**

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or underspending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan. The budget is approved on an accrual basis by nature classification. The approved budget covers the period from 1 July 2016 to 30 June 2017.

**26. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

**27. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES**

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

**28. CAPITAL COMMITMENTS**

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

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

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>1. GENERAL INFORMATION</b>		
<p>Umsobomvu Local Municipality (the municipality) is a local government institution in Colesberg, Noupoort and Norvalspont, Northern Cape Province, and is one of eight local municipalities under the jurisdiction of the Pixley ka Seme District Municipality. The addresses of its registered office and principal place of business are Chruch Street, Colesberg. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).</p>		
<b>2. INVENTORIES</b>		
Property Stock	370,300	370,300
Water - at cost	67,105	39,548
<b>Total Inventories</b>	<b>437,405</b>	<b>409,848</b>

Inventories are held for own use and measured at the lower of Cost and Current Replacement Cost. No write downs of Inventory to Net Realisable Value were required.

The cost of water production for the year amounted to R5.84 per kilolitre (2016: R4.21 per kilolitre).

No Inventories have been pledged as collateral for Liabilities of the municipality.

**3. RECEIVABLES FROM EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2017</b>			
Service Debtors:	110,465,150	94,677,991	15,787,159
Electricity	8,099,932	2,891,385	5,208,547
Refuse	28,002,291	26,214,442	1,787,848
Sewerage	23,877,253	21,184,889	2,692,364
Water	50,485,675	44,387,275	6,098,400
Other Receivables	2,603,168	2,462,086	141,081
Other Consumer Services	2,603,168	2,462,086	141,081
<b>Total Receivables from Exchange Transactions</b>	<b>113,068,318</b>	<b>97,140,077</b>	<b>15,928,241</b>
<b>As at 30 June 2016</b>			
Service Debtors:	93,943,586	83,614,328	10,329,258
Electricity	7,985,976	3,223,931	4,762,045
Refuse	23,737,334	22,724,494	1,012,840
Sewerage	19,281,282	17,711,200	1,570,082
Water	42,938,994	39,954,702	2,984,292
Other Receivables	2,464,912	2,384,048	80,863
Other Debtors	2,464,912	2,384,048	80,863
<b>Total Receivables from Exchange Transactions</b>	<b>96,408,498</b>	<b>85,998,376</b>	<b>10,410,122</b>

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and Receivables as well as the current payment ratios of the municipality's Receivables.

Receivables from Exchange Transactions are billed monthly, latest end of month. No interest is charged on Receivables until the end of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Receivables.

Other Receivables include outstanding debtors for various other services, e.g. Arrangements, Deposits, Housing, Interest, Rentals and Sundry Services like Garden Refuse, Sanitation Bags, etc.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017  
R

2016  
R

**3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)**

Before accepting any new consumer, the municipality uses an external credit scoring system to assess the potential consumer's credit quality and defines credit limits by consumer. Limits and scoring attributed to consumers are reviewed twice a year. 80% of the Receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the municipality.

The municipality receives applications that it processes. Deposits are required to be paid for all electricity and water accounts opened. There are no consumers who represent more than 5% of the total balance of Receivables.

At 30 June 2017, the municipality is owed R4,691,313 (30 June 2016: R5,527,240) by National and Provincial Government.

The municipality did not pledge any of its Receivables as security for borrowing purposes.

**3.1 Ageing of Receivables from Exchange Transactions**

As at 30 June 2017

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Electricity:</b>					
Gross Balances	2,787,850	596,076	332,785	4,383,221	8,099,932
Less: Provision for Impairment	43,202	44,519	37,343	2,766,320	2,891,385
<b>Net Balances</b>	<b>2,744,648</b>	<b>551,557</b>	<b>295,442</b>	<b>1,616,901</b>	<b>5,208,547</b>
<b>Refuse:</b>					
Gross Balances	463,424	382,488	372,567	26,783,812	28,002,291
Less: Provision for Impairment	313,002	316,832	322,327	25,262,281	26,214,442
<b>Net Balances</b>	<b>150,422</b>	<b>65,656</b>	<b>50,240</b>	<b>1,521,531</b>	<b>1,787,848</b>
<b>Sewerage:</b>					
Gross Balances	656,703	509,990	480,870	22,229,691	23,877,253
Less: Provision for Impairment	311,599	316,242	319,368	20,237,679	21,184,889
<b>Net Balances</b>	<b>345,104</b>	<b>193,747</b>	<b>161,501</b>	<b>1,992,011</b>	<b>2,692,364</b>
<b>Water:</b>					
Gross Balances	2,689,435	939,786	834,273	46,022,181	50,485,675
Less: Provision for Impairment	690,697	622,361	573,251	42,500,965	44,387,275
<b>Net Balances</b>	<b>1,998,738</b>	<b>317,424</b>	<b>261,022</b>	<b>3,521,216</b>	<b>6,098,400</b>
<b>Other Receivables:</b>					
Gross Balances	8,410	14,959	13,827	2,565,971	2,603,168
Less: Provision for Impairment	10,830	11,064	10,928	2,429,264	2,462,086
<b>Net Balances</b>	<b>(2,420)</b>	<b>3,895</b>	<b>2,899</b>	<b>136,707</b>	<b>141,081</b>

As at 30 June Receivables of R10,691,749 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>				
Gross Balances	2,443,298	2,034,321	101,984,876	106,462,495
Less: Provision for Impairment	1,311,019	1,263,217	93,196,510	95,770,747
<b>Net Balances</b>	<b>1,132,279</b>	<b>771,104</b>	<b>8,788,366</b>	<b>10,691,749</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017  
R

2016  
R

**3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)**

As at 30 June 2016

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Electricity:</b>					
Gross Balances	2,844,612	468,254	386,535	4,286,576	7,985,977
Less: Provision for Impairment	69,936	68,835	102,563	2,982,597	3,223,931
<b>Net Balances</b>	<b>2,774,676</b>	<b>399,419</b>	<b>283,972</b>	<b>1,303,979</b>	<b>4,762,046</b>
<b>Refuse:</b>					
Gross Balances	421,149	362,694	345,003	22,608,488	23,737,334
Less: Provision for Impairment	304,048	301,791	301,925	21,816,730	22,724,494
<b>Net Balances</b>	<b>117,101</b>	<b>60,903</b>	<b>43,078</b>	<b>791,758</b>	<b>1,012,840</b>
<b>Sewerage:</b>					
Gross Balances	586,102	460,179	392,397	17,842,605	19,281,283
Less: Provision for Impairment	301,539	298,203	298,829	16,812,630	17,711,201
<b>Net Balances</b>	<b>284,563</b>	<b>161,976</b>	<b>93,568</b>	<b>1,029,975</b>	<b>1,570,082</b>
<b>Water:</b>					
Gross Balances	2,956,746	1,013,615	792,532	38,176,101	42,938,994
Less: Provision for Impairment	2,653,333	750,348	670,896	35,880,126	39,954,703
<b>Net Balances</b>	<b>303,413</b>	<b>263,267</b>	<b>121,636</b>	<b>2,295,975</b>	<b>2,984,291</b>
<b>Other Receivables:</b>					
Gross Balances	12,152	14,024	13,798	2,424,938	2,464,912
Less: Provision for Impairment	12,044	12,019	11,883	2,348,103	2,384,049
<b>Net Balances</b>	<b>108</b>	<b>2,005</b>	<b>1,915</b>	<b>76,835</b>	<b>80,863</b>

As at 30 June Receivables of R6,930,261 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>				
Gross Balances	2,318,766	1,930,265	85,338,708	89,587,739
Less: Provision for Impairment	1,431,196	1,386,096	79,840,186	82,657,478
<b>Net Balances</b>	<b>887,570</b>	<b>544,169</b>	<b>5,498,522</b>	<b>6,930,261</b>

**3.2 Summary of Receivables from Exchange Transactions by Customer Classification**

	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
<b>As at 30 June 2017</b>				
<b>Current:</b>				
0 - 30 days	3,904,960	2,213,691	487,171	
<b>Past Due:</b>				
31 - 60 Days	1,720,053	264,475	458,771	
61 - 90 Days	1,503,492	124,381	406,448	
+ 90 Days	97,775,470	2,517,092	1,692,314	
Sub-total	104,903,975	5,119,639	3,044,704	-
Less: Provision for Impairment	94,986,898	2,153,180	-	-
<b>Total Trade Receivables by Customer Classification</b>	<b>9,917,077</b>	<b>2,966,460</b>	<b>3,044,704</b>	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)</b>		
Household	Industrial/ Commercial	National and Provincial Government
R	R	R
Other		
R		
<b>As at 30 June 2016</b>		
<i>Current:</i>		
0 - 30 days	5,197,693	1,304,065
<i>Past Due:</i>		
31 - 60 Days	1,785,248	192,969
61 - 90 Days	1,554,655	182,111
+ 90 Days	81,947,867	2,794,491
Sub-total	90,485,463	4,473,636
Less: Provision for Impairment	82,095,031	3,903,345
<b>Total Trade Receivables by Customer Classification</b>	<b>8,390,432</b>	<b>570,291</b>

**3.3 Reconciliation of the Provision for Impairment**

Balance at beginning of year	85,998,376	57,654,343
<i>All Consumer Debtors</i>	85,998,376	57,654,343
Impairment Losses recognised	11,412,676	28,695,429
<i>All Consumer Debtors</i>	11,412,676	28,695,429
Amounts written off as uncollectable	(270,975)	(351,396)
<i>All Consumer Debtors</i>	(270,975)	(359,996)
<b>Balance at end of year</b>	<b>97,140,077</b>	<b>85,998,376</b>

In determining the recoverability of Receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Consumer Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

**3.4 Ageing of impaired Receivables from Exchange Transactions**

<i>Current:</i>		
0 - 30 Days	1,369,331	3,340,899
<i>Past Due:</i>		
31 - 60 Days	1,311,019	1,431,196
61 - 90 Days	1,263,217	1,386,096
+ 90 Days	93,196,510	79,840,184
<b>Total</b>	<b>97,140,077</b>	<b>85,998,376</b>

**3.5 Derecognition of Financial Assets**

No Financial Assets have been transferred to other parties during the year.

**4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2017</b>			
Assessment Rates Debtors	11,236,724	8,633,947	2,602,777
Sundry Debtors	1,642,667	866,863	775,804
Government Subsidies	613,694	-	613,694
<b>Total Receivables from Non-exchange Transactions</b>	<b>13,493,085</b>	<b>9,500,810</b>	<b>3,992,275</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R	
<b>4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)</b>			
	<b>Gross Balances R</b>	<b>Provision for Impairment R</b>	<b>Net Balances R</b>
<b>As at 30 June 2016</b>			
Assessment Rates Debtors	9,286,526	7,323,365	1,963,161
Payments Made In Advance	2,200	-	2,200
Sundry Debtors	1,710,395	1,004,344	706,051
Government Subsidies	2,355,822	-	2,355,822
<b>Total Receivables from Non-exchange Transactions</b>	<b>13,354,943</b>	<b>8,327,709</b>	<b>5,027,234</b>

The municipality does not hold deposits or other security for its Receivables.

None of the Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and National / Provincial Departments as well as Other Debtors. The current payment ratios of Other Debtors were also taken into account for fair value determination.

**4.1 Ageing of Receivables from Non-exchange Transactions**

**As at 30 June 2017**

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Assessment Rates:</b>					
Gross Balances	812,189	282,766	313,648	9,828,121	11,236,724
Less: Provision for Impairment	133,166	131,639	135,369	8,233,773	8,633,947
<b>Net Balances</b>	<b>679,023</b>	<b>151,127</b>	<b>178,279</b>	<b>1,594,348</b>	<b>2,602,777</b>
<b>Government Subsidy Claims:</b>					
Gross Balances	613,694	-	-	-	613,694
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>613,694</b>	-	-	-	<b>613,694</b>
<b>Sundry Debtors:</b>					
Gross Balances	408,734	17,360	16,771	1,199,801	1,642,667
Less: Provision for Impairment	9,309	9,299	9,299	838,957	866,863
<b>Net Balances</b>	<b>399,425</b>	<b>8,061</b>	<b>7,473</b>	<b>360,845</b>	<b>775,804</b>

As at 30 June Receivables of R2,300,133 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>				
Gross Balances	300,126	330,420	11,027,922	11,658,468
Less: Provision for Impairment	140,938	144,668	9,072,729	9,358,335
<b>Net Balances</b>	<b>159,188</b>	<b>185,752</b>	<b>1,955,193</b>	<b>2,300,133</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017  
R

2016  
R

**4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)**

As at 30 June 2016

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Assessment Rates:</b>					
Gross Balances	448,843	242,857	207,190	8,387,636	9,286,526
Less: Provision for Impairment	147,485	147,459	147,459	6,880,962	7,323,365
<b>Net Balances</b>	<b>301,358</b>	<b>95,398</b>	<b>59,731</b>	<b>1,506,674</b>	<b>1,963,161</b>
<b>Payments made in Advance:</b>					
Gross Balances	2,200	-	-	-	2,200
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>2,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,200</b>
<b>Government Subsidy Claims:</b>					
Gross Balances	2,355,822	-	-	-	2,355,822
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>2,355,822</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,355,822</b>
<b>Sundry Debtors:</b>					
Gross Balances	523,384	21,910	20,804	1,144,298	1,710,396
Less: Provision for Impairment	15,874	15,870	15,870	956,731	1,004,345
<b>Net Balances</b>	<b>507,510</b>	<b>6,040</b>	<b>4,934</b>	<b>187,567</b>	<b>706,051</b>

As at 30 June Receivables of R1,860,344 were past due but not impaired. The age analysis of these Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>				
Gross Balances	264,767	227,994	9,531,934	10,024,695
Less: Provision for Impairment	163,329	163,329	7,837,693	8,164,351
<b>Net Balances</b>	<b>101,438</b>	<b>64,665</b>	<b>1,694,241</b>	<b>1,860,344</b>

**4.2 Summary of Assessment Rates Debtors by Customer Classification**

	Household	Industrial/ Commercial	National and Provincial Government	Other
	R	R	R	R
<b>As at 30 June 2017</b>				
<u>Current:</u>				
0 - 30 days	414,146	129,568	1,290,904	
<u>Past Due:</u>				
31 - 60 Days	248,057	43,087	8,982	
61 - 90 Days	226,193	95,245	8,982	
+ 90 Days	9,040,685	1,649,496	337,741	
Sub-total	9,929,081	1,917,396	1,646,609	-
Less: Provision for Impairment	8,268,783	1,232,027	-	-
<b>Total Rates Debtors by Customer Classification</b>	<b>1,660,297</b>	<b>685,369</b>	<b>1,646,609</b>	<b>-</b>



**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R	
<b>4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)</b>			
Household	Industrial/ Commercial	National and Provincial Government	Other
R	R	R	R
<b>As at 30 June 2016</b>			
<i>Current:</i>			
0 - 30 days	(126,966)	51,615	3,405,600
<i>Past Due:</i>			
31 - 60 Days	218,779	40,007	5,981
61 - 90 Days	194,279	30,212	3,503
+ 90 Days	7,299,539	1,569,637	662,757
Sub-total	7,585,631	1,691,471	4,077,841
Less: Provision for Impairment	7,723,063	604,647	-
<b>Total Rates Debtors by Customer Classification</b>	<b>(137,432)</b>	<b>1,086,824</b>	<b>4,077,841</b>

**4.3 Reconciliation of Provision for Impairment**

Balance at beginning of year	8,327,709	4,831,479
<i>Other Debtors</i>	966,656	469,613
<i>Assessment Rates Debtors</i>	7,361,053	4,361,866
Impairment Losses recognised	1,173,101	3,496,230
<i>Other Debtors</i>	(137,481)	497,043
<i>Assessment Rates Debtors</i>	1,310,582	2,999,187
<b>Balance at end of year</b>	<b>9,500,810</b>	<b>8,327,709</b>

The Provision for Impairment on Receivables exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of a Rates Assessment Debtor and Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Provision for Impairment.

No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable. The municipality holds collateral over these balances in the form of Rates Assessment Deposits / Guarantees, which are not covering the total outstanding debt and vacant property respectively.

The following Loans and Receivables are included in the total amount of the Provision for Impairment:

Assessment Rates	8,633,947	7,323,364
Sundry Debtors	866,863	1,004,345
<b>Total Provision for Impairment on Receivables from Non-exchange Transactions</b>	<b>9,500,810</b>	<b>8,327,709</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>5. CASH AND CASH EQUIVALENTS</b>		
Current Investments	837,083	6,291,870
Bank Accounts	16,273,371	12,952,536
Cash and Cash Equivalents	3,700	3,700
<b>Total Bank, Cash and Cash Equivalents</b>	<b>17,114,154</b>	<b>19,248,106</b>

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

**5.1 Current Investment Deposits**

Notice Deposits	837,083	6,291,870
<b>Total Current Investment Deposits</b>	<b>837,083</b>	<b>6,291,870</b>

Call Deposits are investments with a maturity period of less than 3 months and earn interest rates varying from 5.10 % to 5,75 % (2016: 5% to 7,50%) per annum.

Deposits attributable to Unspent Conditional Grants	837,083	6,291,870
<b>Total Deposits attributable to Commitments of the Municipality</b>	<b>837,083</b>	<b>6,291,870</b>

INSTITUTION	ACCOUNT NUMBER	ACCOUNT TYPE		
STANDARD BANK	2889-016-06-001	Notice Deposit	83,637	83,637
STANDARD BANK	2889-015-41-001	Notice Deposit	151,485	151,485
			<b>235,123</b>	<b>235,123</b>
FIRST NATIONAL BANK	74107-295-062	Notice Deposit	24,356	24,356
			<b>24,356</b>	<b>24,356</b>
ABSA	2063-506-922	Notice Deposit	135,344	129,307
ABSA	2069-495-799	Notice Deposit	12,099	11,393
ABSA	20-7346-8449	Notice Deposit	430,162	406,944
ABSA	20-7482-3674	Notice Deposit	-	5,484,747
			<b>577,605</b>	<b>6,032,391</b>
			<b>837,083</b>	<b>6,291,869</b>

**5.2 Bank Accounts**

Cash in Bank	16,273,371	12,952,536
<b>Total Bank Accounts</b>	<b>16,273,371</b>	<b>12,952,536</b>

The Municipality has the following bank accounts:

**Primary Bank Account**

**ABSA Bank - Colesberg - Account Number: 2440000005**

Cash book balance at beginning of year	3,057,497	1,260,098
Cash book balance at end of year	5,798,880	3,057,497
	<b>5,798,880</b>	<b>3,057,497</b>
Bank statement balance at beginning of year	3,533,103	1,894,658
Bank statement balance at end of year	5,986,787	3,533,103
	<b>5,986,787</b>	<b>3,533,103</b>

**ABSA Bank - Colesberg - Account Number: 4052875289**

Cash book balance at beginning of year	1,695,994	5,406,915
Cash book balance at end of year	3,279,345	1,695,994
	<b>3,279,345</b>	<b>1,695,994</b>
Bank statement balance at beginning of year	1,695,994	5,406,915
Bank statement balance at end of year	3,279,345	1,695,994
	<b>3,279,345</b>	<b>1,695,994</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>5. CASH AND CASH EQUIVALENTS (Continued)</b>		
<b>Standard Bank - Noupoot - Account Number: 280412835</b>		
Cash book balance at beginning of year	4,217,861	3,822,972
Cash book balance at end of year	3,346,269	4,217,861
Bank statement balance at beginning of year	4,199,794	3,805,526
Bank statement balance at end of year	3,346,939	4,199,794
<b>ABSA Bank - Colesberg - Account Number : 4061642031</b>		
Cash book balance at beginning of year	3,981,184	2,010,913
Cash book balance at end of year	3,848,878	3,981,184
Bank statement balance at beginning of year	3,981,184	2,010,913
Bank statement balance at end of year	3,848,878	3,981,184

An amount of R16 174 471 (2016: R9 810 902) is attributable to Unspent Conditional Grants.

The municipality does not have any overdrawn current account facilities with its banker and therefore does not incur interest on overdrawn current accounts. Interest is earned at different rates per annum on favourable balances.

**5.1 Cash and Cash Equivalents**

Cash Floats and Advances	3,700	3,700
<b>Total Cash on hand in Cash Floats, Advances and Equivalents</b>	<b>3,700</b>	<b>3,700</b>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

No restrictions have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

The management of the municipality is of the opinion that the carrying value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Current Investment Deposits, Bank Balances, Cash and Cash Equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

**6. OPERATING LEASE RECEIVABLES**

Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. In respect of Non-cancellable Operating Leases the following assets have been recognised:

Balance at beginning of year	1,624	3,137
Operating Lease Revenue effected	(1,124)	(1,512)
<b>Total Operating Lease Receivables</b>	<b>500</b>	<b>1,624</b>

**6.1 Leasing Arrangements**

**The Municipality as Lessor:**

Operating Leases relate to Property owned by the municipality with lease terms of between 1 to 10 (2016: 1 to 10) years, with an option to extend. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>6. OPERATING LEASE RECEIVABLES (Continued)</b>		
<b>6.2 Amounts receivable under Operating Leases</b>		
At the Reporting Date the following minimum lease payments were receivable under Non-cancellable Operating Leases for Property, Plant and Equipment, which are receivable as follows:		
Up to 1 year	448	500
2 to 5 years	1,209	1,524
More than 5 years	-	133
<b>Total Operating Lease Arrangements</b>	<b>1,657</b>	<b>2,158</b>

The impact of charging the escalations in Operating Leases on a straight-line basis over the term of the lease has been an decrease of R1,124 (2016: decrease of R1,512) in current year income.

No restrictions have been imposed by the municipality in terms of the operating lease agreements.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**7 PROPERTY, PLANT AND EQUIPMENT**

**30 June 2017**

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra- structure	Other	Total
	R	R	R	R
<b>Carrying values at 01 July 2016</b>	<b>43,654,448</b>	<b>477,457,394</b>	<b>9,577,471</b>	<b>530,689,313</b>
Cost	52,069,728	884,349,310	21,685,436	958,104,473
- Completed Assets	52,069,728	799,849,099	21,685,436	873,604,262
- Under Construction	-	84,500,211	-	84,500,211
Accumulated Impairment Losses	-	(579,750)	(657,597)	(1,237,347)
Accumulated Depreciation:	(8,415,279)	(406,312,166)	(11,450,368)	(426,177,813)
- Cost	(8,415,279)	(406,312,166)	(11,450,368)	(426,177,813)
Acquisitions	-	157,643	2,777,872	2,935,515
Capital under Construction - Additions:	-	23,255,315	-	23,255,315
- Cost	-	23,255,315	-	23,255,315
Additions	-	23,255,315	-	23,255,315
Depreciation:	(352,609)	(25,793,944)	(1,639,889)	(27,786,442)
- Based on Cost	(352,609)	(25,793,944)	(1,639,889)	(27,786,442)
Carrying value of Disposals:	(45,203)	(683,446)	(569,747)	(1,298,396)
- Cost	(45,203)	(1,992,271)	(1,402,885)	(3,440,359)
- Accumulated Impairment Losses	-	26,366	159	26,525
- Accumulated Depreciation	-	1,282,459	832,979	2,115,438
- Based on Cost	-	1,282,459	832,979	2,115,438
Impairment Losses	-	(1,745)	(313,339)	(315,084)
Capital under Construction - Completed	-	-	-	-
<b>Carrying values at 30 June 2017</b>	<b>43,256,636</b>	<b>474,391,217</b>	<b>9,832,368</b>	<b>527,480,222</b>
Cost	52,024,524	905,769,997	23,060,423	980,854,944
- Completed Assets	52,024,524	798,014,471	23,060,423	873,099,418
- Under Construction	-	107,755,526	-	107,755,526
Accumulated Impairment Losses	-	(555,129)	(970,777)	(1,525,906)
Accumulated Depreciation:	(8,767,888)	(430,823,650)	(12,257,278)	(451,848,816)
- Cost	(8,767,888)	(430,823,650)	(12,257,278)	(451,848,816)

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**7 PROPERTY, PLANT AND EQUIPMENT (Continued)**

30 June 2016

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra-structure	Other	Total
	R	R	R	R
<b>Carrying values at 01 July 2015</b>	<b>43,965,957</b>	<b>442,679,350</b>	<b>10,401,894</b>	<b>497,047,201</b>
Cost	51,546,631	826,815,144	21,665,126	900,026,901
- Completed Assets	47,345,699	692,320,163	21,665,126	761,330,988
- Under Construction	4,200,932	134,494,981	-	138,695,913
Accumulated Impairment Losses	-	-	(653,672)	(653,672)
Accumulated Depreciation:	(7,580,674)	(384,135,794)	(10,609,560)	(402,326,028)
- Cost	(7,580,674)	(384,135,794)	(10,609,560)	(402,326,028)
Acquisitions	-	-	773,727	773,727
Capital under Construction - Additions:	523,095	64,276,480	-	64,799,575
- Cost	523,095	64,276,480	-	64,799,575
Additions	523,095	64,276,480	-	64,799,575
Depreciation:	(834,605)	(25,817,972)	(1,460,743)	(28,113,320)
- Based on Cost	(834,605)	(25,817,972)	(1,460,743)	(28,113,320)
Carrying value of Disposals:	-	(3,100,714)	(132,498)	(3,233,212)
- Cost	-	(6,742,314)	(753,417)	(7,495,731)
- Accumulated Impairment Losses	-	-	984	984
- Accumulated Depreciation	-	3,641,600	619,935	4,261,535
- Based on Cost	-	3,641,600	619,935	4,261,535
Impairment Losses	-	(579,750)	(4,909)	(584,659)
Capital under Construction - Completed	(4,724,027)	(114,271,250)	-	(118,995,276)
<b>Carrying values at 30 June 2016</b>	<b>43,654,448</b>	<b>477,457,394</b>	<b>9,577,471</b>	<b>530,689,313</b>
Cost	52,069,728	884,349,310	21,685,436	958,104,473
- Completed Assets	52,069,728	799,849,099	21,685,436	873,604,262
- Under Construction	-	84,500,211	-	84,500,211
Accumulated Impairment Losses	-	(579,750)	(657,597)	(1,237,347)
Accumulated Depreciation:	(8,415,279)	(406,312,166)	(11,450,368)	(426,177,813)
- Cost	(8,415,279)	(406,312,166)	(11,450,368)	(426,177,813)

*Property, Plant and Equipment* have been restated as per note 34.3 and 34.5

The leased Property, Plant and Equipment is secured as set out in Note 16.

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017  
R

2016  
R

**7 PROPERTY, PLANT AND EQUIPMENT (Continued)**

**7.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use**

There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.

**7.2 Carrying Amount of Property, Plant and Equipment retired from active use and held for disposal**

No Property, Plant and Equipment were retired from active use and held for disposal during the financial year.

**7.3 Assets pledged as security**

The municipality did not pledge any of its assets as security.

**7.4 Impairment of Property, Plant and Equipment**

Impairment Losses on Property, Plant and Equipment to the amount of R315,084 (2016: R584,659) has been recognised in operating surplus and are included in Impairment Losses in the Statement of Financial Performance as indicated in Note 29.

During the period, the municipality carried out a review of the recoverable amount of its infrastructure property, plant and equipment, having regard to its ongoing programme of modernisation and the extension of its services. These assets are used in the municipality's basic services delivery reportable segments. The review led to the recognition of an impairment loss of R315 084 (2016: R584 659), which has been recognised in the Statement of Financial Performance.

Infrastructure: Electricity	1,683	465,780
Infrastructure: Roads	62	502
Infrastructure: Sanitation	-	6,789
Infrastructure: Water	-	106,679
Other Assets: Computer Equipment	1,125	-
Other Assets: Furniture and Office Equipment	10,668	780
Other Assets: Motor Vehicles	298,079	-
Other Assets: Machinery and Equipment	3,466	4,129
<b>Total Impairment of Property, Plant and Equipment</b>	<b>315,084</b>	<b>584,659</b>

Impairment losses on Property, Plant and Equipment exist predominantly due to technological obsolescence of information technology equipment. The remainder of impaired items of Property, Plant and Equipment have been physically damaged, stolen or have become redundant and idle.

**7.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed**

A change in the estimated useful life of various assets of the municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year:

Executive and Council		(80,257)
Municipal Manager	(20,639)	-
Finance and Administration	(55,170)	(353,256)
Community and Social Services	(196)	-
Roads and Transport	(129,680)	(165,460)
Water	(5,163)	-
Waste Management	(34,792)	(175,084)
Electricity	(917)	-
<b>Total Change in Estimate for Useful Life of Property, Plant and Equipment</b>	<b>(246,557)</b>	<b>(774,056)</b>

**7.6 Land and Buildings carried at Fair Value**

The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>7 PROPERTY, PLANT AND EQUIPMENT (Continued)</b>		
<b>7.7 Work-in-progress</b>		
The municipality has incurred expenditure on capital project which were no completed at year end. The details of the carrying amounts of expenditure included in each class of assets are listed below:		
<b>Carrying amounts of Work-in-progress</b>		
Infrastructure	107,693,842	83,721,095
	<b><u>107,693,841.95</u></b>	<b><u>83,721,094.70</u></b>

No projects that are currently in progress are experiencing significant delays.

**7.8 Expenditure incurred to Repair and Maintain**

The following specific costs included in the amount of Repairs and Maintenance disclosed in Note 30 were incurred by municipality

Electrical Infrastructure:	716,086	547,588
- Labour	716,086	547,588
Roads Infrastructure:	433,425	429,361
- Labour	433,425	429,361
Sanitation Infrastructure:	20,731	202,729
- Labour	20,731	202,729
Water Supply Infrastructure:	540,578	171,985
- Labour	540,578	171,985
Community Assets:	102,383	376,172
- Labour	102,383	376,172
Computer Equipment:	145,672	107,128
- Labour	145,672	107,128
Furniture and Office Equipment:	19,646	1,237
- Labour	19,646	1,237
Machinery and Equipment:	13,469	533
- Labour	13,469	533
Transport Assets:	1,172,356	1,079,325
- Labour	1,172,356	1,079,325
<b>Total Expenditure incurred to Repair and Maintain</b>	<b><u>3,164,345</u></b>	<b><u>2,916,059</u></b>

**8 INTANGIBLE ASSETS**

At Cost less Accumulated Amortisation and Accumulated Impairment Losses

	<b><u>205,779</u></b>	<b><u>53,826</u></b>
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The movement in Intangible Assets is reconciled as follows:

	Computer Software	Total
<b>Carrying values at 01 July 2016</b>	<b>53,826</b>	<b>53,826</b>
Cost	1,724,296	1,724,296
Accumulated Amortisation	(1,670,470)	(1,670,470)
Acquisitions:	188,637	188,637
Purchased	188,637	188,637
Amortisation:	(36,684)	(36,684)
Purchased	(36,684)	(36,684)
<b>Carrying values at 30 June 2017</b>	<b>205,779</b>	<b>205,779</b>
Cost	1,912,933	1,912,933
Accumulated Amortisation	(1,707,154)	(1,707,154)
	<b>Computer Software</b>	<b>Total</b>
<b>Carrying values at 01 July 2015</b>	<b>58,739</b>	<b>58,739</b>
Cost	1,699,149	1,699,149
Accumulated Amortisation	(1,640,410)	(1,640,410)
Acquisitions:	25,147	25,147
Purchased	25,147	25,147
Amortisation:	(30,060)	(30,060)
Purchased	(30,060)	(30,060)
<b>Carrying values at 30 June 2016</b>	<b>53,826</b>	<b>53,826</b>
Cost	1,724,296	1,724,296
Accumulated Amortisation	(1,670,470)	(1,670,470)



**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017  
R

2016  
R

**8 INTANGIBLE ASSETS (Continued)**

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 28).

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

**8.1 Significant Intangible Assets**

The municipality has a Financial Accounting System, Abakus, which is material in relation to other intangibles assets recognised. The carrying amount of the software of R3 141 (2016: R5 466). Management is in the process of changing Financial Accounting System.

**8.2 Intangible Assets with Indefinite Useful Lives**

The municipality amortises all its Intangible Assets and no of such assets are regarded as having indefinite useful lives.

Amortisation is charged on a straight-line basis over the Intangible Assets' useful lives.

**8.3 Impairment of Intangible Assets**

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

**9 INVESTMENT PROPERTY**

At Fair Value

	<b>2,060,899</b>	<b>2,060,899</b>
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The movement in Investment Property is reconciled as follows:

**Carrying values at 1 July**

	<b>2,060,899</b>	<b>2,060,899</b>
--	------------------	------------------

Fair Value

	2,060,899	2,060,899
--	-----------	-----------

Net Gains / (Losses) from Fair Value Adjustments

	-	-
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**Carrying values at 30 June**

	<b>2,060,899</b>	<b>2,060,899</b>
--	------------------	------------------

Fair Value

	2,060,899	2,060,899
--	-----------	-----------

**Estimated Fair Value of Investment Property at 30 June**

	<b>2,060,899</b>	<b>2,060,899</b>
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Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

Rental Revenue earned from Investment Property	93,574	585,465
Direct Operating Expenses - incurred to generate rental revenue	-	-
Direct Operating Expenses - incurred which did not generate rental revenue	-	-

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the reliability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

Refer to Appendix "B" for more detail on Investment Property.

**9.1 Investment Property carried at Fair Value**

The municipality's Investment Property is valued annually at 30 June at fair value by an independent, professionally qualified, evaluator Ducharme Consulting. The valuation, which conforms to International Valuation Standards, is arrived at by reference to market evidence of transaction prices for similar properties.

The evaluator is of the opinion that less or no change occurred to the values of these properties because of the slow property market.

The following assumptions were used:

Discount Rate	7.80%	6.74%
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**9.2 Impairment of Investment Property**

No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>10 CONSUMER DEPOSITS</b>		
Electricity and Water	813,266	774,489
<b>Total Consumer Deposits</b>	<b>813,266</b>	<b>774,489</b>
<b>Guarantees held in lieu of Electricity and Water Deposits</b>	<b>1,775,596</b>	<b>1,775,596</b>

Consumer Deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on Consumer Deposits held.

The management of the municipality is of the opinion that the carrying value of Consumer Deposits approximates their fair values.

The fair value of Consumer Deposits was determined after considering the standard terms and conditions of agreements entered into between the municipality and its consumers.

**11 PROVISIONS**

Current Portion of Post-retirement Medical Aid Benefits Liability	220,842	225,648
Current Portion of Long-term Service:	307,118	82,837
Current Portion of Non-Current Provisions:	476,481	426,315
Rehabilitation of Land-fill Sites	476,481	426,315
<b>Total Provisions</b>	<b>1,004,441</b>	<b>734,800</b>

	Rehabilitation of Land-fill Sites R	Long-term Service R	Post-retirement R
<b>30 June 2017</b>			
Balance at beginning of year	426,315	82,837	225,648
Transfer from non-current	50,167	224,281	(4,806)
<b>Balance at end of year</b>	<b>476,481</b>	<b>307,118</b>	<b>220,842</b>
	<b>Rehabilitation of Land-fill Sites R</b>	<b>Long-term Service R</b>	<b>Post-retirement R</b>
<b>30 June 2016</b>			
Balance at beginning of year	455,016	110,054	199,716
Transfer from non-current	(28,702)	(27,217)	25,932
<b>Balance at end of year</b>	<b>426,315</b>	<b>82,837</b>	<b>225,648</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>12 PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Trade Creditors	5,952,746	10,314,981
Retentions	4,567,741	6,938,711
Other Creditors	1,756,030	2,900,813
<b>Total Payables</b>	<b>12,276,516</b>	<b>20,154,505</b>

*Payables from Exchange transactions* have been restated to correctly as per note 34.3

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximates their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

**13 PAYABLES FROM NON-EXCHANGE TRANSACTIONS**

Staff Bonuses	745,086	735,024
Staff Leave Accrued	2,895,551	2,588,044
Sundry Deposits	145,514	171,136
<b>Total Payables</b>	<b>3,786,151</b>	<b>3,494,203</b>

**Staff Leave** accrues to the staff of the municipality on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

No credit period exists for Payables from Non-exchange Transactions, neither has any credit period been arranged. No interest is charged on outstanding amounts.

The municipality did not default on any payment of its Creditors. No terms for payment have been re-negotiated by the municipality.

The management of the municipality is of the opinion that the carrying value of Creditors approximates their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

**14 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

**14.1 Conditional Grants from Government**

	<b>15,690,173</b>	<b>9,810,902</b>
National Government Grants	3,927,295	726,463
Provincial Government Grants	7,997,861	3,532,358
Other Spheres of Government	3,765,017	5,552,081
<b>Total Conditional Grants and Receipts</b>	<b>15,690,173</b>	<b>9,810,902</b>

The Unspent Conditional Grants and Receipts are invested in investment accounts until utilised.

See Note 21 for the reconciliation of Grants from Government. The Unspent Grants are cash backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Refer to Appendix "F" for more detail on Conditional Grants.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	<b>2017</b>	<b>2016</b>
	<b>R</b>	<b>R</b>
<b>15 VAT PAYABLE</b>		
Vat Payable	8,478,085	7,115,173
	<b>8,478,085</b>	<b>7,115,173</b>

Vat is payable on the receipts basis. Only once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

VAT Payable have been restated to correctly as per note 34.3 and 34.4

**16 LONG-TERM LIABILITIES**

Annuity Loans	1,048,320	2,161,470
Finance Lease Liabilities	2,309,406	335,726
Sub-total	3,357,726	2,497,196
Less: Current Portion transferred to Current Liabilities:-	1,048,223	1,240,883
Annuity Loans	881,029	1,114,150
Finance Lease Liabilities	167,194	126,733
<b>Total Long-term Liabilities</b> (Neither past due, nor impaired)	<b>2,309,503</b>	<b>1,256,313</b>

**16.1 Summary of Arrangements**

Annuity Loans are repaid over periods varying from 2 to 11 (2016: 1 to 12) years and at interest rates varying from 9,25% to 16,50% (2016: 9,25% to 16,50%) per annum. Annuity Loans are not secured.

Finance Lease Liabilities relates to IT Equipment with lease terms of 5 (2016: 5) years. The effective interest rate on Finance Leases is between 13,21% and 48,13% (2016: 13,21 to 48,13%).

The management of the municipality is of the opinion that the carrying value of Long-term Liabilities recorded at amortised cost in the Annual Financial Statements approximate their fair values.

The fair value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Refer to Appendix "A" for more detail on Long-term Liabilities.

**16.2 Obligations under Finance Lease Liabilities**

**The Municipality as Lessee:**

Finance Leases relate to Property, Plant and Equipment with lease terms not more than 5 years (2016: 5 years). The effective interest rate on Finance Leases is between 9.00% and 15.00% (2016: 9.00% and 15.00%).

The municipality does not have an option to purchase the leased Property, Plant and Equipment at the conclusion of the lease agreements. The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

The risks and rewards of ownership in respect of the Property, Plant and Equipment will transfer to the municipality at the conclusion of the agreement.

The municipality's obligations under Finance Leases are secured by the lessors' title to the leased assets.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

		2017 R		2016 R
<b>16 LONG-TERM LIABILITIES (Continued)</b>				
The obligations under Finance Leases are as follows:				
	<b>Minimum Lease Payments</b>		<b>Present Value of Minimum Lease Payments</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
<b>Amounts payable under finance leases:</b>				
Within one year	647,954	167,194	647,954	167,194
In the second to fifth years, inclusive	1,869,039	208,992	1,869,039	208,992
Over five years	-	-	-	-
	<u>2,516,993</u>	<u>376,186</u>	<u>2,516,993</u>	<u>376,186</u>
Less: Future Finance Obligations	207,587	40,460	207,587	40,460
<b>Present Value of Minimum Lease Obligations</b>	<u><b>2,309,406</b></u>	<u><b>335,726</b></u>	<u><b>2,309,406</b></u>	<u><b>335,726</b></u>
Less: Amounts due for settlement within 12 months (Current Portion)			167,194	126,733
<b>Finance Lease Obligations due for settlement after 12 months (Non-current Portion)</b>			<u><u>2,142,212</u></u>	<u><u>208,992</u></u>

The municipality has finance lease agreements for the following significant classes of assets:  
- Office Equipment

Included in these classes are the following significant leases:

(i) Printers		R 23,082	R 27,760
- Instalments are payable Monthly in advance			
- Average period outstanding	30 months		30 months
- Average effective interest rate	13.59%		10.00%
- Average quarterly instalment	R 201,614.76		R 92,327.52
- Carry amount at year end	R 1,612,678.74		R 351,397.59

**17 EMPLOYEE BENEFIT LIABILITY**

Post-retirement Health Care Benefits Liability		11,106,113	11,265,256
Provision for Long Service Awards		1,328,111	1,400,703
<b>Total Employee Benefits</b>		<u><b>12,434,224</b></u>	<u><b>12,665,959</b></u>

**17.1 Post-retirement Health Care Benefits Liability**

Balance at beginning of Year		11,490,904	10,974,553
Expected Employer Benefit Payments		(225,648)	(199,716)
Current-service Cost		819,724	841,893
Interest Cost		1,039,974	986,616
Actuarial (Gain)/Loss Recognised in P&L		(1,797,999)	(1,112,442)
Balance at end of Year		<u>11,326,955</u>	<u>11,490,904</u>
Transfer to Current Provisions		(220,842)	(225,648)
<b>Total Post-retirement Health Care Benefits Liability</b>		<u><b>11,106,113</b></u>	<u><b>11,265,256</b></u>

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>17 EMPLOYEE BENEFIT LIABILITY (Continued)</b>		
<p>The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.</p>		
<p>The members of the Post-employment Health Care Benefit Plan are made up as follows:</p>		
In-service Members (Employees)	36	42
In-service Non-members (Employees)	135	133
Continuation Members (Retirees, widowers and orphans)	4	5
<b>Total Members</b>	<b>175</b>	<b>180</b>
<p>The liability in respect of past service has been estimated as follows:</p>		
In-service Members	5,792,063	5,855,043
In-service (employee) non-members	2,520,847	2,292,942
Continuation Members	3,014,045	3,342,919
<b>Total Liability</b>	<b>11,326,955</b>	<b>11,490,904</b>
<p>The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:</p> <ul style="list-style-type: none"> <li>- Bonitas</li> <li>- Hosmed</li> <li>- Keyhealth</li> <li>- LA Health</li> <li>- Samwumed</li> </ul>		
<p>The Current-service Cost for the year ending 30 June 2017 is estimated to be R819,724, whereas the cost for the ensuing year is estimated to be R 819 724 (30 June 2016: R841,893 and R819,724 respectively).</p>		
<p><b>The principal assumptions used for the purposes of the actuarial valuations were as follows:</b></p>		
Discount Rate	9.90%	9.17%
Health Care Cost Inflation Rate	8.17%	8.27%
Net Effective Discount Rate	1.60%	0.83%
Expected Retirement Age - Females	60	60
Expected Retirement Age - Males	60	60
<p><b>Movements in the present value of the Defined Benefit Obligation were as follows:</b></p>		
Balance at the beginning of the year	11,490,904	10,974,553
Current service costs	819,724	841,893
Interest cost	1,039,974	986,616
Benefits paid	(225,648)	(199,716)
Actuarial losses / (gains)	(1,797,999)	(1,112,442)
<b>Present Value of Fund Obligation at the end of the Year</b>	<b>11,326,955</b>	<b>11,490,904</b>
<b>Total Recognised Benefit Liability</b>	<b>11,326,955</b>	<b>11,490,904</b>
<p><b>The amounts recognised in the Statement of Financial Position are as follows:</b></p>		
Present value of fund obligations	11,326,955	11,490,904
Unfunded Accrued Liability	11,326,955	11,490,904
<b>Total Benefit Liability</b>	<b>11,326,955</b>	<b>11,490,904</b>
<p><b>The amounts recognised in the Statement of Financial Performance are as follows:</b></p>		
Current service cost	819,724	841,893
Interest cost	1,039,974	986,616
Benefits paid	(225,648)	(199,716)
Actuarial losses / (gains)	(1,797,999)	(1,112,442)
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 26)</b>	<b>(163,949)</b>	<b>516,351</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	<b>2017</b>		<b>2016</b>	
	R		R	
<b>17 EMPLOYEE BENEFIT LIABILITY (Continued)</b>				
<b>The history of experienced adjustments is as follows:</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	R	R	R	R
Present Value of Defined Benefit Obligation	11,326,955	11,490,904	10,974,553	8,336,604
<b>Deficit</b>	<b><u>11,326,955</u></b>	<b><u>11,490,904</u></b>	<b><u>10,974,553</u></b>	<b><u>8,336,604</u></b>
				<b><u>6,980,619</u></b>

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period.

The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:

**Increase:**

Effect on the aggregate of the current service cost and the interest cost	2,256,400	2,208,100
Effect on the defined benefit obligation	13,332,000	12,851,000

**Decrease:**

Effect on the aggregate of the current service cost and the interest cost	1,547,300	1,528,200
Effect on the defined benefit obligation	9,709,000	9,179,000

The municipality expects to make a contribution of R819 724 (2016: R755 900) to the Defined Benefit Plans during the next financial year.

Refer to Note 44, "Multi-employer Retirement Benefit Information", to the Annual Financial Statements for more information regarding the municipality's other retirement funds that is Provincially and Nationally administered.

**17.2 Provision for Long Service Awards**

	<b>2017</b>		<b>2016</b>	
	R		R	
Balance at beginning of year	1,483,540		1,350,562	
Current-service Cost	192,365		164,394	
Interest Cost	121,665		103,295	
Actuarial (Gain)/Loss	(79,504.0)		(24,657)	
Expected Employer Benefit Payments	(82,837)		(110,054)	
	<u>1,635,229</u>		<u>1,483,540</u>	
Transfer to current provisions	(307,118)		(82,837)	
<b>Balance at end of year</b>	<b><u>1,328,111</u></b>		<b><u>1,400,703</u></b>	

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 10 years of continuous service, and every 5 years of continuous service thereafter, to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2017 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year end, 171 (2016: 175) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2017 is estimated to be R192,365, whereas the cost for the ensuing year is estimated to be R192 365 (30 June 2016: R164,394 and R192,365 respectively).

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R			
<b>17 EMPLOYEE BENEFIT LIABILITY (Continued)</b>					
<b>The principal assumptions used for the purposes of the actuarial valuations were as follows:</b>					
Discount Rate	8.28%	8.42%			
Net Effective Discount Rate	2.06%	1.24%			
Expected Rate of Salary Increase	6.09%	7.09%			
Expected Retirement Age - Females	60	60			
Expected Retirement Age - Males	60	60			
<b>Movements in the present value of the Defined Benefit Obligation were as follows:</b>					
Balance at the beginning of the year	1,483,540	1,350,562			
Current service costs	192,365	164,394			
Interest cost	121,665	103,295			
Benefits paid	(82,837)	(110,054)			
Actuarial losses / (gains)	(79,504)	(24,657)			
<b>Present Value of Fund Obligation at the end of the Year</b>	<b>1,635,229</b>	<b>1,483,540</b>			
<b>Total Recognised Benefit Liability</b>	<b>1,635,229</b>	<b>1,483,540</b>			
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>					
Present value of fund obligations	1,635,229	1,483,540			
Unfunded Accrued Liability	1,635,229	1,483,540			
<b>Total Benefit Liability</b>	<b>1,635,229</b>	<b>1,483,540</b>			
<b>The amounts recognised in the Statement of Financial Performance are as follows:</b>					
Current service cost	192,365	164,394			
Interest cost	121,665	103,295			
Benefits paid	(82,837)	(110,054)			
Actuarial losses / (gains)	(79,504)	(24,657)			
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 26)</b>	<b>151,689</b>	<b>132,978</b>			
<b>The history of experienced adjustments is as follows:</b>					
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
	R	R	R	R	R
Present Value of Defined Benefit Obligation	1,635,229	1,483,540	1,350,562	1,240,340	1,225,105
<b>Deficit</b>	<b>1,635,229</b>	<b>1,483,540</b>	<b>1,350,562</b>	<b>1,240,340</b>	<b>1,225,105</b>
In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period.					
The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:					
<b>Increase:</b>					
Effect on the aggregate of the current service cost and the interest cost	335,200	286,100			
Effect on the defined benefit obligation	1,719,000	1,569,000			
<b>Decrease:</b>					
Effect on the aggregate of the current service cost and the interest cost	294,700	251,000			
Effect on the defined benefit obligation	1,558,000	1,405,000			
The municipality expects to make a contribution of R194 615 (2016: R192 365) to the defined benefit plans during the next financial year.					



**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>18 NON-CURRENT PROVISIONS</b>		
Provision for Rehabilitation of Land-fill Sites	4,307,465	3,910,555
<b>Total Non-current Provisions</b>	<b>4,307,465</b>	<b>3,910,555</b>

The movement in Non-current Provisions are reconciled as follows:

		<b>Land-fill Sites</b>
		R
<b>30 June 2017</b>		
Balance at beginning of year		4,336,869
Contributions to provision		447,077
		4,783,946
Transfer to current provisions		(476,481)
<b>Balance at end of year</b>	-	<b>4,307,465</b>
		R
<b>30 June 2016</b>		
Balance at beginning of year		3,948,711
Contributions to provision		388,158
		4,336,869
Transfer to current provisions		(426,314)
<b>Balance at end of year</b>		<b>3,910,555</b>

**18.1 Rehabilitation of Land-fill Sites**

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs of R4,783,946 (2016: R4,336,869) to restore the site at the end of its useful life, estimated to be in 2031.

Provision has been made for the net present value of this cost, South African Bond rates with an expected life equal to the remaining useful lives of these sites were used to obtain an interest rate of 9.96% (2016:9.83%)

Landfill operations continue until all the available permitted airspace has been filled. Once this happens, the site close and capped with a layer of impermeable clay and a layer of the top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site.

The provision for rehabilitation are reconciled as follows :

The movement in Non-current Provisions are reconciled as follows:

<b>Landfill site</b>		
Balance at beginning of year	4,336,869	3,948,711
Contributions in current year	447,077	388,158
Less: Transfer to Current Provisions	(476,481)	(426,314)
<b>Balance of landfill site</b>	<b>4,307,465</b>	<b>3,910,555</b>

The council will incur rehabilitation cost on its three dumping/landfill sites over the period 2012/13 up to 2030/31. Provision has been made for the net present value of this cost.

	<b>Proposed rehabilitation</b>	2017	2016
Noupoort	2030/2031	1,594,649	1,445,623
Norvalspont	2030/2031	1,136,533	1,021,543
Colesberg	2030/2031	2,052,764	1,869,703
		<b>4,783,946</b>	<b>4,336,869</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>19 ACCUMULATED SURPLUS</b>		
<b>The Accumulated Surplus consists of the following Internal Funds and Reserves:</b>		
Capital Replacement Reserve (CRR)	193,344	193,344
Accumulated Surplus / (Deficit) due to the results of Operations	504,878,083	506,549,845
<b>Total Accumulated Surplus</b>	<b>505,071,428</b>	<b>506,743,189</b>

The **Capital Replacement Reserve** is a reserve to finance future capital expenditure and is fully invested in ring-fenced Financial Instrument Investments.

Refer to Statement of Changes in Net Assets for more detail and the movement on Accumulated Surplus.

**20 PROPERTY RATES**

	Property Valuations		Actual Levies	
	July 2017	July 2016		
Agricultural	1,487,336,159	1,194,457,940	516,863	489,960
Commercial	204,948,816	164,591,400	2,374,884	2,251,269
Residential	561,062,380	450,581,000	4,598,730	4,359,361
State	87,828,145	70,533,500	1,100,756	1,043,461
<b>Total Property Rates</b>	<b>2,341,175,500</b>	<b>1,880,163,840</b>	<b>8,591,233</b>	<b>8,144,051</b>

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The last valuation came into effect on 1 July 2014.

Interim valuations are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions.

An general rate is applied as follows to property valuations to determine property rates:

Residential Properties: 1.13 c/R (2015/16: 1.11 c/R)

Business Properties: 1.34 c/R (2015/16: 1.287 c/R)

Agricultural Properties: 0.28 c/R (2015/16: 0.27 c/R)

State Properties: 1.82 c/R (2015/16: 1.75 c/R)

A discount of 20,00% (2015/16: 20,00%) was granted on properties owned by the State and a discount of 85% on all Agricultural

Rates are levied monthly on property owners and are payable the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

**21 GOVERNMENT GRANTS AND SUBSIDIES**

National Equitable Share	36,658,000	34,931,000
<b>Operational Grants</b>	36,658,000	34,931,000
<b>Conditional Grants</b>	67,483,155	99,389,539
National Government: EQUITABLE SHARE	36,658,000	34,931,000
National Government: FINANCE MANAGEMENT GRANT	1,825,000	1,932,385
National Government: MIG	10,989,274	13,237,414
National Government: MSIG	-	940,000
National Government: DWAF	6,839,530	39,547,094
National Government: EEDG	6,553,708	3,241,665
National Government: INEP	37,989	1,184,211
Provincial Government: DEPT. PUBLIC WORKS	954,410	2,127,899
Provincial Government: DEPT. SPORT, ARTS AND CULTURE	1,900,000	1,542,000
Other Government: Lotto	1,567,601	-
Other Government: DBSA	157,643	449,226
Other Government: WATER BLUE DROP MANAGEMENT	-	256,644
<b>Total Government Grants and Subsidies</b>	<b>67,483,155</b>	<b>99,389,539</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>21 GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>Operational Grants:</b>		
<b>21.1 National: Equitable Share</b>	<b>36,658,000</b>	<b>34,931,000</b>
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy up to R166 (2016: R156), based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and 50 kWh electricity (indigents only) free every month. No funds have been withheld.		
<b>Conditional Grants:</b>		
<b>21.2 National: Equitable Share</b>		
Balance unspent at beginning of year	-	-
Current year receipts	36,658,000	34,931,000
Conditions met - transferred to Revenue: Operating Expenses	(36,658,000)	(34,931,000)
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 14)	-	-
In terms of the Constitution, this grant is used to subsidise the provision of basic services to community members. In terms of the allocation made by National Treasury the funds are also utilized to enable the municipality to execute its functions as the local authority.		
<b>21.3 National: Financial Management Grant</b>		
Balance unspent at beginning of year	-	132,385
Current year receipts	1,825,000	1,800,000
Conditions met - transferred to Revenue: Operating Expenses	(1,825,000)	(1,932,385)
Conditions still to be met - transferred to Liabilities (see Note 14)	-	-
The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance management Act (MFMA), 2003. No funds have been		
<b>21.4 National: Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	-	6,944,274
Current year receipts	15,764,000	8,090,000
Conditions met - transferred to Revenue: Operating Expenses	(873,200)	(402,700)
Conditions met - transferred to Revenue: Capital Expenses	(10,116,074)	(12,834,714)
Conditions met - transferred to Revenue: VAT portion released	(1,416,250)	(1,796,860)
Conditions still to be met - transferred to Liabilities (see Note 14)	<b>3,358,475</b>	-
The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions; to provide for new, rehabilitation and upgrading of municipal infrastructure. The original amount allocated as per the DoRA amounted to R17 500 000 for the current year, but National Treasury decreased the allocation to R15 764 000.		
<b>21.5 National: Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	-	316,328
Current year receipts	-	940,000
Conditions met - transferred to Revenue: Operating Expenses	-	(940,000)
Other Adjustments/Refunds	-	(316,328)
Conditions still to be met - transferred to Liabilities (see Note 14)	-	-
The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. National Treasury discounted this grant for the current year. The opening balance in 2016 of R316 328 was paid back to the funder. No funds have been withheld.		

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>21 GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>21.6 National: Department Water Affairs and Forestry (DWAf)</b>		
Balance unspent at beginning of year	(2,312,441)	(5,543,624)
Current year receipts	9,537,466	48,305,989
Conditions met - transferred to Revenue: Operating Expenses	-	(83,139)
Conditions met - transferred to Revenue: Capital Expenses	(6,839,530)	(39,463,955)
Conditions met - transferred to Revenue: VAT portion released	(955,807)	(5,527,712)
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>(570,313)</u>	<u>(2,312,441)</u>

This grant was used for the operation and maintenance of sewerage and water schemes transferred from DWA to the municipality, the refurbishment of water infrastructure, the Olifants River Water Resource project and the payment of salaries of staff transferred from DWA. No funds have been withheld.

**21.7 National: Electricity Demand Side Management Grant**

Balance unspent at beginning of year	3,305,118	617
Current year receipts	8,000,000	7,000,000
Conditions met - transferred to Revenue: Operating Expenses	(400,000)	-
Conditions met - transferred to Revenue: Capital Expenses	(6,153,708)	(3,241,665)
Conditions met - transferred to Revenue: VAT portion released	(793,717)	(453,833)
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>3,957,693</u>	<u>3,305,118</u>

Expenses were incurred to promote rural development and upgrade electricity infrastructure.

**21.8 National: Integrated National Electrification Programme**

Balance unspent at beginning of year	-	84,811
Current year receipts	3,915,000	1,350,000
Conditions met - transferred to Revenue: Capital Expenses	(37,988)	(1,184,211)
Conditions met - transferred to Revenue: VAT portion released	(5,318)	(165,789)
Other Adjustments/Refunds	-	(84,811)
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>3,871,694</u>	<u>-</u>

Expenses were incurred to promote rural development and upgrade electricity infrastructure.

**21.9 Provincial: Expanded Public Works Programme Integrated Grant for Municipalities**

Balance unspent at beginning of year	58,940	1,273,426
Current year receipts	1,000,000	1,000,000
Conditions met - transferred to Revenue: Operating Expenses	-	(310,636)
Conditions met - transferred to Revenue: Capital Expenses	(954,411)	(1,817,264)
Conditions met - transferred to Revenue: VAT portion released	(45,354)	(86,587)
Other Adjustments/Refunds	(59,000)	-
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>175</u>	<u>58,940</u>

Expenses were incurred to promote rural development and upgrade of road infrastructure and for cleaning the grave sites in the municipal area. No funds have been withheld. The amount of R59 000 was paid back to National Treasury which relates to the opening balance of 2017

**21.10 Provincial: Department of Arts and Culture**

Balance unspent at beginning of year	-	-
Current year receipts	1,900,000	1,542,000
Conditions met - transferred to Revenue: Operating Expenses	(1,900,000)	(1,542,000)
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>-</u>	<u>-</u>

This grant was received for the building and maintenance of libraries in the district. No funds have been withheld.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>21 GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>21.11 Provincial: Department of Housing</b>		
Balance unspent at beginning of year	130,852	130,852
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>130,852</u>	<u>130,852</u>
<p>This grant was received for the building and maintenance of low costs housing in the district. No funds have been withheld.</p>		
<b>21.12 Provincial: Department of Safety</b>		
Balance unspent at beginning of year	124,919	124,919
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>124,919</u>	<u>124,919</u>
<p>This grant was received for the building of a taxi rank. No funds have been withheld.</p>		
<b>21.13 Other Government: DBSA</b>		
Balance unspent at beginning of year	163,980	664,046
Conditions met - transferred to Revenue: Capital Expenses	(157,643)	(449,226)
Conditions met - transferred to Revenue: VAT portion released	-	(50,840)
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>6,337</u>	<u>163,980</u>
<p>This grant was received for the purchasing of water meters. No funds have been withheld.</p>		
<b>21.14 Provincial: NLDTF (LOTTO)</b>		
Balance unspent at beginning of year	5,757,000	-
Current year receipts	-	5,757,000
Conditions met - transferred to Revenue: Capital Expenses	(1,567,601)	-
Conditions met - transferred to Revenue: VAT portion released	(219,464)	-
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>3,969,935</u>	<u>5,757,000</u>
<p>The municipality received this grant from the Lotto fund to upgrade the sport stadiums in the municipal area. The grant was utilised for this purpose. No funds have been withheld.</p>		
<b>21.15 Other: Water Blue Drop Management</b>		
Balance unspent at beginning of year	-	292,575
Conditions met - transferred to Revenue: Operating Expenses	-	(256,644)
Conditions met - transferred to Revenue: VAT portion released	-	(35,930)
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>-</u>	<u>-</u>
<p>The municipality received this grant to improve the Blue Drop status of the municipality. The grant was utilised for this purpose. No funds have been withheld.</p>		
<b>21.16 Other: Institutional Re-organization Grant</b>		
Balance unspent at beginning of year	226,712	226,712
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>226,712</u>	<u>226,712</u>
<p>The municipality received this grant to help with the re-organization of the municipality after 1994. The grant was utilised for this purpose. No funds have been withheld.</p>		
<b>21.17 Changes in levels of Government Grants</b>		
<p>Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2017), government grant funding is expected to increase over the forthcoming three financial years.</p>		

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>22 SERVICE CHARGES</b>		
Sale of Electricity	20,461,726	21,751,566
Sale of Water	11,490,679	8,214,483
Refuse Removal	7,043,884	6,450,153
Sewerage and Sanitation Charges	9,494,288	8,446,715
<b>Total Service Charges</b>	<b><u>42,021,064</u></b>	<b><u>38,892,697</u></b>
Attributable to:		
Continuing Operations	42,021,064	38,892,697
	<b><u>42,021,064</u></b>	<b><u>38,892,697</u></b>

The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

**23 RENTAL OF FACILITIES AND EQUIPMENT**

Rental Revenue:		
- Investment Property	93,750	584,163
Rental Revenue from Buildings	11,864	6,383
Rental Revenue from Halls	102,269	70,552
Rental Revenue from Land	85,966	86,668
Rental Revenue from Machinery	62,717	10,958
<b>Total Rental of Facilities and Equipment</b>	<b><u>356,565</u></b>	<b><u>758,723</u></b>
Attributable to:		
Continuing Operations	356,565	758,723
	<b><u>356,565</u></b>	<b><u>758,723</u></b>

Rental revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

**24 INTEREST EARNED**

<b>Property Rates:</b>		
Penalties imposed and Collection Charges	289,933	217,246
	<b><u>289,933</u></b>	<b><u>217,246</u></b>
<b>External Investments:</b>		
Bank Account	273,899	177,043
Investments	179,277	361,237
	<b><u>453,176</u></b>	<b><u>538,281</u></b>
<b>Outstanding Debtors:</b>		
Outstanding Billing Debtors	2,513,333	2,168,573
	<b><u>2,513,333</u></b>	<b><u>2,168,573</u></b>
<b>Total Interest Earned</b>	<b><u>3,256,442</u></b>	<b><u>2,924,099</u></b>

Interest earned from outstanding debtors contribute R2 186 600 (2016: R1 995 087) towards debtors impaired and R326 733 (2016: R173 486) from debtors not impaired

Interest Earned on Financial Assets, analysed by category of asset, is as follows:

Available-for-Sale Financial Assets	453,176	538,281
Loans and Receivables	2,803,266	2,385,819
	3,256,442	2,924,099
	<b><u>3,256,442</u></b>	<b><u>2,924,099</u></b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>25 OTHER REVENUE</b>		
Advertising Boards	3,600	3,600
Brick Oven	13,532	13,872
Building Plan Fees	16,309	45,906
Cemetery Fees	22,870	23,009
Commission On Collections	105,589	92,830
Dumping Fees	6,635	6,635
Guest House	526	4,647
Commission received on fines	2,330,935	2,677,884
Commission received on License and Permits	743,665	555,052
Insurance Claims	57,481	28,257
Other Income	286,915	400,945
Photocopies	2,435	2,019
Re-Zone	30,336	5,994
Sand, Gravel & Soil	57,427	6,331
Sdl Claims	52,852	68,106
Tender Documents	15,000	5,746
Vat Income	3,435,911	8,117,551
<b>Total Other Revenue</b>	<b><u>7,182,020</u></b>	<b><u>12,058,383</u></b>
Attributable to:		
Continuing Operations	7,182,020	12,058,383
	<b><u>7,182,020</u></b>	<b><u>12,058,383</u></b>

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 20 to 24, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

**26 EMPLOYEE RELATED COSTS**

Employee Related Costs - Salaries and Wages	31,611,777	29,811,029
Basic Salaries and Wages	29,462,602	27,614,980
Long Service Bonuses	30,024	29,683
Service Bonuses	2,119,152	2,166,366
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	5,689,552	5,320,473
Group Life	7,801	7,092
Medical	863,437	757,538
Pension	4,155,687	3,941,674
Skills Development Levy	386,310	366,970
UIF	276,318	247,199
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	849,495	841,169
Allowances	849,495	841,169
Housing Benefits and Allowances	371,656	371,513
Overtime Payments	1,666,661	1,459,126
Defined Benefit Plan Expense:	(1,203,923)	(470,265)
Current Service Cost	819,724	841,893
Expected Return on Plan Assets	(225,648)	(199,716)
Net Actuarial (gains)/losses recognised	(1,797,999)	(1,112,442)
<b>Total Employee Related Costs</b>	<b><u>38,985,218</u></b>	<b><u>37,333,044</u></b>
Attributable to:		
Continuing Operations	38,985,218	37,333,044
	<b><u>38,985,218</u></b>	<b><u>37,333,044</u></b>

Advances are made to employees in terms of the municipality's policy to assist them in the event of the death of a dependant.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>26 EMPLOYEE RELATED COSTS (Continued)</b>		
<b>Remuneration of Section 57 Employees:</b>		
<i><b>Remuneration of the Municipal Manager</b></i>		
Annual Remuneration	1,025,301	957,606
Annual Bonus	120,104	143,396
Car and Other Allowances	134,250	312,967
Company Contributions to UIF, Medical and Pension Funds	1,876	1,871
<b>Total</b>	<b>1,281,531</b>	<b>1,415,840</b>
<i><b>Remuneration of the Chief Financial Officer</b></i>		
Annual Remuneration	849,024	791,484
Annual Bonus	102,088	121,886
Car and Other Allowances	136,594	163,851
Company Contributions to UIF, Medical and Pension Funds	1,876	1,871
<b>Total</b>	<b>1,089,582</b>	<b>1,079,091</b>
<i><b>Remuneration of the Manager: Corporate Manager</b></i>		
Annual Remuneration	871,826	825,635
Annual Bonus	83,527	95,768
Car and Other Allowances	113,793	158,680
Company Contributions to UIF, Medical and Pension Funds	1,876	1,871
<b>Total</b>	<b>1,071,021</b>	<b>1,081,953</b>
<i><b>Remuneration of the Manager: Technical Services</b></i>		
Annual Remuneration	913,618	856,077
Annual Bonus	83,527	95,768
Car and Other Allowances	72,000	198,362
Company Contributions to UIF, Medical and Pension Funds	1,876	1,871
<b>Total</b>	<b>1,071,021</b>	<b>1,152,078</b>
<b>27 REMUNERATION OF COUNCILLORS</b>		
Mayor	534,410	532,324
Councillors	2,459,576	2,167,915
Other Allowances (Cellular Phones, Housing, Transport, etc.)	434,927	394,935
Telephone Allowance	268,842	208,680
Travelling Allowance	166,085	186,255
<b>Total Councillors' Remuneration</b>	<b>3,428,913</b>	<b>3,095,174</b>
<b>Remuneration of Councillors:</b>		
Councillors may utilise official Council transportation when engaged in official duties.		
The Mayor has use of a Council owned vehicle for official duties.		
<b>28 DEPRECIATION AND AMORTISATION</b>		
Depreciation: Property, Plant and Equipment	27,786,411	28,113,350
Amortisation: Intangible Assets	36,684	30,060
<b>Total Depreciation and Amortisation</b>	<b>27,823,095</b>	<b>28,143,411</b>
Attributable to:		
Continuing Operations	27,823,095	28,143,411
	<b>27,823,095</b>	<b>28,143,411</b>

*Depreciation and Amortisation* have been restated to correctly disclose the expense on correction of opening balance. Refer to Note 34.5 on "Correction of Error" for details of the restatement.



**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>29 IMPAIRMENT LOSSES</b>		
<i>29.1 Impairment Losses on Fixed Assets (Fair Value)</i>		
<b>Impairment Losses Recognised:</b>	315,084	584,659
Property, Plant and Equipment	315,084	584,659
	<b>315,084</b>	<b>584,659</b>
<i>29.2 Impairment Losses on Financial Assets (Fair Value)</i>		
<b>Impairment Losses Recognised:</b>	11,073,432	31,096,756
Receivables from Exchange Transactions	10,041,295	27,702,098
Receivables from Non-exchange Transactions	1,032,137	3,394,658
	<b>11,073,432</b>	<b>31,096,756</b>
<b>Total Impairment Losses</b>	<b>11,388,516</b>	<b>31,681,415</b>
Attributable to:		
Continuing Operations	11,388,516	31,681,415
	<b>11,388,516</b>	<b>31,681,415</b>
<b>30 REPAIRS AND MAINTENANCE</b>		
Land and Buildings	100,766	371,083
Infrastructure - Electricity	849,108	547,588
Infrastructure - Road Transport	300,403	429,361
Infrastructure - Sanitation	20,731	202,729
Infrastructure - Water	540,578	171,985
Community Assets	1,617	8,676
Other Assets	1,200,809	1,063,310
Specialised Vehicles	150,333	121,327
<b>Total Repairs and Maintenance</b>	<b>3,164,345</b>	<b>2,916,059</b>
<b>31 FINANCE COSTS</b>		
Finance Leases	172,006	43,079
Interest costs on employee benefits	1,161,639	1,089,911
Loans and Payables at amortised cost	191,251	293,261
Landfill Sites Expenses	447,077	388,158
Total Interest Expense	1,971,973	1,814,409
<b>Total Interest Paid on External Borrowings</b>	<b>1,971,973</b>	<b>1,814,409</b>
Attributable to:		
Continuing Operations	1,971,973	1,814,409
	<b>1,971,973</b>	<b>1,814,409</b>
The weighted average capitalisation rate on funds borrowed generally is 5,27% per annum (2016: 5,24% per annum).		
<b>32 BULK PURCHASES</b>		
Electricity	22,353,189	20,671,934
Water	563,812	393,286
<b>Total Bulk Purchases</b>	<b>22,917,001</b>	<b>21,065,220</b>

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst Water is purchased from DWAF and "Boreholes".

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>33 GENERAL EXPENSES</b>		
Included in General Expenses are the following:		
Advertising	103,262	102,348
Audit Fees	2,359,467	1,671,823
Bank Charges	439,995	373,635
Branding Of The Municipality	40,518	83,090
Cleaning Costs	49,871	31,040
Entertainment	64,858	20,812
EPWP Grave Cleaning Project	-	310,636
EPWP Stormwater Project	-	7,444
Fuel And Oil	1,463,460	1,291,332
Indigent Support	786,110	1,239,826
Internal Audit	456,957	-
Insurance	598,950	564,997
Lease Charges	427,248	379,876
Legal Cost	39,047	404,211
Library Costs	656,833	555,152
Licences	113,655	74,729
Local Economical Development	509,282	550,710
Material	195,113	155,248
Membership Fees	508,857	531,000
Other General Expenses	2,132,244	1,700,272
Postage And Telegrams	243,446	226,459
Printing And Stationery	221,114	226,072
Special Programme - IT Support	921,919	760,377
Special Programme - M S I G	-	838,371
Special Programme - M F M A	2,729,109	2,197,750
Special Programme - Norval Water Feasibility	-	83,139
Special Programme - Water Training (Dbsa)	-	139,126
Special Programme - Community Participation	34,180	38,321
Subsistence And Travelling	2,701,252	2,474,288
Telephone Cost	1,293,356	900,721
Traffic	1,500	3,400
Training Cost	136,791	72,565
Uniforms And Protective Clothing	97,214	99,881
Valuation	30,310	24,350
Ward Committee Meeting Costs	216,395	331,300
Workmen's Compensation	227,735	213,950
<b>Total General Expenses</b>	<b>19,800,048</b>	<b>18,678,250</b>

*General Expenses* have been restated to correctly classify expenditure incurred in terms of a VAT Audit performed. Refer to Note 34.4 on "Correction of Error" for details of the restatement.

The amounts disclosed above for Other General Expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental Charges are charged to other trading and economic services for support services rendered.

**33.1 Material Losses**

	<b>15,294,186</b>	<b>12,217,446</b>
Distribution Losses:		
Electricity Losses	6,299,445	4,739,607
Water Losses	8,994,741	7,477,840

The amounts disclosed above for **Electricity and Water Losses** are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense (See Note 48.9).

No other extra-ordinary expenses were incurred.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>34 CORRECTION OF ERROR</b>		
Corrections were made during the previous financial years. Details of the corrections are described below:		
<b>Details of the appropriations are as follows:</b>		
<b>Statement of Financial Position:</b>		
Inventory		
Trade Receivables from Exchange Transactions		
Trade Receivables from Non-Exchange Transactions		
VAT Payable	124,658	124,658
Property, Plant and Equipment	(284,574)	(284,574)
Creditors	(1,128,173)	(1,128,173)
Accumulated Surplus / (Deficit) - Prior Year Adjustments	1,284,551	1,284,551
Accumulated Surplus / (Deficit) - (Surplus) / Deficit for the Year	3,539	3,539
	-	-
<b>Statement of Financial Performance:</b>		
Depreciation and Amortisation		23,464
Profit or (loss) on disposal of assets		(18,213)
General Expenses		(1,713)
		3,539

**34.1 Reclassification of Statement of Financial Performance:**

No prior year figures of Revenue Classes have been restated.

**34.2 Reclassification of Statement of Financial Position:**

No prior year figures in the Financial Position have been restated to correctly classify the nature.

**34.3 Misstatement of Property, Plant and Equipment, Payables and VAT**

During the financial year management received invoices from contractors towards the end of December 2016, which related to the 2015/2016 financial year.

**The effect of the Correction of Error is as follows:**

<b>Statement of Financial Position:</b>		
Increase / (decrease) in Property, Plant and Equipment	1,019,766	1,019,766
(Increase) / decrease in VAT Payables	108,407	108,407
(Increase) / decrease in Creditors	(1,128,173)	(1,128,173)
	-	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017  
R

2016  
R

**34 CORRECTION OF ERROR (Continued)**

**34.4 Misstatement of VAT Payable**

A VAT review was performed on the details of the municipality and it was found that on some expenditure the VAT was not claimed from SARS and was not correctly processed.

**The effect of the Correction of Error is as follows:**

**Statement of Financial Position:**

(Increase) / decrease in Accumulated Surplus	(16,251)	(14,538)
(Increase) / decrease in VAT Payables	16,251	16,251

**Statement of Financial Performance:**

Increase / (decrease) in General Expenses		(1,713)
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-	-	-
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**34.5 Misstatement of Property, Plant and Equipment**

Management adjusted the Property, Plant and Equipment's opening balance due to assets that was found during the verification process. Assets were also taken off as they did not belong to the municipality. The above was corrected retrospectively.

**The effect of the Correction of Error is as follows:**

**Statement of Financial Position:**

(Increase) / decrease in Accumulated Surplus	1,304,340	1,299,088
Increase / (decrease) in Property, Plant and Equipment	(1,304,340)	(1,304,340)

**Statement of Financial Performance:**

(Increase) / decrease in Profit or (loss) on disposal of assets		(18,213)
Increase / (decrease) Depreciation and		23,464

-	-	-
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**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017  
R

2016  
R

**35 CHANGE IN ACCOUNTING ESTIMATES**

The municipality did not receive any new information or notice of new developments during the financial year that need to be disclosed in terms of GRAP 3.

**35.1 Depreciation Expenditure:**

The residual values, estimated useful lives were reviewed at 30 June 2017. Adjustments to the residual values and useful lives affect the amount of provision for the current year and is expected to affect future periods as well. The adjustments are as follows:

Increase / (Decrease) in Depreciation due to adjustments to Useful Lives of PPE	(246,557)	(774,056)
<b>Increase / (Decrease) in Depreciation of PPE</b>	<b><u>(246,557)</u></b>	<b><u>(774,056)</u></b>
Depreciation as previously stated	1,895,504	898,119
Adjustment due to Change in Accounting Estimate	1,648,947	124,062
<b>Depreciation as per Note 28</b>	<b><u>(246,557)</u></b>	<b><u>(774,056)</u></b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>36 CASH GENERATED BY OPERATIONS</b>		
Surplus / (Deficit) for the Year	(1,671,762)	14,878,816
Adjustment for:		
Depreciation and Amortisation	27,823,095	28,143,411
Impairment Losses on Property, Plant and Equipment	315,084	584,659
Losses / (Gains) on Disposal of Property, Plant and Equipment	1,107,186	3,233,212
Contribution to Retirement Benefit Liabilities	(231,735)	650,614
Contribution to Provisions - Current	269,642	(29,987)
Contribution to Provisions - Non-current	396,910	416,860
<b>Operating surplus before working capital changes</b>	<b>28,008,420</b>	<b>47,877,585</b>
Decrease/(Increase) in Inventories	(27,557)	(15,819)
Decrease/(Increase) in Receivables from Exchange Transactions	(5,518,119)	8,553,303
Decrease/(Increase) in Receivables from Non-exchange Transactions	1,034,958	3,788,188
Decrease/(Increase) in Operating Lease Assets	1,124	1,513
Increase/(Decrease) in Consumer Deposits	38,777	32,604
Increase/(Decrease) in Payables from Exchange Transactions	(7,877,989)	1,582,606
Increase/(Decrease) in Payables from Non-exchange Transactions	291,948	655,045
Increase/(Decrease) in Conditional Grants and Receipts	5,879,271	(423,423)
Increase/(Decrease) in VAT Payable	1,362,910	5,025,658
<b>Cash generated by / (utilised in) Operations</b>	<b>23,193,743</b>	<b>67,077,260</b>

**37 NON-CASH INVESTING AND FINANCING TRANSACTIONS**

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2016/17 financial year.

**38 FINANCING FACILITIES**

The municipality did not have any Financing Facilities available at any time during the two financial years.

**39 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION**

Long-term Liabilities (See Note 16)	3,357,726	2,497,196
Used to finance Property, Plant and Equipment - at cost	(3,357,726)	(2,497,196)
Sub-total	-	-
Cash set aside for the Repayment of Long-term Liabilities (See Notes 5)	-	-
<b>Cash invested for Repayment of Long-term Liabilities</b>	-	-

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash is available to ensure that Long-term Liabilities can be repaid on the scheduled redemption dates.

**40 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**40.1 Unauthorised Expenditure**

Reconciliation of Unauthorised Expenditure:

Opening balance	20,625,178	7,145,759
Unauthorised Expenditure current year	5,599,814	20,625,178
Approved by Council or condoned on 29 July 2016	(20,625,178)	(7,145,759)
Unauthorised Expenditure awaiting authorisation	<b>5,599,814</b>	<b>20,625,178</b>

Incident	Disciplinary Steps / Criminal Proceedings
<i>Budgeted votes exceeded:-</i>	<i>To be condoned by Council</i>
- Executive and Council - R0 (2016: R20,488)	
- Finance and Administration - R909,299 (2016: R3,884,315)	
- Community and Social Services - R4,690,515 (2016: R291,353)	
- Technical Services - R0 (2016: R16,429,020)	

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>40 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)</b>		
<b>40.2 Fruitless and Wasteful Expenditure</b>		
Reconciliation of Fruitless and Wasteful expenditure:		
Opening balance	-	-
Fruitless and Wasteful Expenditure current year	-	-
Approved by Council or condoned	-	-
Fruitless and Wasteful Expenditure awaiting condonement	-	-

Incident	Disciplinary Steps / Criminal Proceedings
<i>Interest on late payment - Various Creditors - R0 (2016: R0)</i>	None

**40.3 Irregular Expenditure**

Reconciliation of Irregular Expenditure:		
Opening balance	8,708,768	2,238,717
Irregular Expenditure current year	11,051,687	7,935,462
Approved by Council and written off on 15 July 2017	(7,935,462)	-
Approved by Council and written off on 29 July 2016	-	(1,465,411)
Irregular Expenditure awaiting condonement	11,824,993	8,708,768

Incident	Disciplinary Steps / Criminal Proceedings
<i>During the year management identified purchases where the SCM procedures were not followed as to no Tax Clearance Certificates were obtained from the suppliers</i>	<i>These matter are being investigated and further communication will be addressed at the next council meeting.</i>
<i>Deviations from SCM procedures not regarded as Irregular Expenditure</i>	<i>During the year deviations amounting to R3 660 445 (2016: R3 315 612) were identified relating less than the minimum quotations obtained. These items were identified in the current year after a detailed investigation by management. The register containing the detail of the total balance is available for inspection, based on the discretion of management. No disciplinary steps have been taken to date and no formal investigation into the matters have been launched. A report relating the deviations was adopted by the council and approved by the Municipal Manger.</i>

The municipality did not have adequate time during the audit to quantify the full extent of irregular expenditure that was noted during the audit process

**41 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**41.1 Contributions to organised local government - SALGA**

Opening Balance	-	-
Council Subscriptions	508,857	526,000
Amount Paid - current year	(508,857)	(526,000)
<b>Balance Unpaid (included in Creditors)</b>	-	-

**41.2 Audit Fees**

Opening Balance	-	-
Current year Audit Fee	2,058,582	1,671,823
Council Subscriptions - VAT Portion	288,201	234,055
Amount Paid - current year	(2,346,783)	(1,905,879)
<b>Balance Unpaid (included in Creditors)</b>	-	-

**41.3 VAT**

The net of VAT input payables and VAT output receivables are shown in Note 15. All VAT returns have been submitted by the due date throughout the year.

**41.4 PAYE, Skills Development Levy and UIF**

Opening Balance	-	-
Current year Payroll Deductions	5,413,613	5,085,560
Amount Paid - current year	(5,413,613)	(5,085,560)
<b>Balance Unpaid (included in Creditors)</b>	-	-

**41.5 Pension and Medical Aid Deductions**

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	7,808,283	7,407,162
Amount Paid - current year	(7,808,283)	(7,407,162)
<b>Balance Unpaid (included in Creditors)</b>	-	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>41 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)</b>		
<b>41.6 Councillor's arrear Consumer Accounts</b>		
The following Councillors had arrear accounts outstanding for up to 90 days as at:		
<b>30 June 2017</b>	<b>Total</b>	<b>Outstanding up to 90 days</b>
		<b>Outstanding more than 90 days</b>
Councillor MZWANDILE TOTO	-	-
Councillor MBULELO KAFI	42,445	1,079
Councillor ELSABIE HUMPHRIES	-	-
Councillor NANDIPHA STAFA	25,961	775
Councillor MZIMKHULU SESTILE	120	120
Councillor WILLEM MINNIE	28,101	1,126
Councillor VINCENT HARMSE	359	359
Councillor JOHANNES WILLIAMS	983	983
Councillor SHERYN BROWN	326	326
Councillor JOHANNES MATHEE	3,211	3,211
Councillor NICOLAS BATTIES	8,721	1,987
<b>Total Councillor Arrear Consumer Accounts</b>	<b>110,226</b>	<b>9,967</b>

	Total	Outstanding up to 90 days
		Outstanding more than 90 days
<b>30 June 2016</b>		
Councillor FRITZ ANNIE	360	360
Councillor NL. HERMANS	2,268	2,268
Councillor E. HUMPHRIES	335	335
Councillor N.B. MDALA	(2,800)	(2,800)
Councillor S.G. MLENZANA	219	219
Councillor S. NGALIMANI	472	472
Councillor N. REYNERS	521	521
Councillor SESTILE M ALBERT	390	390
Councillor N.B. SIKO	275	275
<b>Total Councillor Arrear Consumer Accounts</b>	<b>2,041</b>	<b>2,041</b>

During the year the following Councillors had arrear accounts outstanding up to 90 days:

	Highest amount outstanding	Ageing
<b>30 June 2017</b>		
Councillor MZWANDILE TOTO	-	< 90 Days
Councillor MBULELO KAFI	42,445	> 90 Days
Councillor ELSABIE HUMPHRIES	111	< 90 Days
Councillor NANDIPHA STAFA	25,961	> 90 Days
Councillor MZIMKHULU SESTILE	204	< 90 Days
Councillor WILLEM MINNIE	47,567	> 90 Days
Councillor VINCENT HARMSE	864	< 90 Days
Councillor JOHANNES WILLIAMS	5,494	> 90 Days
Councillor SHERYN BROWN	700	< 90 Days
Councillor JOHANNES MATHEE	6,197	< 90 Days
Councillor NICOLAS BATTIES	10,589	> 90 Days
<b>30 June 2016</b>		
Councillor FRITZ ANNIE	360	< 90 Days
Councillor H.C. GRONUM	-	< 90 Days
Councillor NL. HERMANS	2,268	< 90 Days
Councillor E. HUMPHRIES	335	< 90 Days
Councillor N.B. MDALA	(2,800)	< 90 Days
Councillor S.G. MLENZANA	219	< 90 Days
Councillor S. NGALIMANI	472	< 90 Days
Councillor N. REYNERS	521	< 90 Days
Councillor SESTILE M ALBERT	390	< 90 Days
Councillor N.B. SIKO	275	< 90 Days

**41.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act**

No known matters existed at reporting date.



**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>41 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (Continued)</b>		
<b>41.8 Bulk Electricity and Water Losses in terms of Section 125 (2)(d)(i) of the MFMA</b>		
Material Electricity and Water Losses were as follows and are not recoverable:		

**Electricity:**

		Lost Units	Tariff	Value
<b>30 June 2017</b>	Unaccounted Electricity Losses	<u>5,778,530</u>	<u>1.0901</u>	<u>6,299,445</u>
<b>30 June 2016</b>	Unaccounted Electricity Losses	<u>4,027,880</u>	<u>1.1767</u>	<u>4,739,607</u>

Electricity Losses occur due to *inter alia*, technical and non-technical losses (Technical losses - inherent resistance of conductors, transformers and other electrical equipment; Non-technical losses - the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal electricity connections). The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

	2017 R	2016 R
<b>Volumes in kWh/year:</b>		
System Input Volume	24,368,254	24,324,689
Billed Consumption	18,589,724	20,296,809
Distribution Loss	5,778,530	4,027,880
Percentage Distribution Loss	23.71%	16.56%

**Water:**

		Lost Units	Tariff	Value
<b>30 June 2017</b>	Unaccounted Water Losses	<u>1,539,234</u>	<u>5.8436</u>	<u>8,994,741</u>
<b>30 June 2016</b>	Unaccounted Water Losses	<u>1,776,209</u>	<u>4.2100</u>	<u>7,477,840</u>

Water Losses occur due to *inter alia*, leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

	2017 R	2016 R
<b>Volumes in Kl/year:</b>		
System Input Volume	2,738,520	3,096,552
Billed Consumption	1,199,286	1,320,343
Distribution Loss	1,539,234	1,776,209
Percentage Distribution Loss	56.21%	57.36%

**42 COMMITMENTS FOR EXPENDITURE**

**42.1 Capital Commitments**

Commitments in respect of Capital Expenditure:

<b>- Approved and Contracted for:-</b>	<b>48,267,077</b>	<b>32,906,604</b>
Infrastructure	48,267,077	30,394,888
Other	-	2,511,717
<b>- Approved but Not Yet Contracted for:-</b>	<b>-</b>	<b>-</b>
Infrastructure	-	-
<b>Total Capital Commitments</b>	<b>48,267,077</b>	<b>32,906,604</b>
This expenditure will be financed from:		
Government Grants	48,267,077	32,906,604
	<u>48,267,077</u>	<u>32,906,604</u>
Commitments for the acquisition of Property, Plant and Equipment	<u>48,267,077</u>	<u>30,394,888</u>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>43 FINANCIAL INSTRUMENTS</b>		
<b>43.1 Classification</b>		
<b>FINANCIAL ASSETS:</b>		
In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:		
<u>Financial Assets</u>	<u>Classification</u>	
<b>Receivables from Exchange Transactions</b>		
Electricity	Amortised cost 5,208,547	4,762,045
Refuse	Amortised cost 1,787,848	1,012,840
Sewerage	Amortised cost 2,692,364	1,570,082
Water	Amortised cost 6,098,400	2,984,292
Other Receivables	Amortised cost 141,081	80,863
<b>Receivables from Non-exchange Transactions</b>		
Assessment Rates Debtors	Amortised cost 2,602,777	1,963,161
Payments made in Advance	Amortised cost -	2,200
Sundry Debtors	Amortised cost 775,804	706,051
<b>Cash and Cash Equivalents</b>		
Notice Deposits	Amortised cost 837,083	6,291,870
Bank Balances	Amortised cost 16,273,371	12,952,536
Cash Floats and Advances	Fair value 3,700	3,700
<b>SUMMARY OF FINANCIAL ASSETS</b>		
<b>Financial Assets at Amortised Cost:</b>		
Receivables from Exchange Transactions	Electricity 5,208,547	4,762,045
Receivables from Exchange Transactions	Refuse 1,787,848	1,012,840
Receivables from Exchange Transactions	Sewerage 2,692,364	1,570,082
Receivables from Exchange Transactions	Water 6,098,400	2,984,292
Receivables from Exchange Transactions	Other Debtors 141,081	80,863
Receivables from Non-exchange Transactions	Assessment Rates Debtors 2,602,777	1,963,161
Receivables from Non-exchange Transactions	Payments made in Advance -	2,200
Receivables from Non-exchange Transactions	Sundry Debtors 775,804	706,051
Cash and Cash Equivalents	Bank Balances 16,273,371	12,952,536
Cash and Cash Equivalents	Notice Deposits 837,083	6,291,870
	36,417,276	32,325,940
<b>Financial Assets at Fair Value:</b>		
Cash and Cash Equivalents	Cash Floats and Advances 3,700	3,700
	3,700	3,700
<b>Total Financial Assets</b>	<b>36,420,976</b>	<b>32,329,640</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

		2017 R	2016 R
<b>43 FINANCIAL INSTRUMENTS (Continued)</b>			
<b>FINANCIAL LIABILITIES:</b>			
In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:			
<u>Financial Liabilities</u>	<u>Classification</u>		
Annuity Loans	Amortised cost	167,291	1,047,320
Finance Lease Liabilities	Amortised cost	2,142,212	208,993
<b>Payables from Exchange Transactions</b>			
Trade Creditors	Amortised cost	5,952,746	10,314,981
Retentions	Amortised cost	4,567,741	6,938,711
<b>Payables from Non-exchange Transactions</b>			
Staff Bonuses	Amortised cost	745,086	735,024
Staff Leave Accrued	Amortised cost	2,895,551	2,588,044
Sundry Deposits	Amortised cost	145,514	171,136
Annuity Loans	Amortised cost	881,029	1,114,150
Finance Lease Liabilities	Amortised cost	167,194	126,733
<b>SUMMARY OF FINANCIAL LIABILITIES</b>			
<b>Financial Liabilities at Amortised Cost:</b>			
Long-term Liabilities	Annuity Loans	167,291	1,047,320
Long-term Liabilities	Finance Lease Liabilities	2,142,212	208,993
Payables from Exchange Transactions	Trade Creditors	5,952,746	10,314,981
Payables from Exchange Transactions	Retentions	4,567,741	6,938,711
Payables from Non-exchange Transactions	Staff Bonuses	745,086	735,024
Payables from Non-exchange Transactions	Staff Leave Accrued	2,895,551	2,588,044
Payables from Non-exchange Transactions	Sundry Deposits	145,514	171,136
Current Portion of Long-term Liabilities	Annuity Loans	881,029	1,114,150
Current Portion of Long-term Liabilities	Finance Lease Liabilities	167,194	126,733
		17,664,363	23,245,091
<b>Total Financial Liabilities</b>		<b>17,664,363</b>	<b>23,245,091</b>

**43.2 Fair Value**

The following methods and assumptions were used to estimate the Fair Value of each class of Financial Instrument for which it is practical to estimate such

**Long-term Investments**

The Fair Value of some Investments are estimated based on quoted market prices of those or similar investments. Unlisted Equity Investments are estimated using the discounted cash flow method.

**Loan Receivables/Payables**

Interest-bearing Borrowings and Receivables are generally at interest rates in line with those currently available in the market on a floating-rate basis, and therefore the Fair Value of these Financial Assets and Liabilities closely approximates their carrying values. Fixed interest-rate instruments are fair valued based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**Trade and Other Receivables/Payables**

The Fair Value of Trade and Other Payables is estimated at the present value of future cash flows.

The management of the municipality is of the opinion that the carrying value of Trade and Other Receivables recorded at amortised cost in the Annual Financial Statements approximate their fair values. The Fair Value of Trade Receivables were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratios of the municipality's debtors.

**Other Financial Assets and Liabilities**

The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

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**43 FINANCIAL INSTRUMENTS (Continued)**

**Long-term Liabilities**

The Fair Value of Long-term Liabilities was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2017, as a result of the short-term maturity of these assets and liabilities.

The Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of Financial Position, are as follows:

	30 June 2017		30 June 2016	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
<b>FINANCIAL ASSETS</b>				
<b>Measured at Amortised Cost:</b>	36,417,276	36,417,276	32,325,940	32,325,940
Notice Deposits	837,083	837,083	6,291,870	6,291,870
Trade Receivables from Exchange Transactions	15,928,241	15,928,241	10,410,122	10,410,122
Trade Receivables from Non-exchange Transactions	3,378,581	3,378,581	2,671,412	2,671,412
Bank Balances and Cash	16,273,371	16,273,371	12,952,536	12,952,536
<b>Measured at Fair Value</b>	3,700	3,700	3,700	3,700
Bank Balances and Cash	3,700	3,700	3,700	3,700
<b>Total Financial Assets</b>	<u>36,420,976</u>	<u>36,420,976</u>	<u>32,329,640</u>	<u>32,329,640</u>
<b>FINANCIAL LIABILITIES</b>				
<b>Measured at Amortised Cost:</b>	17,664,363	17,664,363	23,245,091	23,245,091
Annuity Loans	167,291	167,291	1,047,320	1,047,320
Finance Lease Liabilities	2,142,212	2,142,212	208,993	208,993
Trade and Other Payables:				
- Payables from Exchange Transactions	10,520,487	10,520,487	17,253,692	17,253,692
- Payables from Non-exchange Transactions	3,786,151	3,786,151	3,494,203	3,494,203
- Current Portion of Long-term Liabilities	1,048,223	1,048,223	1,240,883	1,240,883
<b>Total Financial Liabilities</b>	<u>17,664,363</u>	<u>17,664,363</u>	<u>23,245,091</u>	<u>23,245,091</u>
<b>Total Financial Instruments</b>	<u>18,756,613</u>	<u>18,756,613</u>	<u>9,084,549</u>	<u>9,084,549</u>
<b>Unrecognised Gain / (Loss)</b>		-		-

No Financial Instruments of the municipality have been reclassified during the year.

**Assumptions used in determining Fair Value of Financial Assets and Financial Liabilities**

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by

Level 1:-

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

Level 2:-

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3:-

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R			2016 R
<b>43 FINANCIAL INSTRUMENTS (Continued)</b>				
<b>30 June 2017</b>				
	Level 1 R	Level 2 R	Level 3 R	Total R
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value:</b>				
Bank Balances and Cash	-	16,277,071	-	16,277,071
<b>Total Financial Assets</b>	<u>-</u>	<u>16,277,071</u>	<u>-</u>	<u>16,277,071</u>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value:</b>				
Other Loans	-	-	-	-
<b>Total Financial Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Financial Instruments</b>	<u>-</u>	<u>16,277,071</u>	<u>-</u>	<u>16,277,071</u>
<b>30 June 2016</b>				
	Level 1 R	Level 2 R	Level 3 R	Total R
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value:</b>				
Bank Balances and Cash	-	12,956,236	-	12,956,236
<b>Total Financial Assets</b>	<u>-</u>	<u>12,956,236</u>	<u>-</u>	<u>12,956,236</u>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value:</b>				
Other Loans	-	-	-	-
<b>Total Financial Liabilities</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Financial Instruments</b>	<u>-</u>	<u>12,956,236</u>	<u>-</u>	<u>12,956,236</u>

**43.3 Capital Risk Management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 16, Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 19 and the Statement of Changes in Net Assets.

The capital structure of the municipality consists of debt, which includes Cash and Cash Equivalents and Equity, comprising Funds, Reserves and Accumulated Surplus as disclosed in Note 19 and the Statement of Changes in Net Assets.

**Gearing Ratio**

In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 95,00%, reducing 90,00%. This aggressive ratio is as a result of the development challenges faced by the municipality. The rate of borrowing is well below market related rates.

The municipality's risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The municipality has a target gearing ratio of 20-25% determined as the proportion of net debt to equity. Based on the committee's recommendations, the municipality expects to increase its gearing ratio closer to 25% through the issue of new debt.

The gearing ratio at the year-end was as follows:

Debt	7,143,877	5,991,399
Cash and Cash Equivalents	(3,700)	(3,700)
<b>Net Debt</b>	<u>7,140,177</u>	<u>5,987,699</u>
Equity	<u>505,071,428</u>	<u>506,743,190</u>
<b>Net debt to equity ratio</b>	<u>1.41%</u>	<u>1.18%</u>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

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**43 FINANCIAL INSTRUMENTS (Continued)**

Debt is defined as Long- and Short-term Liabilities\*.

Equity includes all Funds and Reserves of the municipality, disclosed as Net Assets in the Statement of Financial Performance and Net Debt as described above.

**43.4 Financial Risk Management Objectives**

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The municipality's Corporate Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the municipality through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

**43.5 Significant Risks**

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Credit Risk;
- Liquidity Risk; and
- Market Risk.

Risks and exposures are disclosed as follows:

**Market Risk**

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Credit Risk**

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

**Liquidity Risk**

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 43.8 to the Annual Financial Statements.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

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**43 FINANCIAL INSTRUMENTS (Continued)**

**43.6 Market Risk**

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 51.7 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

**43.6.1 Foreign Currency Risk Management**

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest

**43.6.2 Interest Rate Risk Management**

*Interest Rate Risk* is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial Assets and Liabilities that are sensitive to interest rate risk are cash and cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates. The risk is managed by the municipality by maintaining an appropriate mix between fixed and floating rate borrowings, such borrowing being below market related rates.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

**Interest Rate Sensitivity Analysis**

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Note 51.9 below:

*Cash and Cash Equivalents:*

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

- Surplus for the year ended 30 June 2017 would have increased / decreased by R146,130 (30 June 2016: increased / decreased by R69,624). This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

The municipality's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

*Finance Lease Liabilities:*

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

- Surplus for the year ended 30 June 2017 would have decreased / increased by R6,037 (30 June 2016: decreased / increased by R6,300). This is mainly attributable to the municipality's exposure to interest rates on its variable rate borrowings; and

The municipality's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

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**43 FINANCIAL INSTRUMENTS (Continued)**

**43.7 Credit Risk Management**

*Credit Risk* refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

**Investments/Bank, Cash and Cash Equivalents**

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank, First National Bank, Nedbank and Standard Bank. No investments with a tenure exceeding twelve months are made.

**Trade and Other Receivables**

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

Trade Receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Except as detailed in the following table, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained:

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Consumer Debtors	113,068,318	96,408,498
Other Debtors	13,493,085	13,354,943
Bank, Cash and Cash Equivalents	17,114,154	19,248,106
<b>Maximum Credit and Interest Risk Exposure</b>	<b>143,675,557</b>	<b>129,011,547</b>

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

	%	%
Consumer Debtors:		
- Household	90.73%	89.35%
- Industrial / Commercial	5.56%	5.62%
- National and Provincial Government	3.71%	5.04%
Other Debtors:		
- Other not Classified	1.78%	3.71%
<b>Total Credit Risk</b>	<b>101.78%</b>	<b>103.71%</b>



**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>43 FINANCIAL INSTRUMENTS (Continued)</b>		
<b>Bank and Cash Balances</b>		
ABSA Bank Ltd	13,504,707	14,767,066
First National Bank	24,356	24,356
Standard Bank	3,581,391	4,452,984
Cash Equivalents	3,700	3,700
<b>Total Bank and Cash Balances</b>	<b><u>17,114,154</u></b>	<b><u>19,248,105</u></b>
<b>Credit quality of Financial Assets:</b>		
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to		
<b>Receivables from Exchange Transactions</b>		
Counterparties without external credit rating:-		
Group 1	6,968,689	8,501,567
Group 2	1,006,464	1,660,094
Group 3	-	-
	<u>7,975,153</u>	<u>10,161,661</u>
<b>Total Receivables from Exchange Transactions</b>	<b><u>7,975,153</u></b>	<b><u>10,161,661</u></b>
<b>Receivables from Non-exchange Transactions</b>		
Group 1	1,977,093	3,166,890
<b>Total Receivables from Non-exchange Transactions</b>	<b><u>1,977,093</u></b>	<b><u>3,166,890</u></b>

**Credit quality Groupings:**

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**43 FINANCIAL INSTRUMENTS (Continued)**

**43.8 Liquidity Risk Management**

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 46 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash).

**Liquidity and Interest Risk Tables**

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

The following tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
<b>30 June 2017</b>								
Non-interest Bearing		0.00%	14,306,637	14,306,637	-	-	-	-
- Payables from Exchange transactions			10,520,487	10,520,487	-	-	-	-
- Payables from Non-exchange transactions			3,786,151	3,786,151	-	-	-	-
			-	-	-	-	-	-
Variable Interest Rate Instruments		8.08%	-	-	-	-	-	-
- Bank Overdraft			-	-	-	-	-	-
			-	-	-	-	-	-
Fixed Interest Rate Instruments		5.00%	1,048,223	881,029	-	-	167,194	-
- ABSA		5.00%	1,048,223	881,029	-	-	167,194	-
			<b>15,354,860</b>	<b>15,187,667</b>	-	-	<b>167,194</b>	-
<b>30 June 2016</b>								
Non-interest Bearing		0.00%	20,747,895	20,747,895	-	-	-	-
- Payables from Exchange transactions			17,253,692	17,253,692	-	-	-	-
- Payables from Exchange transactions			3,494,203	3,494,203	-	-	-	-
			-	-	-	-	-	-
Fixed Interest Rate Instruments		5.00%	1,279,715	1,139,385	-	-	140,330	-
- ABSA		5.00%	1,279,715	1,139,385	-	-	140,330	-
			<b>22,027,610</b>	<b>21,887,280</b>	-	-	<b>140,330</b>	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

**43 FINANCIAL INSTRUMENTS (Continued)**

At the year-end it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the amount included above is nil.

The following table details the municipality's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows and (outflows) on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

Description	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	R	R	R	R		R
<b>30 June 2017</b>						
Net Settled:						
Interest Rate Swaps	689	11	50	205	302	121
Foreign Exchange Forward Contracts	(13)	(5)	(21)	13	-	-
Gross Settled:						
Foreign Exchange Forward Contracts	47	12	35	-	-	-
	<b>723</b>	<b>18</b>	<b>64</b>	<b>218</b>	<b>302</b>	<b>121</b>
<b>30 June 2016</b>						
Net Settled:						
Interest Rate Swaps	289	7	18	22	160	82
Foreign Exchange Forward Contracts	34	10	15	9	-	-
Gross Settled:						
Foreign Exchange Forward Contracts	218	65	132	21	-	-
	<b>541</b>	<b>82</b>	<b>165</b>	<b>52</b>	<b>160</b>	<b>82</b>

**43.9 Other Price Risks**

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017	2016
R	R

**44 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION**

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

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 total expense recognised in the Statement of Financial Performance of R4,155,687 (2016: R3,941,674) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The total expense recognised in the Statement of Financial Performance of R4,155,687 (2016: R3,941,674) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. As at 30 June 2017, contributions of R8 000 (30 June 2016: R8 000) due in respect of the 2016/17 (2015/16) reporting period had not been paid over to the plans. The amounts were paid over subsequent to the reporting date (see Note 45.5).

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

**DEFINED BENEFIT SCHEMES**

**Government Employees Pension Fund (GEPF):**

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2006.

The statutory valuation performed as at 30 June 2006 revealed that the fund had a surplus of R0,0 (30 June 2004: deficit of R12,8) million, with a funding level of 100,0% (30 June 2004: 96,5%). The contribution rate paid by the members (7,00%) and the municipalities (13,00%) is sufficient to fund the benefits accruing from the fund in the future.

**Municipal Employees Pension Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 28 February 2008.

The net assets available for benefits were R5 715 557 193.

The fund is closed for membership and no new members are allowed to join the fund.

No further information could be obtained.

**National Fund for Municipal Workers - Pension Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2006.

The fund does not have any reserves or surpluses which can be allocated to members' fund records.

The last valuation performed for the period ended 31 March 2006 revealed that the fund had a shortfall of R205 million, with a funding level of 83%. This will be taken into account in determining future surcharges, to be met by increased employer contributions. These surcharges are as follows:

- From 1 July 2006 14%
- From 1 July 2007 17%

The above-mentioned surcharge is payable until 1 July 2010. This position will be monitored on an annual basis.

The statutory valuation performed as at 1 July 2008 revealed that the fund had a deficit of 6,3 (1 July 2007: surplus R9,5) million, with a funding level of 99,83% (1 July 2007: 100,26%). The contribution rate paid by the members (2,00% to 5,00%) and the municipalities (2,00% to 7,00%) is sufficient to fund the benefits accruing from the fund in the future.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

<b>2017</b>	<b>2016</b>
<b>R</b>	<b>R</b>

**44 MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION (Continued)**

No further information could be obtained.

**Joint Municipal Pension Fund** (previously Transvaal Municipal Pension Fund):

The scheme is subject to a bi-annual actuarial valuation. The last statutory valuation was performed as at 30 September 2007.

The statutory valuation performed as at 30 September 2007 revealed that the fund had a surplus of R82,1 (31 December 2005: shortfall of R44,2) million, with a funding level of 123,7% (31 December 2005: unknown). The contribution rate paid by the members (9,00%) and municipalities (22,00%) has a shortfall of 0,90%, but can be covered by the available margin in the fund.

The last valuation performed for the period ended 31 March 2006 revealed that the fund had a shortfall of R205 million, with a funding level of 83%. This will be taken into account in determining future surcharges, to be met by increased employer contributions. These surcharges are as follows:

- From 1 July 2006 14%
- From 1 July 2007 17%

The above-mentioned surcharge is payable until 1 July 2010. This position will be monitored on an annual basis.

The fund is closed for membership and no new members are allowed to join the fund.

No information could be obtained.

**DEFINED CONTRIBUTION SCHEMES**

**Municipal Councillors Pension Fund:**

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The Municipal Councillors Pension Fund operates as a defined contribution scheme. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future. The actuarial valuation of the fund was undertaken at 30 June 2005 and reported a funding ratio of 147,3%.

The statutory valuation performed as at 30 June 2010 revealed that the market value of the fund was R1 446,8 (30 June 2009: R1 223,7) million. The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

The next statutory valuation was due at 30 June 2009, but an extension has been granted until 31 December 2010.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2010.

**Municipal Employees Gratuity Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The valuation performed as at 30 June 2010 revealed that the market value of the fund was R9 774 (30 June 2009: 8 249) million. The contribution rate payable (7,50% by the member and 22,00% by the employer), is 0,10% lower than the 5,00% available to cover the cost of benefits and expenses, but can be absorbed by the current balance in the Risk reserve. The fund was certified to be in sound financial condition as at 30 June 2007.

The valuation performed as at 30 June 2010 revealed that the market value of the fund was R9 774 (30 June 2009: 8 249) million. The contribution rate payable (7,50% by the member and 22,00% by the employer), is sufficient to fund the benefits accruing from the fund in the future. The fund was certified to be in sound financial condition as at 30 June 2010.

**National Fund for Municipal Workers - Provident Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last statutory valuation was performed as at 01 July 2008.

The net assets available for benefits were R3 617 (2007: R3 696) million.

The statutory valuation performed as at 1 July 2008 revealed that the fund had a deficit of 6,3 (1 July 2007: surplus R9,5) million, with a funding level of 99,83% (1 July 2007: 100,26%). The contribution rate paid by the members (2,00% to 5,00%) and the municipalities (2,00% to 7,00%) is sufficient to fund the benefits accruing from the fund in the future.

None of the above mentioned plans are State Plans.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

2017  
R                      2016  
R

**45 RELATED PARTY TRANSACTIONS**

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

**45.1 Interest of Related Parties**

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
AC Mpela	Municipal Manger	Director of Mthombo Sediba Development Agency (Article 21 ) and Member of Pride and Grace Trading and Projects cc Non-Executive Director of Umsobomvu Industrial Development City Management
Mr Kapp	Corporate Manager	Non-Executive Director of Umsobomvu Industrial Development City Management
P Mosompha	Technical Manager	Member of World Focus 684 cc
NL. Hermans	Councillor	Member of Woman in Property and Facilities Management cc
Mr Gronum	Councillor	Tender Morganite Tradings 2
S Ngalimani	Councillor	Member of Vukuzenzele Tuck Shop cc
MA Sestile	Councillor	Member of Kwazamuxolo Building and Maintenance Construction cc
S.G Mlenzana	Councillor	Member of Amachule Akwantu Art And Craft
M.R Kafi	Councillor	Member of Sakhisizwe Colesberg Tours and Sakhisizwe Tours And Event Management
W Minnie	Councillor	Member of Jashwill Contractors
NJ Batties	Councillor	Member of Bongata Trading 533 and Mighty Warrior Transport Services
J.P Matthee	Councillor	Member of JM Compsol

**45.2 Services rendered to Related Parties**

During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:

	Rates Charges R	Service Charges R	Sundry Charges R	Outstanding Balances R
<b>For the Year ended 30 June 2017</b>				
Councillors	5,539	68,128	6,322	109,559
Municipal Manager and Section 57 Personnel	22,538	51,005	519	2,194
<b>Total Services</b>	<b>28,077</b>	<b>119,133</b>	<b>6,841</b>	<b>111,753</b>
<b>For the Year ended 30 June 2016</b>				
Councillors	10,028	37,523	2,288	2,041
Municipal Manager and Section 57 Personnel	19,419	50,994	50	5,935
<b>Total Services</b>	<b>29,447</b>	<b>88,517</b>	<b>2,338</b>	<b>7,976</b>

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

**45.3 Loans granted to Related Parties**

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.

**45.4 Compensation of Related Parties**

Compensation of Key Management Personnel and Councillors is set out in Appendix G, Statement of Remuneration of Management, to the Annual Financial Statements.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017 R	2016 R
<b>45 RELATED PARTY TRANSACTIONS (Continued)</b>		
<b>45.5 Purchases from Related Parties</b>		
The municipality did not buy goods from any companies which can be considered to be Related Parties.		
<b>46 CONTINGENT LIABILITIES</b>		
<b>46.1 Guarantees:</b>	<b>6,000</b>	<b>6,000</b>
(i) ABSA Bank: A bank guarantee in the amount of R6 000 was issued in favour of Eskom	6,000	6,000
(ii) Eskom: The municipality issued a bank guarantee in favour of Eskom to increase its electricity demand to 40 MVA to be able to meet the increasing demand for electricity supply from consumers.		
<b>46.2 Court Proceedings:</b>	<b>7,070,000</b>	<b>7,170,000</b>
(i) Komanisie Development is claiming loss of income and stock on a housing project to the amount of R7 070 000 (2016: R7 070 000).	7,070,000	7,070,000
<b>46.3 Insurance Claims:</b>	<b>274,248</b>	<b>314,902</b>
(i) LA12BL130 Street light pole falls over – This claim was processed and completed	18,248	18,248
(ii) LA13B182 T/P falls in manhole - This claim was processed and completed	-	296,654
(iii) LA17BL356 - Three children was swimming in query dam and drowned	256,000	-
<b>47 CONTINGENT ASSETS</b>		
Reporting of possible fraudulent action. The matter has been reported to the SAPS (Case No 39/6/2015) and internal disciplinary steps have been instituted. Four officials are allegedly involved of which one official has been suspended. The date of the hearing was set for 31 July 2015 and it has been postponed by mutual agreement between the employer and the unions involved. The dates of 9, 10 and 11 September 2015 has been for the start of the hearings. The alleged theft took place over a period of 16 months and the value of the funds missing amounts to R 119 842.65. The amount is made up out of the following: L. Sonwabo - R90 391.89. The hearing is completed and the person has resigned. There is currently a civil matter that was made to recover the money and the municipality stopped her pension payments. F. Afrika - R14 659.01. The disciplinary matter is pending and is waiting for the District Municipality to finalize the matter. N. Ntozini - R 13 819.78. The disciplinary matter is pending and is waiting for the District Municipality to finalize the matter. S. Maliti - R972.05. The person has resigned and the money was collected from her. The report is submitted to your office in terms of Section 171(4) of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003).		
	<b>118,871</b>	<b>119,843</b>
Mr. Percy Mugwedi was charged with fraud for the estimate amount of R100 000 at the beginning of the 2012/2013 financial year, but relates to the current financial year. An investigation is still underway.		
	<b>100,000</b>	<b>100,000</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017**

	2017	2016
	R	R

LA16BL467. Me Mjada has been in the employment of the municipality and resigned on 20 April 2016 following a procedure to suspend her pending a disciplinary process. Monies to the amount of R117 531.18 went missing at the Motor Vehicle Registration Office. This monies were part of the municipal income and not that of the Department of Safety and Liaison. A criminal charge has subsequently been laid against the person. Me Mjada was found guilty and all moneys were recovered

	<u>                    -</u>	<u>                  117,531</u>
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LA17BL006. Management submitted a claim to the municipality's insurance for the arsonist incident that took place at the municipality's offices at Norvalspont, where members of the public tried to burn down the building. The insurance provider paid out the claimed amount. Management must still pay the first excess amount.

	<u>                  52,000</u>	<u>                  52,000</u>
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J. Fatyela. The person is currently suspended and a date for the trial must be determined. The matter is in an investigation phase. In terms of new legislation, Municipal Regulations for Financial Misconduct and Offences, No 37699 promulgated in Government Gazette No. R430 on the 30th May 2014 this matter was reported to the Council on 31 May 2017. Disciplinary Council meeting took place on 29 June 2017. Their recommendation was that the person be charged with disciplinary steps

	<u>                  10,140</u>	<u>                          -</u>
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**48 EVENTS AFTER THE REPORTING DATE**

No events having financial implications requiring disclosure occurred subsequent to 30 June 2017.

**49 COMPARATIVE FIGURES**

The comparative figures were restated as a result of the effect of Prior Period Errors (Note 34).

**50 GOING CONCERN ASSESSMENT**

Management considered the following matters relating to the Going Concern:

(i) On 26 May 2015 Council adopted the 2015/16 to 2017/18 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services reflected that the Budget was cash-backed over the three-year period.

(ii) The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(iii) Strictly cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly and quarterly reporting highlighting the actual cash position including the associated risk and remedial actions to be instituted

(iv) As the municipality has the power to levy fees, tariffs and charges this will result in an ongoing in flow of revenue to support the continuing delivery of municipal services. Certain key financial ratios such as liquidity, cost recovery, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis.



**APPENDIX A**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2017**

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2016	Ineterst Charged during period	Redeemed/ Written Off during Period	Balance at 30 June 2017
	R				R		R	R
<b>ANNUITY LOANS</b>								
ABSA Bank Ltd								
Account 83517250	447,137	9.50%	83517250	2018/02/01	175,095	14,931	(115,963)	74,064
Account 83528279	993,106	9.50%	83528279	2018/02/01	388,892	33,163	(257,557)	164,499
Account 83527833	993,106	9.50%	83527833	2018/02/01	388,892	33,163	(257,557)	164,499
Account 84008046	1,951,765	9.50%	84008046	2018/06/01	904,245	82,031	(508,308)	477,968
Account 84215231	724,608	9.50%	84215231	2018/07/01	304,345	27,962	(165,016)	167,291
<b>Total Annuity Loans</b>	<b>5,109,721</b>				<b>2,161,470</b>	<b>191,251</b>	<b>(1,304,401)</b>	<b>1,048,320</b>
<b>TOTAL EXTERNAL LOANS</b>	<b>5,109,721</b>				<b>2,161,470</b>	<b>191,253</b>	<b>(1,304,401)</b>	<b>1,048,320</b>

**ANNUITY LOANS:**

**Absa:**

Structured unsecured 5 year loan for purchase of Motor Vehicles.

This appendix does not form part of the annual financial statements.

**APPENDIX B**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2017**

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R
<b>Land and Buildings</b>										
Land	30,377,857	-	-	(45,203)	30,332,654	-	-	-	-	30,332,654
Buildings	5,061,360	-	-	-	5,061,360	3,789,090	49,951	-	3,839,041	1,222,319
<b>Total</b>	<b>35,439,217</b>	<b>-</b>	<b>-</b>	<b>(45,203)</b>	<b>35,394,014</b>	<b>3,789,090</b>	<b>49,951</b>	<b>-</b>	<b>3,839,041</b>	<b>31,554,973</b>
<b>Community Assets</b>										
Land	2,233,751	-	-	-	2,233,751	-	-	-	-	2,233,751
Buildings	14,396,758	-	4,690,515	-	19,087,273	4,626,189	302,658	-	4,928,847	14,158,426
<b>Total</b>	<b>16,630,509</b>	<b>-</b>	<b>4,690,515</b>	<b>(0)</b>	<b>21,321,024</b>	<b>4,626,189</b>	<b>302,658</b>	<b>-</b>	<b>4,928,847</b>	<b>16,392,178</b>
<b>Infrastructure</b>										
<i>Electricity</i>										
Hv - Network	3,456,548	-	14,483,413	-	17,939,961	2,235,404	83,576	-	2,318,980	15,620,981
Lv - Network	32,174,429	-	-	(978,402)	31,196,027	18,802,850	964,377	(593,891)	19,173,336	12,022,691
Mv - Network	10,298,588	-	-	(123,736)	10,174,852	5,810,500	244,891	(81,803)	5,973,588	4,201,264
<i>Roads</i>										
Bridges, Subways & Culverts	22,958,286	-	3,268,292	-	26,226,578	14,089,826	286,979	-	14,376,805	11,849,773
Road Structures	305,776,227	-	-	(447,658)	305,328,569	187,492,449	6,637,228	(360,557)	193,769,120	111,559,449
Storm Water	3,045,044	-	-	(10,230)	3,034,814	1,919,518	50,751	(6,479)	1,963,790	1,071,024
Traffic Management	366,115	-	-	-	366,115	252,896	9,378	-	262,273	103,842
<i>Solid Waste</i>										
Landfill Sites	2,827,101	-	-	-	2,827,101	1,237,830	112,174	-	1,350,004	1,477,097
<i>Sanitation</i>										
Collection / Reticulation Network	65,975,262	-	10,649,541	(165,260)	76,459,543	42,883,920	1,649,382	(111,550)	44,421,751	32,037,791
Sewer Pump Stations	1,151,661	-	-	(179,540)	972,121	477,848	93,550	(71,816)	499,582	472,539
Waste Water Treatment Works	55,270,532	-	-	-	55,270,532	20,193,453	2,469,876	-	22,663,328	32,607,203
<i>Water</i>										
Boreholes	1,464,213	-	74,663,764	(87,446)	76,040,532	881,588	64,684	(81,887)	864,385	75,176,147
Bulk Distribution	438,177	157,643	-	-	595,820	328,633	26,242	-	354,875	240,945
Distribution / Reticulation Network	169,889,094	-	-	-	169,889,094	70,083,629	8,540,970	-	78,624,599	91,264,495
Water Pump Stations	17,734,234	-	-	-	17,734,234	3,475,926	757,276	-	4,233,202	13,501,032
Water Storage	34,080,062	-	-	-	34,080,062	13,266,858	1,143,699	-	14,410,556	19,669,506
Water Treatment Works	72,943,527	-	-	-	72,943,527	23,432,741	2,662,491	-	26,095,232	46,848,296
<b>Total</b>	<b>799,849,099</b>	<b>157,643</b>	<b>103,065,011</b>	<b>(1,992,271)</b>	<b>901,079,482</b>	<b>406,865,869</b>	<b>25,797,521</b>	<b>(1,307,984)</b>	<b>431,355,406</b>	<b>469,724,075</b>

<b>Other Assets</b>										
<i>COMPUTER EQUIPMENT</i>										
COMPUTER HARDWARE INCLUDING OPERATING SYSTEMS	2,433,304.94	1,893,426.58	-	(268,469.03)	4,058,262.49	1,734,586.42	448,367.30	(226,013.56)	1,956,940.17	2,101,322.32
<i>FURNITURE AND OFFICE EQUIPMENT</i>										
AIR CONDITIONERS INDIVIDUAL FIXED AND MOVABLE	372,303.96	31,605.98	-	(5,873.28)	398,036.66	257,040.42	37,713.74	(5,064.46)	289,689.70	108,346.96
AUDIOVISUAL EQUIPMENT	184,391.05	-	-	(30,412.25)	153,978.80	136,464.26	11,503.98	(18,522.83)	129,445.41	24,533.38
DOMESTIC AND HOSTEL FURNITURE	117,026.52	-	-	(4,283.00)	112,743.52	85,635.40	10,501.57	(3,575.73)	92,561.24	20,182.28
DOMESTIC EQUIPMENT (NON KITCHEN APPLIANCES)	98,585.33	2,491.51	-	(10,135.71)	90,941.13	61,057.44	12,708.70	(8,014.53)	65,751.60	25,189.53
FIXTURES & FITTINGS	138,740.00	-	-	(43,255.00)	95,485.00	106,347.63	8,029.85	(34,725.40)	79,652.08	15,832.92
KITCHEN APPLIANCES	90,274.69	-	-	(4,104.00)	86,170.69	72,370.57	3,671.66	(3,569.44)	72,472.80	13,697.90
OFFICE EQUIPMENT INCLUDING FAX MACHINES	180,936.58	-	-	(3,410.00)	177,526.58	117,145.47	16,308.33	(2,327.37)	131,126.43	46,400.15
OFFICE FURNITURE	2,762,808.09	5,172.81	-	(180,386.53)	2,587,594.37	2,158,392.16	114,670.78	(148,052.01)	2,125,010.93	462,583.44
<i>MACHINERY AND EQUIPMENT</i>										
ELECTRIC WIRE AND POWER DISTRIBUTION EQUIPMENT (CC	65,779.40	-	-	(33,624.05)	32,155.35	46,262.52	5,577.98	(23,924.76)	27,915.74	4,239.61
FIRE FIGHTING EQUIPMENT	40,179.00	-	-	(5,877.00)	34,302.00	29,700.51	2,912.99	(5,220.91)	27,392.59	6,909.41
GARDENING EQUIPMENT	106,068.40	72,740.62	-	(51,744.81)	127,064.21	93,171.63	25,605.00	(45,479.18)	73,297.45	53,766.76
MEDICAL AND ALLIED EQUIPMENT	8,858.00	-	-	-	8,858.00	8,422.23	87.21	-	8,509.44	348.56
MUSIC INSTRUMENTS	84,608.00	-	-	-	84,608.00	64,332.30	3,535.41	-	67,867.70	16,740.30
PUMPS PLUMBING PURIFICATION SANITATION AND ALLIED E	276,986.91	-	-	-	276,986.91	149,103.61	39,194.71	-	188,298.31	88,688.60
RADIO EQUIPMENT	32,833.76	-	-	(2,698.00)	30,135.76	23,172.77	3,003.30	(2,347.26)	23,828.82	6,306.94
ROAD CONSTRUCTION AND MAINTENANCE EQUIPMENT	4,642,289.74	-	-	(11,099.00)	4,631,190.74	2,034,278.38	381,635.78	(8,847.49)	2,407,066.68	2,224,124.06
SURVEY EQUIPMENT	3,891.00	-	-	(392.00)	3,499.00	3,151.71	93.50	(341.04)	2,904.17	594.83
TRACTORS	1,546,260.00	-	-	-	1,546,260.00	773,643.95	246,849.65	-	1,020,493.60	525,766.40
WORKSHOP EQUIPMENT AND LOOSE TOOLS FIXED	9,840.00	-	-	(4,100.00)	5,740.00	6,920.13	997.88	(3,241.74)	4,676.27	1,063.73
WORKSHOP EQUIPMENT AND LOOSE TOOLS MOVABLE	839,559.77	8,302.99	-	(7,194.48)	840,668.28	675,700.56	32,986.57	(5,887.88)	702,799.25	137,869.03
<i>TRANSPORT ASSETS</i>										
BAKKIES	1,945,747.32	148,065.18	-	(68,507.83)	2,025,304.67	874,022.47	141,387.94	(31,787.63)	983,622.78	1,041,681.88
EMERGENCY VEHICLES	490,022.33	-	-	-	490,022.33	221,803.45	93,290.89	-	315,094.34	174,927.99
MOTOR VEHICLES	792,974.68	-	-	(409,000.00)	383,974.68	253,714.19	35,739.17	(166,326.67)	123,126.70	260,847.98
TRAILERS AND ACCESSORIES	986,220.70	-	-	(258,318.80)	727,901.90	322,946.71	109,075.47	(89,837.56)	342,184.62	385,717.28
TRUCKS	3,434,945.74	616,066.34	-	-	4,051,012.08	1,798,577.16	167,778.53	-	1,966,355.69	2,084,656.40
					-					
<b>Total</b>	<b>21,685,436</b>	<b>2,777,872</b>	<b>-</b>	<b>(1,402,885)</b>	<b>23,060,423</b>	<b>12,107,964</b>	<b>1,953,228</b>	<b>(833,107)</b>	<b>13,228,084</b>	<b>9,832,339</b>
<b>Total</b>	<b>873,604,261</b>	<b>2,935,515</b>	<b>107,755,526</b>	<b>(3,440,359)</b>	<b>980,854,943</b>	<b>427,389,112</b>	<b>28,103,357</b>	<b>(2,141,092)</b>	<b>453,351,378</b>	<b>527,503,565</b>

**UMSOBOMVU LOCAL MUNICIPALITY  
ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2017**

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
<b>Investment Properties</b>	R	R	R	R	R	R	R	R	R	R
Land And Buildings	2,060,900	-	-	-	2,060,900	-	-	-	-	2,060,900
<b>Total</b>	<b>2,060,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,060,900</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,060,900</b>

**UMSOBOMVU LOCAL MUNICIPALITY  
ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2017**

Description	Cost / Revaluation					Accumulated Depreciation / Impairment				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
<b>Intangible Assets</b>	R	R	R	R	R	R	R	R	R	R
Computer Software	1,724,296	188,637	-	-	1,912,933	1,670,470	36,684	-	1,707,155	205,779
<b>Total</b>	<b>1,724,296</b>	<b>188,637</b>	<b>-</b>	<b>-</b>	<b>1,912,933</b>	<b>1,670,470</b>	<b>36,684</b>	<b>-</b>	<b>1,707,155</b>	<b>205,779</b>
<b>Total Asset Register</b>	<b>877,389,457</b>	<b>3,124,152</b>	<b>107,755,526</b>	<b>(3,440,359)</b>	<b>984,828,776</b>	<b>429,059,583</b>	<b>28,140,042</b>	<b>(2,141,092)</b>	<b>455,058,533</b>	<b>529,770,243</b>

**APPENDIX C**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2017**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment			
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance
	R	R	R	R	R	R	R	R	R	R
Executive and Council	2,754,018	-	-	-	(602,731)	2,151,287	1,705,356	165,374	(333,750)	1,606,338
Finance and Administration	2,899,303	2,777,872	-	-	(250,677)	5,426,497	1,567,237	647,136	(190,174)	2,082,551
Community and Social Services	52,069,726	-	4,690,515	-	(45,203)	56,715,038	8,415,279	352,609	-	8,767,887
Technical Services	815,881,214	157,643	103,065,011	-	(2,541,747)	916,562,120	414,463,894	26,623,155	(1,617,168)	440,894,602
<b>Total</b>	<b>873,604,261</b>	<b>2,935,515</b>	<b>107,755,526</b>	<b>-</b>	<b>(3,440,359)</b>	<b>980,854,943</b>	<b>426,151,766</b>	<b>27,788,274</b>	<b>(2,141,092)</b>	<b>453,351,378</b>

**APPENDIX D**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017**

2016 Actual Income	2016 Budgeted Income	2016 Actual Expenditure	2016 Budgeted Expenditure	2016 Surplus/ (Deficit)	Description	2017 Actual Income	2017 Budgeted Income	2017 Actual Expenditure	2017 Budgeted Expenditure	2017 Surplus/ (Deficit)
R	R	R	R	R		R	R	R	R	R
29,229,108	34,931,000	12,899,967	20,997,811	14,911,165	Executive and Council	30,507,575	36,658,000	13,183,444	20,160,714	17,324,131
12,667,641	17,197,828	26,736,970	23,318,477	(2,139,074)	Finance and Administration	15,988,800	16,567,790	24,471,049	25,653,216	(8,482,249)
12,548,816	10,186,984	6,814,557	17,950,686	3,914,321	Community and Social Services	5,023,613	10,153,490	9,857,049	18,709,733	(4,833,436)
108,393,446	141,999,243	101,508,700	85,122,677	2,786,840	Technical Services	77,394,544	99,170,693	83,074,752	90,798,260	(5,680,208)
<b>162,839,010</b>	<b>204,315,055</b>	<b>147,960,194</b>	<b>147,389,651</b>	<b>19,473,252</b>	<b>Total</b>	<b>128,914,532</b>	<b>162,549,973</b>	<b>130,586,294</b>	<b>155,321,923</b>	<b>(1,671,762)</b>
This appendix does not form part of the annual financial statements.										

**APPENDIX E(1)**  
**UMSOBOMVU LOCAL MUNICIPALITY**

**RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY STANDARD CLASSIFICATION FOR THE YEAR ENDED 30 JUNE 2017**

Description	2016/17							
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
<b>REVENUE - STANDARD</b>								
<b>Governance and Administration:</b>								
Executive and Council	36,658,000	-	36,658,000	36,658,000	30,507,575	(6,150,425)	83.22	83.22
Budget and Treasury Office	16,362,950	193,392	16,556,342	16,556,342	15,954,864	(601,478)	96.37	97.51
Corporate Services	11,449	(1)	11,448	11,448	33,936	22,488	296.44	296.41
<b>Community and Public Safety:</b>								
Community and Social Services	2,561,135	(629,001)	1,932,134	1,932,134	1,924,149	(7,985)	99.59	75.13
Public Safety	8,093,982	127,376	8,221,358	8,221,358	3,097,905	(5,123,453)	37.68	38.27
Housing	-	-	-	-	1,559	1,559	0.00	0.00
Road Transport	17,651,061	(1,603,500)	16,047,561	16,047,561	3,665,437	(12,382,124)	22.84	20.77
<b>Trading Services:</b>								
Electricity	47,104,506	3,310,000	50,414,506	50,414,506	34,831,765	(15,582,741)	69.09	73.95
Water	15,417,943	(85,000)	15,332,943	15,332,943	15,706,297	373,354	102.43	101.87
Waste Water Management	9,416,857	800,643	10,217,500	10,217,500	15,738,014	5,520,514	154.03	167.13
Waste Management	7,049,979	108,203	7,158,182	7,158,182	7,453,031	294,849	104.12	105.72
<b>Total Revenue - Standard</b>	<b>160,327,862</b>	<b>2,222,112</b>	<b>162,549,974</b>	<b>162,549,974</b>	<b>128,914,532</b>	<b>(33,635,442)</b>	<b>79.31</b>	<b>80.41</b>
<b>EXPENDITURE - STANDARD</b>								
<b>Governance and Administration:</b>								
Executive and Council	21,772,477	(1,611,766)	20,160,711	20,160,711	13,183,444	(6,977,267)	65.39	60.55
Budget and Treasury Office	17,986,415	1,576,402	19,562,817	19,562,817	17,135,583	(2,427,234)	87.59	95.27
Corporate Services	6,264,809	(174,410)	6,090,399	6,090,399	4,997,174	(1,093,224)	82.05	79.77
<b>Community and Public Safety:</b>								
Community and Social Services	7,035,437	175,235	7,210,672	7,210,672	5,333,533	(1,877,139)	73.97	75.81
Sport and Recreation	3,084,572	(81,852)	3,002,720	3,002,720	2,754,654	(248,066)	91.74	89.30
Public Safety	7,565,641	112,627	7,678,268	7,678,268	3,316,333	(4,361,935)	43.19	43.83
Housing	769,036	49,037	818,073	818,073	790,820	(27,253)	96.67	102.83
<b>Economic and Environmental Services:</b>								
Road Transport	17,740,835	(885,157)	16,855,678	16,855,678	14,201,913	(2,653,765)	84.26	80.05
<b>Trading Services:</b>								
Electricity	27,929,731	135,312	28,065,043	28,065,043	27,674,021	(391,022)	98.61	99.08
Water	27,325,624	(663,032)	26,662,592	26,662,592	25,449,871	(1,212,721)	95.45	93.14
Waste Water Management	9,527,042	1,215,301	10,742,343	10,742,343	9,862,990	(879,353)	91.81	103.53
Waste Management	6,428,231	2,044,376	8,472,607	8,472,607	5,885,957	(2,586,650)	69.47	91.56
<b>Total Expenditure - Standard</b>	<b>153,429,850</b>	<b>1,892,073</b>	<b>155,321,923</b>	<b>155,321,923</b>	<b>130,586,294</b>	<b>(24,735,629)</b>	<b>84.07</b>	<b>85.11</b>
<b>Surplus/(Deficit) for the year</b>	<b>6,898,012</b>	<b>330,039</b>	<b>7,228,051</b>	<b>7,228,051</b>	<b>(1,671,762)</b>	<b>(8,899,813)</b>	<b>0.00</b>	<b>0.00</b>

This appendix does not form part of the annual financial statements.

**APPENDIX E (2)**  
**UMSOBOMVU LOCAL MUNICIPALITY**

**RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE BY MUNICIPAL VOTE FOR THE YEAR ENDED 30 JUNE 2017**

Description	2016/17								
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
<b>REVENUE BY VOTE</b>									
Vote 1 - EXECUTIVE & COUNCIL	36,658,000	-	36,658,000	36,658,000	30,507,575	-	(6,150,425)	83.22	83.22
Vote 2 - FINANCE & ADMIN	16,374,399	193,391	16,567,790	16,567,790	15,988,800	-	(578,990)	96.51	97.65
Vote 3 - COMMUNITY SERVICES	10,655,117	(501,627)	10,153,490	10,153,490	5,023,613	-	(5,129,877)	49.48	47.15
Vote 4 - TECHNICAL SERVICES	96,640,346	2,530,346	99,170,692	99,170,692	77,394,544	-	(21,776,148)	78.04	80.09
<b>Total Revenue by Vote</b>	<b>160,327,862</b>	<b>2,222,110</b>	<b>162,549,972</b>	<b>162,549,972</b>	<b>128,914,532</b>	<b>-</b>	<b>(33,635,440)</b>	<b>79.31</b>	<b>80.41</b>
<b>EXPENDITURE BY VOTE</b>									
Vote 1 - EXECUTIVE & COUNCIL	21,772,477	(1,611,768)	20,160,709	20,160,709	13,183,444	-	(6,977,265)	65.39	60.55
Vote 2 - FINANCE & ADMIN	24,251,224	1,401,992	25,653,216	25,653,216	24,471,049	-	(1,182,167)	95.39	100.91
Vote 3 - COMMUNITY SERVICES	18,454,686	255,047	18,709,733	18,709,733	9,857,049	-	(8,852,684)	52.68	53.41
Vote 4 - TECHNICAL SERVICES	88,951,463	1,846,800	90,798,263	90,798,263	83,074,752	-	(7,723,511)	91.49	93.39
<b>Total Expenditure by Vote</b>	<b>153,429,850</b>	<b>1,892,071</b>	<b>155,321,921</b>	<b>155,321,921</b>	<b>130,586,294</b>	<b>-</b>	<b>(24,735,627)</b>	<b>84.07</b>	<b>85.11</b>
<b>Surplus/(Deficit) for the year</b>	<b>6,898,012</b>	<b>330,039</b>	<b>7,228,051</b>	<b>7,228,051</b>	<b>(1,671,762)</b>	<b>-</b>	<b>(8,899,813)</b>	<b>0.00</b>	<b>0.00</b>

This appendix does not form part of the annual financial statements.



**APPENDIX E (3)**  
**UMSOBOMVU LOCAL MUNICIPALITY**

**RECONCILIATION OF BUDGETED FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017**

Description	2016/17							2015/16	
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Restated Audited Outcome
	R	R	R	R	R	R	R	R	R
<b>Revenue by Source</b>									
Property Rates	8,741,895	-	8,741,895	8,741,895	8,591,233	(150,662)	98.28	98.28	8,144,051
Property Rates - Penalties & Collection Charges	216,112	73,888	290,000	290,000	289,933	(67)	99.98	134.16	217,246
Service Charges - Electricity	35,890,834	10,000	35,900,834	35,900,834	20,461,726	(15,439,108)	57.00	57.01	21,751,566
Service Charges - Water	13,944,743	-	13,944,743	13,944,743	11,490,679	(2,454,064)	82.40	82.40	8,214,483
Service Charges - Sanitation	8,999,747	689,753	9,689,500	9,689,500	9,494,288	(195,212)	97.99	105.50	8,446,715
Service Charges - Refuse	6,736,523	-	6,736,523	6,736,523	7,043,884	307,361	104.56	104.56	6,450,153
Service Charges - Other	-	-	-	-	(6,469,514)	(6,469,514)	0.00	0.00	(5,970,221)
Rental of Facilities and Equipment	938,146	(623,938)	314,208	314,208	356,565	42,357	113.48	38.01	758,723
Interest Earned - External Investments	422,000	138,000	560,000	560,000	453,176	(106,824)	80.92	107.39	538,281
Interest Earned - Outstanding Debtors	2,046,979	195,093	2,242,072	2,242,072	2,513,333	271,261	112.10	122.78	2,168,573
Dividends Received	-	-	-	-	-	-	0.00	0.00	-
Fines	5,585,876	-	5,585,876	5,585,876	24,053	(5,561,823)	0.43	0.43	671,518
Licences and Permits	2,532,982	129,376	2,662,358	2,662,358	-	(2,662,358)	0.00	0.00	-
Agency Services	-	-	-	-	-	-	0.00	0.00	-
Transfers Recognised - Operational	40,925,200	(85,000)	40,840,200	40,840,200	37,045,731	(3,794,469)	90.71	90.52	60,447,137
Other Revenue	5,256,025	9,940	5,265,965	5,265,965	7,182,020	1,916,055	136.39	136.64	12,058,383
Gains on Disposal of PPE	-	-	-	-	-	-	0.00	0.00	-
<b>Total Revenue (excluding Capital Transfers &amp; Contributions)</b>	<b>132,237,062</b>	<b>537,112</b>	<b>132,774,174</b>	<b>132,774,174</b>	<b>98,477,108</b>	<b>(34,297,066)</b>	<b>74.17</b>	<b>74.47</b>	<b>123,896,608</b>
<b>Expenditure</b>									
Employee Related Costs	47,215,689	(1,236,788)	45,978,901	45,978,901	38,985,218	(6,993,683)	84.79	82.57	37,333,044
Remuneration of Councillors	3,246,332	214,457	3,460,789	3,460,789	3,428,913	(31,876)	99.08	105.62	3,095,174
Debt Impairment	6,194,054	(6,194,054)	-	-	-	-	0.00	0.00	-
Depreciation and Asset Impairment	29,406,915	11,423,545	40,830,460	40,830,460	39,211,611	(1,618,849)	96.04	133.34	59,824,826
Finance Charges	310,000	(80,000)	230,000	230,000	1,971,973	1,741,973	857.38	636.12	1,814,409
Bulk Purchases	22,962,421	-	22,962,421	22,962,421	22,917,001	(45,420)	99.80	99.80	21,065,220
Other Materials	3,721,980	-	3,721,980	3,721,980	3,164,345	(557,635)	85.02	85.02	2,916,059
Other Expenditure	40,352,459	(2,235,087)	38,117,372	38,117,372	19,800,048	(18,317,324)	51.94	49.07	18,678,250
Loss on Disposal of PPE	20,000	-	20,000	20,000	1,107,186	1,087,186	5,535.93	5,535.93	3,233,212
<b>Total Expenditure</b>	<b>153,429,850</b>	<b>1,892,073</b>	<b>155,321,923</b>	<b>155,321,923</b>	<b>130,586,294</b>	<b>(24,735,629)</b>	<b>84.07</b>	<b>85.11</b>	<b>147,960,194</b>
<b>Surplus/(Deficit)</b>	<b>(21,192,788)</b>	<b>(1,354,961)</b>	<b>(22,547,749)</b>	<b>(22,547,749)</b>	<b>(32,109,185)</b>	<b>(9,561,436)</b>	<b>0.00</b>	<b>0.00</b>	<b>(24,063,586)</b>
Transfers Recognised - Capital	28,090,800	1,685,000	29,775,800	29,775,800	30,437,424	661,624	102.22	108.35	38,942,402
<b>Surplus/(Deficit) after Capital Transfers and</b>	<b>6,898,012</b>	<b>330,039</b>	<b>7,228,051</b>	<b>7,228,051</b>	<b>(1,671,762)</b>	<b>(8,899,812)</b>	<b>0.00</b>	<b>0.00</b>	<b>14,878,816</b>
<b>Surplus/(Deficit) for the Year</b>	<b>6,898,012</b>	<b>330,039</b>	<b>7,228,051</b>	<b>7,228,051</b>	<b>(1,671,762)</b>	<b>(8,899,812)</b>	<b>-</b>	<b>-</b>	<b>14,878,816</b>

This appendix does not form part of the annual financial statements.

**APPENDIX E(4)**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**RECONCILIATION OF BUDGETED CAPITAL EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2017**

Description	2016/17								
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
<b>CAPITAL EXPENDITURE - VOTE</b>									
<b>Single-year Expenditure</b>									
Vote 1 - Executive & Council	-	-	-	-	-	-	-	0.00	0.00
Vote 2 - Finance & Admin	1,550,000	507,210	2,057,210	2,057,210	2,966,509	909,299	909,299	144.20	191.39
Vote 3 - Community Services	-	-	-	-	4,690,515	4,690,515	4,690,515	0.00	0.00
Vote 4 - Technical Services	28,090,800	1,600,000	29,690,800	29,690,800	18,722,443	-	(10,968,357)	63.06	66.65
<b>Total Capital Expenditure - Single-year</b>	<b>29,640,800</b>	<b>2,107,210</b>	<b>31,748,010</b>	<b>31,748,010</b>	<b>26,379,467</b>	<b>5,599,814</b>	<b>(5,368,543)</b>	<b>83.09</b>	<b>89.00</b>
<b>Total Capital Expenditure - Vote</b>	<b>29,640,800</b>	<b>2,107,210</b>	<b>31,748,010</b>	<b>31,748,010</b>	<b>26,379,467</b>	<b>5,599,814</b>	<b>(5,368,543)</b>	<b>83.09</b>	<b>89.00</b>
<b>CAPITAL EXPENDITURE - STANDARD</b>									
<b>Governance and Administration:</b>									
Budget and Treasury Office	1,550,000	507,210	2,057,210	2,057,210	2,966,509		909,299	144.20	191.39
<b>Community and Public Safety:</b>									
Community and Social Services	-	-	-	-	4,690,515		4,690,515	0.00	0.00
<b>Economic and Environmental Services:</b>									
Road Transport	17,590,800	(1,700,000)	15,890,800	15,890,800	3,260,405		(12,630,395)	20.52	18.53
<b>Trading Services:</b>									
Electricity	10,500,000	3,300,000	13,800,000	13,800,000	6,191,696		(7,608,304)	44.87	58.97
Water	-	-	-	-	3,613,645		3,613,645	0.00	0.00
Waste Water Management	-	-	-	-	5,656,696		5,656,696		
<b>Total Capital Expenditure - Standard</b>	<b>29,640,800</b>	<b>2,107,210</b>	<b>31,748,010</b>	<b>31,748,010</b>	<b>26,379,467</b>	<b>-</b>	<b>(5,368,543)</b>	<b>83.09</b>	<b>89.00</b>
<b>FUNDED BY:</b>									
National Government	28,090,800	1,600,000	29,690,800	29,690,800	23,412,958		(6,277,842)	78.86	83.35
Own Funds	1,550,000	507,210	2,057,210	2,057,210	1,335,509		(721,701)	64.92	86.16
<b>Transfers Recognised - Capital</b>	<b>29,640,800</b>	<b>2,107,210</b>	<b>31,748,010</b>	<b>31,748,010</b>	<b>24,748,467</b>		<b>(6,999,543)</b>	<b>77.95</b>	<b>83.49</b>
Borrowing		-	-	-	1,631,000		1,631,000	0.00	0.00
<b>Total Capital Funding</b>	<b>29,640,800</b>	<b>2,107,210</b>	<b>31,748,010</b>	<b>31,748,010</b>	<b>26,379,467</b>	<b>-</b>	<b>(5,368,543)</b>	<b>83.09</b>	<b>89.00</b>

This appendix does not form part of the annual financial statements.

**APPENDIX E(5)**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**RECONCILIATION OF BUDGETED CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017**

Description	2016/17							
	Original Total Budget	Budget Adjustments	Final Adjustments Budget	Final Budget	Actual Outcome	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>								
<b>Receipts</b>								
Ratepayers and Other	8,958,006	(216,112)	8,741,894	8,741,894	8,241,550	(500,344)	94.28	92.00
Government - Operating	40,925,200	(85,000)	40,840,200	40,840,200	42,925,003	2,084,803	105.10	104.89
Government - Capital	28,090,800	1,685,000	29,775,800	29,775,800	30,437,424	661,624	102.22	108.35
Service Charges	57,167,450	(1,657,278)	55,510,172	55,510,172	25,429,513	(30,080,659)	45.81	44.48
Interest	2,468,979	333,093	2,802,072	2,802,072	2,966,509	164,437	105.87	120.15
Other Receipts	14,313,029	(484,622)	13,828,407	13,828,407	10,573,690	(3,254,717)	76.46	73.87
<b>Payments</b>								
Suppliers and Employees	(107,961,931)	497,820	(107,464,111)	(107,464,111)	(95,492,977)	11,971,134	0.00	0.00
Finance Charges	(310,000)	80,000	(230,000)	(230,000)	(1,152,249)	(922,249)	0.00	0.00
Other payments	(9,536,950)	2,759,598	(6,777,352)	(6,777,352)	(734,718)	6,042,634	0.00	0.00
<b>NET CASH FROM / (USED) OPERATING ACTIVITIES</b>	<b>34,114,583</b>	<b>2,912,499</b>	<b>37,027,082</b>	<b>37,027,082</b>	<b>23,193,743</b>	<b>(13,833,339)</b>	<b>62.64</b>	<b>67.99</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
<b>Payments</b>								
Capital Assets	(29,640,800)	(2,107,210)	(31,748,010)	(31,748,010)	(26,188,226)	5,559,784	0.00	0.00
<b>NET CASH FROM / (USED) INVESTING ACTIVITIES</b>	<b>(29,640,800)</b>	<b>(2,107,210)</b>	<b>(31,748,010)</b>	<b>(31,748,010)</b>	<b>(26,188,226)</b>	<b>5,559,784</b>	<b>0.00</b>	<b>0.00</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
<b>Receipts</b>								
Increase / (Decrease) in Consumer Deposits	145,000	-	145,000	145,000	-	(145,000)	0.00	0.00
<b>Payments</b>								
Proceeds from Borrowings					1,631,000			
Loans repaid	(800,000)	-	(800,000)	(800,000)	(770,469)	29,531	0.00	0.00
<b>NET CASH FROM / (USED) FINANCING ACTIVITIES</b>	<b>(655,000)</b>	<b>-</b>	<b>(655,000)</b>	<b>(655,000)</b>	<b>860,531</b>	<b>(115,469)</b>	<b>0.00</b>	<b>0.00</b>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>	<b>(3,818,783)</b>	<b>(805,289)</b>	<b>(4,624,072)</b>	<b>(4,624,072)</b>	<b>2,133,952</b>	<b>6,758,024</b>	<b>0.00</b>	<b>0.00</b>
Cash / Cash Equivalents at the Year begin:	23,723,017	(4,474,910)	19,248,107	19,248,107	19,248,106	(1)	100.00	81.14
Cash / Cash Equivalents at the Year end:	27,541,800	(3,669,621)	23,872,179	23,872,179	17,114,154	(6,758,024)	71.69	62.14

This appendix does not form part of the annual financial statements.

**APPENDIX F**  
**UMSOBOMVU LOCAL MUNICIPALITY**

**DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

**Grants and Subsidies Received**

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				Quarterly Expenses				Reason for Delay / Withholding of Funds	Compliance to Revenue Act (*) See below Yes / No	Reason for Non-compliance
		Sept	Dec	March	June	Sept	Dec	March	June			
Equitable Share	Nat Treasury	15,274,000	12,219,000	9,165,000	-	9,164,500	9,164,500	9,164,500	9,164,500	N/A	Yes	N/A
FMG	Nat Treasury	1,825,000	-	-	-	456,250	456,250	456,250	456,250	N/A	Yes	N/A
INEP	Nat Treasury	-	2,500,000	1,415,000	-	1,126	42,180	-	-	N/A	Yes	N/A
MIG Projects	MIG	2,525,000	9,244,000	3,995,000	-	2,530,786	4,147,218	443,762	5,283,758	N/A	Yes	N/A
Bulk Infrastructure Grant	DWAF	2,230,407	3,306,064	3,126,362	874,633	3,716,540	3,136,268	942,530	-	N/A	Yes	N/A
EDSMG	Province	-	6,000,000	2,000,000	-	2,377,129	879,397	2,374,520	1,716,380	N/A	Yes	N/A
EPWP Incentive Grant	Province	250,000	-	750,000	-	24,606	182,109	545,100	306,950	N/A	Yes	N/A
Library Grant	Province	-	784,500	1,115,500	-	475,000	475,000	475,000	475,000	N/A	Yes	N/A
Sports Facilities - Noupoot	Lotto	-	-	-	-	247,458	337,602	880,483	321,522	N/A	Yes	N/A
Water Management Grant	DBSA	-	-	-	-	157,643	-	-	-	N/A	Yes	N/A
Blue Water Drop Project	Other	-	-	-	-	-	-	-	-	N/A	Yes	N/A
<b>Total Grants and Subsidies Received</b>		<b>22,104,407</b>	<b>34,053,564</b>	<b>21,566,862</b>	<b>874,633</b>	<b>19,151,037</b>	<b>18,820,523</b>	<b>15,282,146</b>	<b>17,724,360</b>			

This appendix does not form part of the annual financial statements.

(\*) Did your municipality comply with the grant conditions in terms of "Grant Framework" in the latest Division of Revenue Act?

**APPENDIX G**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**STATEMENT OF REMUNERATION OF MANAGEMENT**

30 June 2017

Incumbent	Basic Salaries	Bonuses	Allowances	Total Remuneration
	R	R	R	R
<b>Mayor</b>				
Hermans N.L	59,265	-	20,486	79,751
Toto M.S	475,145	-	170,289	645,434
<b>Other Councillors</b>				
Mdala N.B	30,567	-	2,268	32,835
Reyners N	23,819	-	2,268	26,087
Mlenzana S.G	30,567	-	2,268	32,835
Gronum C.F	23,819	-	2,268	26,087
Ngaliman S	23,819	-	2,268	26,087
Humphries S.E	231,443	-	24,900	256,343
Fritz S.A	23,819	-	2,268	26,087
Siko S	23,819	-	2,268	26,087
Sestile M.A	286,271	-	24,000	310,271
Kafi M.R	254,457	-	22,422	276,878
Harmse V.P	254,457	-	22,422	276,878
Minnie W	254,457	-	22,422	276,878
Stafa N.D	199,653	-	22,422	222,075
Batties N.J	199,653	-	22,422	222,075
Matthee J.P	199,653	-	22,422	222,075
Brown S.K	199,653	-	22,422	222,075
Williams M.J	199,653	-	22,422	222,075
<b>Total for Councillors</b>	2,993,986	-	434,927	3,428,913
<b>Municipal Manager</b>				
Mpela A.C	1,025,301	120,104	134,250	1,279,655
<b>Chief Financial Officer</b>				
Visagie D.T	849,024	102,088	136,594	1,087,707
<b>Manager: Technical Services</b>				
Mosompha P	913,618	83,527	72,000	1,069,145
<b>Manager: Corporate Services</b>				
Kapp B	871,826	83,527	113,793	1,069,145
<b>Total for Senior Managers</b>	3,659,769	389,246	456,636	4,505,652
<b>Total for Management</b>	<b>6,653,755</b>	<b>389,246</b>	<b>891,563</b>	<b>7,934,565</b>

**APPENDIX G**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**STATEMENT OF REMUNERATION OF MANAGEMENT**

30 June 2016

Incumbent	Basic Salaries	Bonuses	Allowances	Total Remuneration
	R	R	R	R
<b>Mayor</b>				
Hermans N.L	532,324	-	248,138	780,462
<b>Other Councillors</b>				
Mdala N.B	274,555	-	46,619	321,174
Reyners N	213,939	-	25,000	238,939
Mlenzana S.G	274,555	-	24,278	298,833
Gronum C.F	213,939	-	20,868	234,807
Ngaliman S	213,939	-	22,026	235,965
Humphries S.E	274,555	-	32,914	307,469
Fritz S.A	213,939	-	37,625	251,564
Siko S	213,939	-	21,383	235,322
Sestile M.A	274,555	-	72,383	346,938
<b>Total for Councillors</b>	2,700,239	-	551,235	3,251,474
<b>Municipal Manager</b>				
Mplea A.C	957,606	143,396	312,967	1,413,969
<b>Chief Financial Officer</b>				
Visagie D.T	791,484	121,886	163,851	1,077,221
<b>Manager: Technical Services</b>				
Mosompha P	856,077	95,768	198,362	1,150,207
<b>Manager: Corporate Services</b>				
Kapp B	825,635	95,768	158,680	1,080,082
<b>Total for Senior Managers</b>	2,473,196	313,422	520,892	3,307,510
<b>Total for Management</b>	<b>5,173,434</b>	<b>313,422</b>	<b>1,072,127</b>	<b>6,558,984</b>

This appendix does not form part of the annual financial statements.

## APPENDIX H UMSOBOMVU LOCAL MUNICIPALITY RATIO ANALYSIS

30 June 2017

RATIO	NORM/RANGE	INPUT DESCRIPTION	DATA INPUTS AND RESULTS	
<b>" R 000 "</b>				
<b>1. FINANCIAL POSITION</b>				
<b>A. Asset Management/Utilisation</b>				
<b>1</b>	Capital Expenditure to Total Expenditure	10% - 20%	17%	
			Total Operating Expenditure	130,586,294
			Taxation Expense	-
			Total Capital Expenditure	26,379,467
<b>2</b>	Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%	2%	
			PPE, Investment Property and Intangible Impairment	11,388,516
			PPE at carrying value	527,480,222
			IP at carrying value	2,060,899
			Intangible Assets at carrying value	205,779
<b>3</b>	Repairs and Maintenance as a % of Property, Plant and Equipment and Investment Property (Carrying Value)	8%	1%	
			Total Repairs and Maintenance Expenditure	3,164,345
			PPE at carrying value	527,480,222
			Investment Property at Carrying value	2,060,899
<b>B. Debtors Management</b>				
<b>1</b>	Collection Rate	95%	61%	
			Gross Debtors closing balance	113,068,318
			Gross Debtors opening balance	96,408,498
			Bad debts written Off	-270,975
			Billed Revenue	42,021,064
<b>2</b>	Bad Debts Written-off as % of Provision for Bad Debt	100%	0%	
			Consumer Debtors Bad debts written off	-270,975
			Consumer Debtors Current bad debt Provision	97,140,077
<b>3</b>	Net Debtors Days	30 days	138 days	
			Gross debtors	113,068,318
			Bad debts Provision	97,140,077
			Billed Revenue	42,021,064
<b>C. Liquidity Management</b>				
<b>1</b>	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months	0 Month	
			Cash and cash equivalents	17,114,154
			Unspent Conditional Grants	15,690,173
			Overdraft	-
			Short Term Investments	-
			Total Annual Operational Expenditure	79,125,796
<b>2</b>	Current Ratio	1.5 - 2:1	0.87	
			Current Assets	37,472,576
			Current Liabilities	43,096,855

## APPENDIX H UMSOBOMVU LOCAL MUNICIPALITY RATIO ANALYSIS

### D. Liability Management

1	Capital Cost(Interest Paid and Redemption) as a % of Total Operating Expenditure	6% - 8%		2%
			Interest Paid	1,971,973
			Redemption	-
			Total Operating Expenditure	79,125,796
			Taxation Expense	-

2	Debt (Total Borrowings) / Revenue	45%		4%
			Total Debt	2,309,503
			Total Operating Revenue	128,914,532
			Operational Conditional Grants	67,483,155

### E. Sustainability

1	Level of Cash Backed Reserves (Net Assets - Accumulated Surplus)	100%		343612374%
			Cash and cash Equivalents	17,114,154
			Unspent Grants	15,690,173
			Net Assets	505,071,428
			Accumulated Surplus	505,071,427

## 2. FINANCIAL PERFORMANCE

### A. Efficiency

1	Net Operating Surplus Margin	= or > 0%		-1%
			Total Operating Revenue	128,914,532
			Depreciation - Revalued Portion <i>(Only populate if depreciation line item in</i>	
			Total Operating Expenditure	130,586,294
			Taxation Expense	-

2	Net Surplus /Deficit Electricity	0% - 15%		-9%
			Total Electricity Revenue	20,461,726
			Total Electricity Expenditure	22,353,189

3	Net Surplus /Deficit Water	= or > 0%		95%
			Total Water Revenue	11,490,679
			Total Water Expenditure	563,812

4	Net Surplus /Deficit Refuse	= or > 0%		100%
			Total Refuse Revenue	7,043,884
			Total Refuse Expenditure	

5	Net Surplus /Deficit Sanitation and Waste Water	= or > 0%		100%
			Total Sanitation and Water Waste Revenue	9,494,288
			Total Sanitation and Water Waste Expenditure	

### B. Distribution Losses

1	Electricity Distribution Losses (Percentage)	7% - 10%		24%
			Number of units purchased and/or generated	24,368,254
			Number of units sold	18,589,724

2	Water Distribution Losses (Percentage)	15% - 30%		56%
			Number of kilolitres purchased and/or purified	2,738,520
			Number of kilolitres sold	1,199,286



## APPENDIX H UMSOBOMVU LOCAL MUNICIPALITY RATIO ANALYSIS

### C. Revenue Management

1	Revenue Growth (%)	= CPI		-21%
			CPI	7%
			Total Revenue (Previous)	162,839,010
			Total Revenue (Current)	128,914,532

3	Revenue Growth (%) - Excluding capital grants	= CPI		-3%
			CPI	6%
			Total Revenue Exl.Capital (Previous)	63,449,472
			Total Revenue Exl.Capital (Current)	61,431,377

### D. Expenditure Management

1	Creditors Payment Period (Trade Creditors)	30 days		30 days
			Trade Creditors	5,952,746
			Contracted Services	-
			Repairs and Maintenance	3,164,345
			General expenses	19,800,048
			Bulk Purchases	22,917,001
			Capital Credit Purchases ( <i>Capital Credit Purchases refers to additions of Investment Property and Property, Plant and Equipment</i> )	26,379,467

2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	0%		4%
			Irregular, Fruitless and Wasteful and Unauthorised Expenditure	5,599,814
			Total Operating Expenditure	130,586,294
			Taxation Expense	-

3	Remuneration as % of Total Operating Expenditure	25% - 40%		32%
			Employee/personnel related cost	38,985,218
			Councillors Remuneration	3,428,913
			Total Operating Expenditure	130,586,294
Taxation Expense	-			

4	Contracted Services % of Total Operating Expenditure	2% - 5%		0%
			Contracted Services	-
			Total Operating Expenditure	130,586,294
			Taxation Expense	-

### E. Grant Dependency

1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	None		206%
			Internally generated funds	50,992,915
			Borrowings	3,357,726
			Total Capital Expenditure	26,379,467

2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	None		193%
			Internally generated funds	50,992,915
			Total Capital Expenditure	26,379,467

3	Own Source Revenue to Total Operating Revenue(Including Agency Revenue)	None		48%
			Total Revenue	128,914,532
			Government grant and subsidies	67,483,155
			Public contributions and Donations	-
Capital Grants	-			

## APPENDIX H UMSOBOMVU LOCAL MUNICIPALITY RATIO ANALYSIS

### 3. BUDGET IMPLEMENTATION

1	Capital Expenditure Budget Implementation Indicator	95% - 100%		83%
			Actual Capital Expenditure	26,379,467
			Budget Capital Expenditure	31,748,010
2	Operating Expenditure Budget Implementation Indicator	95% - 100%		84%
			Actual Operating Expenditure	130,586,294
			Budget Operating Expenditure	155,321,923
3	Operating Revenue Budget Implementation Indicator	95% - 100%		83%
			Actual Operating Revenue	110,093,329
			Budget Operating Revenue	132,774,174
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	95% - 100%		67%
			Actual Service Charges and Property Rates Revenue	50,612,297
			Budget Service Charges and Property Rates Revenue	75,013,495

#### Interpretation of results

	The green colour indicates that the result is within the norm and is acceptable
	The red colour indicates that the result is not acceptable and corrective actions/plans should be put in place to improve the results.
	Data should be captured in the blue colour cell to calculate a ratio.
#	In situations where the results are not within the acceptable norm, corrective actions/plans should be taken and referenced

This appendix does not form part of the annual financial statements.