

**UMSOBOMVU LOCAL MUNICIPALITY**  
**INDEX TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2016

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**UMSOBOMVU LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2016**

**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 2016.

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 2016 indicates an increase in Net Assets, and a decrease in Non-current Liabilities and an increase in Current Liabilities.

The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of the surplus generated on the operating account. The decrease in Non-current Liabilities is primarily as a result of the decreases in provision for landfill sites. The increase in Current Liabilities is primarily as a result of the increase in VAT.

**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	2016	2015
Surplus / (Deficit) before Appropriations	14,882,355	14,888,415
Surplus / (Deficit) at the end of the Year	508,031,279	493,148,924
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	25.23%	27.44%
Remuneration of Councillors	2.09%	2.47%
Depreciation and Amortisation	19.01%	19.60%
Impairment Losses	21.41%	13.91%
Repairs and Maintenance	1.97%	3.24%
Interest Paid	1.23%	1.49%
Bulk Purchases	14.24%	15.42%
General Expenses	12.63%	16.34%
Current Ratio:		
Trade Creditors Days	81	100
Debtors from Exchange Transactions Days	81	149

## 2. KEY FINANCIAL INDICATORS (Continued)

### 2.2 Performance Indicators:

INDICATOR	2016	2015
<b>Borrowing Management:</b>		
Capital Charges to Operating Expenditure	1.69%	2.35%
Capital Charges to Own Revenue	3.95%	4.84%
Borrowing to Total Capital Assets	0.24%	0.46%
<b>Safety of Capital:</b>		
Gearing	0.25%	0.46%
<b>Liquidity:</b>		
Current Ratio	0.83	1.29
Liquidity Ratio	0.45	0.51
<b>Capital Expenditure Management:</b>		
Capital Expenditure on Infrastructure to Total Capital Expenditure	98.31%	87.85%
Capital Funding from Borrowings to Capital Grants, Subsidies & Donations	0.00%	0.00%
<b>Revenue Management:</b>		
Current Debtors Collection Rate	79.31%	81.53%
Outstanding Debtors to Revenue	24.33%	47.07%
<b>Creditors Management:</b>		
Creditors to Cash and Investments	98.85%	100.67%
<b>Financial Viability:</b>		
Debt Coverage	18.66	16.59
Outstanding Service Debtors to Revenue	30.76%	55.99%
Cost Coverage	0.16	0.19

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 2016 are as follows:

DETAILS	Actual 2015/16 R	Actual 2014/15 R	Percentage Variance %	Budgeted 2015/16 R	Variance actual/ budgeted %
<b>Income:</b>					
Opening surplus / (deficit)	492,955,579	502,128,317	(1.83)	-	100.00
Operating income for the year	162,839,010	136,376,545	19.40	204,315,055	(20.30)
Appropriations for the year	-	-	-	-	-
	655,794,590	638,504,862	2.71	204,315,055	220.97
<b>Expenditure:</b>					
Operating expenditure for the year	147,956,655	121,488,130	21.79	147,389,651	0.38
Closing surplus / (deficit)	507,837,934	492,955,579	3.02	56,925,404	792.11
	655,794,590	638,504,862	2.71	204,315,055	220.97

### 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 2015/16 R	Actual 2014/15 R	Percentage Variance %	Budgeted 2015/16 R	Variance actual/ budgeted %
Income	82,525,625	46,988,484	75.63	103,887,096	(20.56)
Expenditure	85,193,928	62,465,010	36.39	83,687,035	1.80
Surplus / (Deficit)	(2,668,303)	(15,476,526)	(82.76)	20,200,061	(113.21)
Surplus / (Deficit) as % of total income	(3.23)%	(32.94)%		19.44%	

#### 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 2015/16 R	Actual 2014/15 R	Percentage Variance %	Budgeted 2015/16 R	Variance actual/ budgeted %
Income	406,088	-	100.00	-	100.00
Expenditure	518,484	533,482	(2.81)	482,026	7.56
Surplus / (Deficit)	(112,396)	(533,482)	(78.93)	(482,026)	(76.68)
Surplus / (Deficit) as % of total income	(27.68)%	(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 2015/16 R	Actual 2014/15 R	Percentage Variance %	Budgeted 2015/16 R	Variance actual/ budgeted %
Income	14,908,202	13,218,473	12.78	14,187,585	5.08
Expenditure	15,064,448	8,392,469	79.50	15,771,189	(4.48)
Surplus / (Deficit)	(156,246)	4,826,004	(103.24)	(1,583,604)	(90.13)
Surplus / (Deficit) as % of total income	(1.05)%	36.51%		(11.16)%	

#### 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 R20,671,934 (2015: R18,253,729). Tariffs levied for electricity are subject to administered adjustments.

DETAILS	Actual 2015/16 R	Actual 2014/15 R	Percentage Variance %	Budgeted 2015/16 R	Variance actual/ budgeted %
Income	25,024,885	29,497,322	(15.16)	29,957,300	(16.46)
Expenditure	23,575,811	26,588,384	(11.33)	25,619,132	(7.98)
Surplus / (Deficit)	1,449,074	2,908,938	(50.19)	4,338,168	(66.60)
Surplus / (Deficit) as % of total income	5.79%	9.86%		14.48%	

### 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 R393,286 (2015: R477,554 ). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2015/16 R	Actual 2014/15 R	Percentage Variance %	Budgeted 2015/16 R	Variance actual/ budgeted %
Income	39,974,210	58,242,289	(31.37)	56,283,074	(28.98)
Expenditure	23,603,985	22,341,511	5.65	21,830,269	8.13
Surplus / (Deficit)	16,370,225	35,900,778	(54.40)	34,452,805	(52.49)
Surplus / (Deficit) as % of total income	40.95%	61.64%		61.21%	

### 4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Assets during the year amounted to R64,578,683 (2014/15: R39,289,064). 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 R64,578,683 was financed as follows:

DETAILS	Actual 2015/16 R	Actual 2014/15 R	Percentage Variance %	Budgeted 2015/16 R	Variance actual/ budgeted %
External Loans	-	-	-	-	-
Grants and Subsidies	63,779,809	38,938,443	63.80	77,945,300	(18.17)
Public Contributions	-	49,500	(100.00)	-	-
Own Funds (Accumulated Surplus)	798,874	707,210	12.96	233,739	241.78
	64,578,683	39,695,153	62.69	78,179,039	(17.40)

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2016	2015
External Loans	-	-
Grants and Subsidies	98.76%	98.09%
Public Contributions	-	0.12%
Own Funds (Accumulated Surplus)	1.24%	1.78%
	100.00%	100.00%

## 5. RECONCILIATION OF BUDGET TO ACTUAL

### 5.1 Operating Budget:

DETAILS	2016	2015
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	56,925,404	29,403,776
Revenue variances	(41,476,045)	(23,580,366)
Expenditure variances:		
Employee Related Costs	4,978,867	5,745,323
Remuneration of Councillors	27,186	(51,456)
Collection Costs	-	-
Depreciation and Amortisation	1,360,360	20,112
Impairment Losses	(25,485,091)	(11,658,627)
Repairs and Maintenance	1,127,031	(234,312)
Interest Paid	(1,470,714)	(1,450,576)
Bulk Purchases	219,244	(61,283)
General Expenses	21,926,310	16,870,066
Loss on disposal of Property, Plant and Equipment	(3,250,196)	(114,243)
Actual surplus before appropriations	14,882,355	14,888,415

DETAILS	2016	2015
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	56,925,404	29,403,776
Executive and Council	8,213,263	2,554,285
Finance and Administration	(7,915,008)	3,502,006
Community and Social Services	6,724,773	2,531,156
Technical Services	(49,066,077)	(23,102,807)
Actual surplus before appropriations	14,882,355	14,888,416

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 2015/16 R	Actual 2014/15 R	Variance actual 2015/16 / 2014/15 R	Budgeted 2015/16 R	Variance actual/ budgeted R
Executive and Council	20,488	661,384	(640,896)		20,488
Finance and Administration	581,923	333,936	247,988	100,000	481,923
Community and Social Services	291,353	59,670	231,683	5,000,000	(4,708,647)
Technical Services	58,452,423	49,374,047	9,078,376	41,741,000	16,711,423
	59,346,188	50,429,037	8,917,151	46,841,000	12,505,188

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 2016 amounted to R508,031,279 (30 June 2015: R493,148,924) and is made up as follows:

Capital Replacement Reserve	193,344
Accumulated Surplus	<u>507,837,934</u>
	<u><u>508,031,279</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 2016 was R1,256,312 (30 June 2015: R2,279,397).

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

## 8. EMPLOYEE BENEFIT LIABILITIES

Employee Benefit Liabilities amounted R12,665,959 as at 30 June 2016 (30 June 2015: R12,015,345) and is made up as follows:

Post-retirement Health Care Benefits Liability	11,265,256
Provision for Long Service Awards	<u>1,400,703</u>
	<u><u>12,665,959</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 R3,910,555 as at 30 June 2016 (30 June 2015: R3,493,695) and is made up as follows:

Provision for Rehabilitation of Land-fill Sites	<u>3,910,555</u>
	<u><u>3,910,555</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 R38,827,237 as at 30 June 2016 (30 June 2015: R36,152,386) and is made up as follows:

Consumer Deposits	Note 10	774,489
Provisions	Note 11	734,799
Payables	Note 12	19,026,332
Unspent Conditional Grants and Receipts	Note 14	9,810,902
VAT Payable	Note 15	7,239,831
Current Portion of Long-term Liabilities	Note 16	1,240,883
		<u>38,827,237</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 R530,973,887 as at 30 June 2016 (30 June 2015: R498,346,320).

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

## 12. INTANGIBLE ASSETS

The net value of Intangible Assets were R53,826 as at 30 June 2016 (30 June 2015: R58,739).

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 2016 (30 June 2015: 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 R35,096,934 as at 30 June 2016 (30 June 2015: R46,623,789) and is made up as follows:

Inventories	Note 2	409,848
Receivables from Exchange Transactions	Note 3	10,410,122
Receivables from Non-exchange Transactions	Note 4	5,027,233
Cash and Cash Equivalents	Note 5	19,248,106
Operating Lease Assets	Note 6	1,624
		<u>35,096,934</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, Councillors, 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 2016

**UMSOBOMVU LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016**

2015 R	Budget		2016 Adjusted R	Note	Actual	
	2016 Original R	2016 Original R			2016 R	2015 R
<b>ASSETS</b>						
<b>36,291,000</b>	<b>54,737,450</b>	<b>78,544,038</b>	<b>Current Assets</b>		<b>35,096,934</b>	<b>46,623,789</b>
-	-	401,000	Inventories	2	409,848	394,029
24,291,000	28,697,180	50,344,679	Receivables from Exchange Transactions	3	10,410,122	18,963,425
-	-	4,075,342	Receivables from Non-exchange Transactions	4	5,027,233	8,815,421
12,000,000	26,040,270	23,723,017	Cash and Cash Equivalents	5	19,248,106	18,447,777
-	-	-	Operating Lease Receivables	6	1,624	3,137
<b>549,826,000</b>	<b>597,521,916</b>	<b>556,222,586</b>	<b>Non-Current Assets</b>		<b>533,088,612</b>	<b>500,465,958</b>
546,621,000	594,317,106	554,087,949	Property, Plant and Equipment	7	530,973,887	498,346,320
1,550,000	1,550,000	73,739	Intangible Assets	8	53,826	58,739
1,655,000	1,654,811	2,060,899	Investment Property	9	2,060,899	2,060,899
<b>586,117,000</b>	<b>652,259,366</b>	<b>634,766,624</b>	<b>Total Assets</b>		<b>568,185,545</b>	<b>547,089,747</b>
<b>LIABILITIES</b>						
-	<b>800,139</b>	<b>33,132,707</b>	<b>Current Liabilities</b>		<b>42,321,441</b>	<b>36,152,386</b>
-	-	760,885	Consumer Deposits	10	774,489	741,885
-	-	961,006	Provisions	11	734,799	764,786
-	-	21,000,000	Payables from Exchange Transactions	12	19,026,332	18,571,899
-	-	-	Payables from Non-exchange Transactions	13	3,494,203	2,839,158
-	-	7,500,000	Unspent Conditional Grants and Receipts	14	9,810,902	10,234,325
-	-	2,000,000	VAT Payable	15	7,239,831	2,089,516
-	800,139	910,816	Current Portion of Long-term Liabilities	16	1,240,883	910,816
<b>4,374,000</b>	<b>22,453,009</b>	<b>26,187,651</b>	<b>Non-Current Liabilities</b>		<b>17,832,826</b>	<b>17,788,437</b>
4,374,000	2,857,390	1,279,397	Long-term Liabilities	16	1,256,312	2,279,397
-	-	12,515,345	Employee Benefit Liability	17	12,665,959	12,015,345
-	19,595,620	12,392,910	Non-current Provisions	18	3,910,555	3,493,695
<b>4,374,000</b>	<b>23,253,148</b>	<b>59,320,359</b>	<b>Total Liabilities</b>		<b>60,154,267</b>	<b>53,940,823</b>
<b>581,743,000</b>	<b>629,006,218</b>	<b>575,446,265</b>	<b>Total Assets and Liabilities</b>		<b>508,031,279</b>	<b>493,148,924</b>
<b>581,743,000</b>	<b>629,006,218</b>	<b>575,446,265</b>	<b>NET ASSETS</b>		<b>508,031,279</b>	<b>493,148,924</b>
581,743,000	629,006,218	575,446,265	Accumulated Surplus / (Deficit)	19	508,031,279	493,148,924
<b>581,743,000</b>	<b>629,006,218</b>	<b>575,446,265</b>	<b>Total Net Assets</b>		<b>508,031,279</b>	<b>493,148,924</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016**

Budget				Note	Actual	
2015 R	2016 Original R	2016 Adjusted R			2016 R	2015 R
<b>REVENUE</b>						
<b>Revenue from Non-exchange Transactions</b>						
8,116,592	8,116,592	8,405,668	Property Rates	<b>20</b>	8,144,051	8,313,287
178,652	178,652	207,800	Property Rates - Penalties imposed and collection charges	<b>25</b>	217,246	207,645
2,019,124	2,520,876	5,320,879	Fines		<b>671,518</b>	<b>98,182</b>
714,462	757,090	2,412,554	Licences and Permits		-	-
87,496,000	95,482,000	117,693,000	Government Grants and Subsidies Received	<b>21</b>	99,389,539	77,358,294
-	-	-	Public Contributions and Donations	<b>22</b>	-	49,500
<b>Revenue from Exchange Transactions</b>						
54,011,234	58,979,107	61,506,093	Service Charges	<b>23</b>	<b>38,892,697</b>	<b>38,063,139</b>
1,041,720	1,102,587	886,587	Rental of Facilities and Equipment	<b>24</b>	758,723	1,045,750
422,000	422,000	470,600	Interest Earned - External Investments	<b>25</b>	538,281	531,703
1,672,090	1,806,439	2,054,657	Interest Earned - Outstanding Debtors	<b>25</b>	2,168,573	1,980,484
4,285,037	4,290,700	5,357,217	Other Revenue	<b>26</b>	<b>12,058,383</b>	<b>8,322,472</b>
-	-	-	Other Gains on Continued Operations		-	406,088
<b>159,956,911</b>	<b>173,656,043</b>	<b>204,315,055</b>	<b>Total Revenue</b>		<b>162,839,010</b>	<b>136,376,545</b>
<b>EXPENDITURE</b>						
39,084,059	<b>40,627,602</b>	42,311,911	Employee Related Costs	<b>27</b>	<b>37,333,044</b>	<b>33,338,736</b>
2,944,519	3,091,745	3,122,360	Remuneration of Councillors	<b>28</b>	3,095,174	2,995,975
23,834,140	23,843,783	29,480,306	Depreciation and Amortisation	<b>29</b>	28,119,946	23,814,028
5,238,063	5,458,470	6,196,324	Impairment Losses	<b>30</b>	31,681,415	16,896,690
3,697,855	<b>3,275,200</b>	4,043,090	Repairs and Maintenance		2,916,059	3,932,167
360,000	310,000	343,695	Finance Costs	<b>31</b>	<b>1,814,409</b>	<b>1,810,576</b>
18,670,000	21,284,464	21,284,464	Bulk Purchases	<b>32</b>	21,065,220	18,731,283
36,723,271	<b>37,365,795</b>	40,606,273	General Expenses	<b>33</b>	<b>18,679,963</b>	<b>19,853,205</b>
1,228	1,228	1,228	Loss on Disposal of Property, Plant and Equipment		3,251,424	115,471
<b>130,553,135</b>	<b>135,258,287</b>	<b>147,389,651</b>	<b>Total Expenditure</b>		<b>147,956,655</b>	<b>121,488,130</b>
<b>29,403,776</b>	<b>38,397,756</b>	<b>56,925,404</b>	<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>		<b>14,882,355</b>	<b>14,888,415</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 2016**

Description	Accumulated Surplus / (Deficit) Account		Total for Accumulated Surplus/(Deficit) Account	Total
	Capital Replacement Reserve	Accumulated Surplus / (Deficit)		
	R	R	R	R
<b>2015</b>				
Balance at 30 June 2014	193,344	502,128,317	502,321,653	502,321,660
Correction of Error (Note 34)	-	(24,061,152)	(24,061,152)	(24,061,152)
<b>Restated Balance</b>	<b>193,344</b>	<b>478,067,164</b>	<b>478,260,501</b>	<b>478,260,508</b>
Surplus / (Deficit) for the year	-	14,888,415	14,888,415	14,888,415
<b>Balance at 30 June 2015</b>	<b>193,344</b>	<b>492,955,579</b>	<b>493,148,916</b>	<b>493,148,923</b>
<b>2016</b>				
<b>Restated Balance</b>	<b>193,344</b>	<b>492,955,579</b>	<b>493,148,916</b>	<b>493,148,923</b>
Surplus / (Deficit) for the year	-	14,882,355	14,882,355	14,882,355
<b>Balance at 30 June 2016</b>	<b>193,344</b>	<b>507,837,934</b>	<b>508,031,271</b>	<b>508,031,278</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 2016**

2015 R	Budget		Note	Actual	
	2016 Original R	2016 Adjusted R		2016 R	2015 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Receipts</b>					
4,158,589	8,295,244	8,613,468	Property Rates	6,349,350	6,357,988
83,505,400	95,482,000	110,617,000	Government Grant and Subsidies	98,966,116	72,964,093
-	-	-	Public Contributions and Donations		-
50,099,216	50,096,114	52,433,587	Service Charges	32,849,914	33,237,258
5,289,090	2,228,439	2,995,857	Interest Received	2,706,854	2,512,187
-	8,671,253	14,109,237	Other Receipts	27,480,083	16,355,520
<b>Payments</b>					
(37,490,302)	(50,921,720)	(56,645,012)	Employee Related Costs	(37,318,418)	(33,694,681)
(2,915,026)	(3,095,174)	(3,095,174)	Remuneration of Councillors	(3,095,174)	(2,995,975)
(360,000)	(310,000)	(343,695)	Interest Paid	(336,340)	(383,690)
(60,083,073)	(42,661,242)	(42,661,242)	Suppliers Paid	(58,399,212)	(55,418,251)
	(8,966,670)	(8,966,670)	Other Payments	(3,131,141)	(101,111)
<b>42,203,894</b>	<b>58,818,244</b>	<b>77,057,356</b>	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>66,072,032</b>	<b>38,833,338</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
(47,898,000)	(50,006,970)	(71,001,300)	Purchase of Property, Plant and Equipment	(64,553,536)	(39,265,366)
-	-	-	Purchase of Intangible Assets	(25,147)	(23,698)
<b>(47,898,000)</b>	<b>(50,006,970)</b>	<b>(71,001,300)</b>	<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(64,578,683)</b>	<b>(39,289,064)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
120,000	130,000	130,000	Proceeds from Borrowings	-	-
(727,924)	(800,000)	(910,816)	Repayment of Borrowings	(693,020)	(1,043,218)
<b>(607,924)</b>	<b>(670,000)</b>	<b>(780,816)</b>	<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>(693,020)</b>	<b>(1,043,218)</b>
<b>(6,302,030)</b>	<b>8,141,274</b>	<b>5,275,240</b>	<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>800,329</b>	<b>(1,498,944)</b>
15,612,433	18,447,777	18,447,777	Cash and Cash Equivalents at Beginning of Period	18,447,777	19,946,722
9,310,403	26,589,051	23,723,017	Cash and Cash Equivalents at End of Period	19,248,106	18,447,777

## UMSOBOMVU LOCAL MUNICIPALITY

### STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2016

30 June 2016

Description	2015/2016							
	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	409,848	8,848	102.21	0.00
Receivables from Exchange Transactions	28,697,180	21,647,499	50,344,679	50,344,679	10,410,122	(39,934,557)	20.68	36.28
Receivables from Non-exchange Transactions	-	4,075,342	4,075,342	4,075,342	5,027,233	951,891	123.36	0.00
Cash and Cash Equivalents	26,040,270	(2,317,253)	23,723,017	23,723,017	19,248,106	(4,474,910)	81.14	73.92
Operating Lease Receivables	-	-	-	-	1,624	1,624	0.00	0.00
<b>Non-Current Assets</b>								
Property, Plant and Equipment	594,317,106	(40,229,157)	554,087,949	554,087,949	530,973,887	(23,114,061)	95.83	89.34
Intangible Assets	1,550,000	(1,476,261)	73,739	73,739	53,826	(19,913)	72.99	3.47
Investment Property	1,654,811	406,088	2,060,899	2,060,899	2,060,899	-	100.00	124.54
<b>Total Assets</b>	<b>652,259,366</b>	<b>(17,492,742)</b>	<b>634,766,624</b>	<b>634,766,624</b>	<b>568,185,545</b>	<b>(66,581,079)</b>	<b>89.51</b>	<b>87.11</b>
<b>Current Liabilities</b>								
Consumer Deposits	-	760,885	760,885	760,885	774,489	13,604	101.79	0.00
Provisions	-	961,006	961,006	961,006	734,799	(226,207)	76.46	0.00
Payables	-	21,000,000	21,000,000	21,000,000	22,520,535	1,520,535	107.24	0.00
Unspent Conditional Grants and Receipts	-	7,500,000	7,500,000	7,500,000	9,810,902	2,310,902	130.81	0.00
VAT Payable	-	2,000,000	2,000,000	2,000,000	7,239,831	5,239,831	361.99	0.00
Current Portion of Long-term Liabilities	800,139	110,677	910,816	910,816	1,240,883	330,067	136.24	155.08
<b>Non-Current Liabilities</b>								
Long-term Liabilities	2,857,390	(1,577,993)	1,279,397	1,279,397	1,256,312	(23,085)	98.20	43.97
Employee Benefit Liability	-	12,515,345	12,515,345	12,515,345	12,665,959	150,614	101.20	0.00
Non-current Provisions	19,595,620	(7,202,710)	12,392,910	12,392,910	3,910,555	(8,482,355)	31.55	19.96
<b>Total Liabilities</b>	<b>23,253,148</b>	<b>36,067,211</b>	<b>59,320,359</b>	<b>59,320,359</b>	<b>60,154,267</b>	<b>833,908</b>	<b>101.41</b>	<b>258.69</b>
<b>Total Assets and Liabilities</b>	<b>629,006,218</b>	<b>(53,559,953)</b>	<b>575,446,265</b>	<b>575,446,265</b>	<b>508,031,279</b>	<b>(67,414,987)</b>	<b>88.28</b>	<b>80.77</b>
<b>Net Assets (Equity)</b>								
Accumulated Surplus / (Deficit)	629,006,218	(53,559,953)	575,446,265	575,446,265	508,031,279	(67,414,987)	88.28	80.77
<b>Total Net Assets</b>	<b>629,006,218</b>	<b>(53,559,953)</b>	<b>575,446,265</b>	<b>575,446,265</b>	<b>508,031,279</b>	<b>(67,414,987)</b>	<b>88.28</b>	<b>80.77</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	8,116,592	289,076	8,405,668	8,405,668	8,144,051	(261,617)	96.89	100.34
Property Rates - Penalties imposed and collection charges	178,652	29,148	207,800	207,800	217,246	9,446	104.55	121.60
Fines	2,520,876	2,800,003	5,320,879	5,320,879	671,518	(4,649,361)	12.62	26.64
Licences and Permits	757,090	1,655,464	2,412,554	2,412,554	-	(2,412,554)	0.00	0.00
Government Grants and Subsidies Received	39,918,700	(171,000)	39,747,700	39,747,700	43,292,921	3,545,221	108.92	108.45
<b>Revenue from Exchange Transactions</b>								
Service Charges	58,979,107	2,526,986	61,506,093	61,506,093	38,892,697	(22,613,396)	63.23	65.94
Rental of Facilities and Equipment	1,102,587	(216,000)	886,587	886,587	758,723	(127,864)	85.58	68.81
Interest Earned - External Investments	422,000	48,600	470,600	470,600	538,281	67,681	114.38	127.55
Interest Earned - Outstanding Debtors	1,806,439	248,218	2,054,657	2,054,657	2,168,573	113,916	105.54	120.05
Other Income	4,290,700	1,066,517	5,357,217	5,357,217	12,058,383	6,701,166	225.09	281.04
<b>Total Revenue</b>	<b>118,092,743</b>	<b>8,277,012</b>	<b>126,369,755</b>	<b>126,369,755</b>	<b>106,742,392</b>	<b>(19,627,363)</b>	<b>84.47</b>	<b>90.39</b>
<b>Expenditure</b>								
Employee Related Costs	40,627,602	1,684,309	42,311,911	42,311,911	37,333,044	(4,978,867)	88.23	91.89
Remuneration of Councillors	3,091,745	30,615	3,122,360	3,122,360	3,095,174	(27,186)	99.13	100.11
Depreciation and Amortisation	23,843,783	5,636,523	29,480,306	29,480,306	28,119,946	(1,360,360)	95.39	117.93
Impairment Losses	5,458,470	737,854	6,196,324	6,196,324	31,681,415	25,485,091	511.29	580.41
Repairs and Maintenance	3,275,200	767,890	4,043,090	4,043,090	2,916,059	(1,127,031)	72.12	89.03
Finance Costs	310,000	33,695	343,695	343,695	1,814,409	1,470,714	527.91	585.29
Bulk Purchases	21,284,464	-	21,284,464	21,284,464	21,065,220	(219,244)	98.97	98.97
General Expenses	37,365,795	3,240,478	40,606,273	40,606,273	18,679,963	(21,926,310)	46.00	49.99
Loss on Disposal of Property, Plant and Equipment	1,228	-	1,228	1,228	3,251,424	3,250,196	264,773.97	264,773.97
<b>Total Expenditure</b>	<b>135,258,287</b>	<b>12,131,364</b>	<b>147,389,651</b>	<b>147,389,651</b>	<b>147,956,655</b>	<b>567,004</b>	<b>100.38</b>	<b>109.39</b>
<b>Surplus/(Deficit)</b>	<b>(17,165,544)</b>	<b>(3,854,352)</b>	<b>(21,019,896)</b>	<b>(21,019,896)</b>	<b>(41,214,263)</b>	<b>(20,194,367)</b>	<b>196.07</b>	<b>240.10</b>
Transfers Recognised - Capital	55,563,300	22,382,000	77,945,300	77,945,300	56,096,618	(21,848,682)	71.97	100.96
<b>Surplus/(Deficit) after Capital Transfers and Contributions</b>	<b>38,397,756</b>	<b>18,527,648</b>	<b>56,925,404</b>	<b>56,925,404</b>	<b>14,882,355</b>	<b>(42,043,049)</b>	<b>26.14</b>	<b>38.76</b>
<b>Surplus/(Deficit for the Year)</b>	<b>38,397,756</b>	<b>18,527,648</b>	<b>56,925,404</b>	<b>56,925,404</b>	<b>14,882,355</b>	<b>(42,043,049)</b>	<b>26.14</b>	<b>38.76</b>
<b>CAPITAL EXPENDITURE PER FUNCTION</b>								
Executive and Council	-	-	-	-	20,488	20,488	0.00	0.00
Finance and Administration	1,710,000	(1,476,261)	233,739	233,739	708,086	474,347	302.94	41.41
Community and Social Services	-	-	-	-	291,353	291,353	0.00	0.00
Technical Services	55,563,300	22,382,000	77,945,300	77,945,300	198,053,736	120,108,436	254.09	356.45
<b>Total Sources of Capital Funds</b>	<b>57,273,300</b>	<b>20,905,739</b>	<b>78,179,039</b>	<b>78,179,039</b>	<b>199,073,664</b>	<b>120,894,625</b>	<b>254.64</b>	<b>347.59</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	8,295,244	318,224	8,613,468	8,613,468	6,349,350	(2,264,118)	73.71	76.54
Grants	95,482,000	15,135,000	110,617,000	110,617,000	98,966,116	(11,650,884)	89.47	103.65
Service Charges	50,096,114	2,337,473	52,433,587	52,433,587	32,849,914	(19,583,673)	62.65	65.57
Interest Received	2,228,439	767,418	2,995,857	2,995,857	2,706,854	(289,003)	90.35	121.47
Other Receipts	8,671,253	5,437,984	14,109,237	14,109,237	27,480,083	13,370,846	194.77	316.91
Employee Related Costs	(50,921,720)	(5,723,292)	(56,645,012)	(56,645,012)	(37,318,418)	19,326,594	65.88	73.29
Remuneration of Councillors	(3,095,174)	-	(3,095,174)	(3,095,174)	(3,095,174)	-	100.00	100.00
Interest Paid	(310,000)	(33,695)	(343,695)	(343,695)	(336,340)	7,355	97.86	108.50
Suppliers Paid	(42,661,242)	-	(42,661,242)	(42,661,242)	(58,399,212)	(15,737,970)	136.89	136.89
Other Payments	(8,966,670)	-	(8,966,670)	(8,966,670)	(3,131,141)	5,835,529	34.92	34.92
<b>Cash Flows from/(used in) Investing Activities</b>								
Purchase of Property, Plant and Equipment	(50,006,970)	(20,994,330)	(71,001,300)	(71,001,300)	(64,553,536)	6,447,764	90.92	129.09
Purchase of Intangible Assets	-	-	-	-	(25,147)	(25,147)	0.00	0.00
<b>Cash Flows from/(used in) Financing Activities</b>								
Increase (decrease) in consumer deposits	130,000	-	130,000	130,000	-	(130,000)	0.00	0.00
Loans repaid	(800,000)	(110,816)	(910,816)	(910,816)	(693,020)	217,796	76.09	86.63
<b>Cash and Cash Equivalents at End of the Year</b>	<b>8,141,274</b>	<b>(2,866,034)</b>	<b>5,275,240</b>	<b>5,275,240</b>	<b>800,329</b>	<b>(4,474,911)</b>	<b>15.17</b>	<b>9.83</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 Non-Exchange Transactions:

We underbudgeted for this line item.

Cash and Cash Equivalents:

This due to the decrease in the collection rate of the municipality.

Intangible Assets:

We bought less computers than initially planned.

Payables:

We had to prioritise our spending patterns as we were not collecting as much as we would like.

Unspent Conditional Grants and Receipts:

financial year for a sport complex in Noupoort.

Short-term Loans:

We underbudgeted for this line item.

Current Portion of Long-term Liabilities:

We underbudgeted for this line item.

Property, Plant and Equipment

The projects on upgrading our infrastructure will carry over to the new financial year.

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
Intangible Assets:								
We bought less computers than initially planned.								
Long-term Liabilities								
We over estimated our budget for this line item.								
Employee Benefit Liability								
A number of employees retired and some got promotions during the financial year therefore there were a number of leave payouts.								
Non-Current Provisions								
A number of employees retired and some got promotions during the financial year therefore there were a number of leave payouts.								
<b>Financial Performance: Explanation of Variances between Approved Budget and Actual</b>								
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:								
Services Charges: We billed less on Electricity and Water which could be a result of meter tempering as it can also be witness in the increase in electricity and water losses.								
Interest earned - external investment: We underbudgeted for this line item.								
Rental of Facilities and Equipment: Our rental facilities were not utilised as expected.								
Other income: We have underbudgeted for this line item.								

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>Fines: We actually underbudgeted for this line item</p> <p>Licenses and permits: The net income was budgeted which was not accounting correct as the revenue for licences and permits should be refelected as income in the Income Statement.</p> <p>Employee Related Costs: We've had a couple of resignations this financial year and positions were vacant for the most part of the year and were only filled later in the financial year.</p> <p>Impairment Losses: The indigent households decreased.</p> <p>Repairs and maintainance: We have underspent on this line item.</p> <p>General Expenses: We have overbudgeted for the indigents</p> <p>Loss on Disposal of Property, Plant and Equipment: Some assets couldn't be verified during the verification process.</p> <p><b>Capital Expenditure per Function: Explanation of Variances between Approved Budget and Actual</b></p> <p>For reasons for Variances greater than 10% between Approved Budget and Actual Amount, are as follow:</p> <p>Technical Services:The business plan for the EEDG grant was approved late therefore the project started late as well. The grant received from Lottery will only be implemented in the 2016/2017 financial year for a sport complex in Noupoot.</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>Property Rates</p> <p>This is the of the decrease in the collection rate.</p> <p>Grants</p> <p>The business plan for the EEDG grant was approved late therefore the project started late as well. The grant received from Lottery will only be implemented in the 2016/2017 financial year for a sport complex in Noupoot.</p> <p>Employee Related Costs</p> <p>We've had a couple of resignations this financial year and positions were vacant for the most part of the year and were only filled later in the financial 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 **R27 702 098** and that of trade and other receivable from non exchange transactions to **R3 394 658**.

**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 **R584 651**, 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**  
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**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% (2015: 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. 9.83% (2015:9.83%)

**1. 2. 9 Budget information**

Deviations between budget and actual amounts are regarded as material differences when a 5% 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

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:

Impairment of Non-cash-generating Assets (GRAP 21 - issued March 2009)  
Impairment of Cash-generating Assets (GRAP 26 - issued March 2009)  
Revenue from Non-Exchange Transactions (GRAP 23 - issued February 2008)  
Financial Instruments (GRAP 104 Financial Instruments - October 2009)

**UMSOBOMVU LOCAL MUNICIPALITY**

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
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**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.

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**  
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**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	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.

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**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**  
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**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**  
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**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

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
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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.

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
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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.

**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
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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.

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**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 2015 to 30 June 2016**.

**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 2016**

	2016 R	2015 R
<b>1. GENERAL INFORMATION</b>		
<p style="color: red;">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	39,548	23,729
<b>Total Inventories</b>	<b>409,848</b>	<b>394,029</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 R4.21 per kilolitre (2015: R3,55 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 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 Consumer Services	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>
<b>As at 30 June 2015</b>			
Service Debtors:	74,618,244	55,849,214	18,769,031
Electricity	6,029,561	2,358,295	3,671,266
Refuse	19,824,584	16,509,369	3,315,215
Sewerage	15,535,128	11,668,921	3,866,206
Water	33,228,972	25,312,628	7,916,343
Other Receivables	1,999,524	1,805,130	194,394
Other Debtors	1,999,524	1,805,130	194,394
<b>Total Receivables from Exchange Transactions</b>	<b>76,617,769</b>	<b>57,654,344</b>	<b>18,963,425</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 2016**

2016  
R

2015  
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 2016, the municipality is owed R5,527,239 (30 June 2015: R7,800,361) 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 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	7,985,976
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>4,762,045</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>791,759</b>	<b>1,012,840</b>
<b>Sewerage:</b>					
Gross Balances	586,102	460,179	392,397	17,842,605	19,281,282
Less: Provision for Impairment	301,539	298,203	298,829	16,812,630	17,711,200
<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	39,954,702
<b>Net Balances</b>	<b>303,413</b>	<b>263,267</b>	<b>121,637</b>	<b>2,295,975</b>	<b>2,984,292</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	2,384,048
<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	85,338,707	89,587,738
Less: Provision for Impairment	1,431,196	1,386,096	79,840,184	82,657,477
<b>Net Balances</b>	<b>887,569</b>	<b>544,169</b>	<b>5,498,523</b>	<b>6,930,261</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

2016  
R

2015  
R

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

As at 30 June 2015

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Electricity:</b>					
Gross Balances	1,897,843	411,456	319,976	3,400,285	6,029,561
Less: Provision for Impairment	53,248	56,879	69,346	2,178,822	2,358,295
<b>Net Balances</b>	<b>1,844,596</b>	<b>354,577</b>	<b>250,630</b>	<b>1,221,463</b>	<b>3,671,266</b>
<b>Refuse:</b>					
Gross Balances	344,033	302,712	293,052	18,884,787	19,824,584
Less: Provision for Impairment	208,844	211,023	211,469	15,878,032	16,509,369
<b>Net Balances</b>	<b>135,189</b>	<b>91,688</b>	<b>81,583</b>	<b>3,006,755</b>	<b>3,315,215</b>
<b>Sewerage:</b>					
Gross Balances	517,033	395,230	359,187	14,263,678	15,535,128
Less: Provision for Impairment	197,429	198,706	199,288	11,073,498	11,668,921
<b>Net Balances</b>	<b>319,603</b>	<b>196,524</b>	<b>159,899</b>	<b>3,190,180</b>	<b>3,866,206</b>
<b>Water:</b>					
Gross Balances	846,897	750,250	775,303	30,856,521	33,228,972
Less: Provision for Impairment	389,125	430,732	465,881	24,026,890	25,312,628
<b>Net Balances</b>	<b>457,772</b>	<b>319,518</b>	<b>309,422</b>	<b>6,829,631</b>	<b>7,916,343</b>
<b>Other Receivables:</b>					
Gross Balances	60,577	62,015	60,912	1,816,021	1,999,524
Less: Provision for Impairment	50,979	51,112	50,979	1,652,059	1,805,130
<b>Net Balances</b>	<b>9,598</b>	<b>10,902</b>	<b>9,932</b>	<b>163,962</b>	<b>194,394</b>

As at 30 June Receivables of R16,196,668 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	1,921,663	1,808,430	69,221,293	72,951,386
Less: Provision for Impairment	948,454	996,963	54,809,301	56,754,718
<b>Net Balances</b>	<b>973,209</b>	<b>811,467</b>	<b>14,411,992</b>	<b>16,196,668</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 2016</b>				
<b>Current:</b>				
0 - 30 days	5,197,693	1,304,065	319,002	
<b>Past Due:</b>				
31 - 60 Days	1,785,248	192,969	340,549	
61 - 90 Days	1,554,655	182,111	193,499	
+ 90 Days	81,947,867	2,794,491	596,349	
Sub-total	90,485,463	4,473,636	1,449,399	-
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>	<b>1,449,399</b>	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R	
<b>3. RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)</b>			
Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
<b>As at 30 June 2015</b>			
<i>Current:</i>			
0 - 30 days	2,609,507	808,199	248,676
<i>Past Due:</i>			
31 - 60 Days	1,383,127	174,431	364,105
61 - 90 Days	1,378,702	157,291	272,436
+ 90 Days	66,368,661	2,213,525	639,107
Sub-total	<u>71,739,997</u>	<u>3,353,446</u>	<u>1,524,325</u>
Less: Provision for Impairment	55,255,140	2,399,204	-
<b>Total Trade Receivables by Customer Classification</b>	<b><u>39,143,377</u></b>	<b><u>2,676,977</u></b>	<b><u>1,524,325</u></b>

**3.3 Reconciliation of the Provision for Impairment**

Balance at beginning of year	57,654,343	42,302,837
<i>All Consumer Debtors</i>	<u>57,654,343</u>	<u>42,302,837</u>
Impairment Losses recognised	28,704,028	15,702,902
<i>All Consumer Debtors</i>	<u>28,704,028</u>	<u>15,702,902</u>
Amounts written off as uncollectable	(359,996)	(351,396)
<i>All Consumer Debtors</i>	<u>(359,996)</u>	<u>(351,396)</u>
<b>Balance at end of year</b>	<b><u>85,998,376</u></b>	<b><u>57,654,343</u></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	3,340,899	899,626
<i>Past Due:</i>		
31 - 60 Days	1,431,196	948,454
61 - 90 Days	1,386,096	996,963
+ 90 Days	79,840,184	54,809,301
<b>Total</b>	<b><u>85,998,376</u></b>	<b><u>57,654,344</u></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 2016</b>			
Assessment Rates Debtors	9,286,526	7,323,365	1,963,160
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><u>13,354,943</u></b>	<b><u>8,327,710</u></b>	<b><u>5,027,233</u></b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 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 2015</b>			
Assessment Rates Debtors	7,180,122	4,324,178	2,855,944
Payments Made In Advance	7,828	-	7,828
Sundry Debtors	871,945	507,301	364,644
Government Subsidies	5,587,005	-	5,587,005
<b>Total Receivables from Non-exchange Transactions</b>	<b>13,646,900</b>	<b>4,831,480</b>	<b>8,815,421</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 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>95,397</b>	<b>59,731</b>	<b>1,506,673</b>	<b>1,963,160</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	1,710,395
Less: Provision for Impairment	15,874	15,870	15,870	956,731	1,004,344
<b>Net Balances</b>	<b>507,510</b>	<b>6,040</b>	<b>4,934</b>	<b>187,566</b>	<b>706,051</b>

As at 30 June Receivables of R1,860,343 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	9,531,933	10,024,694
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>1,694,240</b>	<b>1,860,343</b>

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

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

2016  
R

2015  
R

As at 30 June 2015

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Assessment Rates:</b>					
Gross Balances	372,896	247,161	201,390	6,358,674	7,180,122
Less: Provision for Impairment	96,564	96,819	96,041	4,034,754	4,324,178
<b>Net Balances</b>	<b>276,331</b>	<b>150,342</b>	<b>105,349</b>	<b>2,323,920</b>	<b>2,855,944</b>
<b>Payments made in Advance:</b>					
Gross Balances	7,828	-	-	-	7,828
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>7,828</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,828</b>
<b>Government Subsidy Claims:</b>					
Gross Balances	5,587,005	-	-	-	5,587,005
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>5,587,005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,587,005</b>
<b>Sundry Debtors:</b>					
Gross Balances	(31,926)	23,237	21,587	859,047	871,945
Less: Provision for Impairment	(13,435)	10,078	9,242	501,415	507,301
<b>Net Balances</b>	<b>(18,491)</b>	<b>13,159</b>	<b>12,345</b>	<b>357,631</b>	<b>364,644</b>

As at 30 June Receivables of R2,962,747 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	270,398	222,977	7,217,721	7,711,097
Less: Provision for Impairment	106,897	105,283	4,536,169	4,748,350
<b>Net Balances</b>	<b>163,501</b>	<b>117,694</b>	<b>2,681,552</b>	<b>2,962,747</b>

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

	Household R	Industrial/ Commercial R	National and Provincial Government R	Other R
<b>As at 30 June 2016</b>				
<u>Current:</u>				
0 - 30 days	(126,966)	51,615	3,405,600	
<u>Past Due:</u>				
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	7,585,632	1,691,471	4,077,840	-
Less: Provision for Impairment	7,723,063	604,647	-	-
<b>Total Rates Debtors by Customer Classification</b>	<b>(137,431)</b>	<b>1,086,824</b>	<b>4,077,840</b>	<b>-</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016	2015		
	R	R		
<b>4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (Continued)</b>				
	<b>Household</b>	<b>Industrial/ Commercial</b>	<b>National and Provincial Government</b>	<b>Other</b>
	R	R	R	R
<b>As at 30 June 2015</b>				
<i>Current:</i>				
0 - 30 days	73,671	(22,910)	5,885,042	
<i>Past Due:</i>				
31 - 60 Days	234,570	35,829	-	
61 - 90 Days	196,777	26,200	-	
+ 90 Days	6,006,529	820,198	390,994	
Sub-total	6,511,547	859,317	6,276,036	-
Less: Provision for Impairment	4,388,360	443,120	-	
<b>Total Rates Debtors by Customer Classification</b>	<b>2,123,187</b>	<b>416,197</b>	<b>6,276,036</b>	<b>-</b>

**4.3 Reconciliation of Provision for Impairment**

Balance at beginning of year	4,831,480	3,436,392
<i>Other Debtors</i>	469,613	399,648
<i>Assessment Rates Debtors</i>	4,361,866	3,036,744
Impairment Losses recognised	3,496,230	1,395,087
<i>Other Debtors</i>	497,043	69,965
<i>Assessment Rates Debtors</i>	2,999,187	1,325,122
<b>Balance at end of year</b>	<b>8,327,710</b>	<b>4,831,480</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	7,323,365	4,324,178
Sundry Debtors	1,004,344	507,301
<b>Total Provision for Impairment on Receivables from Non-exchange Transactions</b>	<b>8,327,710</b>	<b>4,831,480</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>5. CASH AND CASH EQUIVALENTS</b>		
Current Investments	6,291,870	5,943,179
Bank Accounts	12,952,536	12,500,898
Cash and Cash Equivalents	3,700	3,700
<b>Total Bank, Cash and Cash Equivalents</b>	<b><u>19,248,106</u></b>	<b><u>18,447,777</u></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	6,291,870	5,943,179
<b>Total Current Investment Deposits</b>	<b><u>6,291,870</u></b>	<b><u>5,943,179</u></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 % (2011: 5% to 7,50%) per annum.

Deposits attributable to Unspent Conditional Grants	6,291,870	5,943,179
<b>Total Deposits attributable to Commitments of the Municipality</b>	<b><u>6,291,870</u></b>	<b><u>5,943,179</u></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><u>235,123</u></b>	<b><u>235,123</u></b>
FIRST NATIONAL BANK	74107-295-062	Notice Deposit	24,356	24,356
			<u>24,356</u>	<u>24,356</u>
ABSA	2063-506-922	Notice Deposit	129,307	122,476
ABSA	2069-495-799	Notice Deposit	11,393	10,841
ABSA	20-7346-8449	Notice Deposit	406,944	386,696
ABSA	20-7482-3674	Notice Deposit	5,484,747	5,163,687
			<b><u>6,032,392</u></b>	<b><u>5,683,701</u></b>
			<b><u>6,291,870</u></b>	<b><u>5,943,179</u></b>

**5.2 Bank Accounts**

Cash in Bank	12,952,536	12,500,898
<b>Total Bank Accounts</b>	<b><u>12,952,536</u></b>	<b><u>12,500,898</u></b>

The Municipality has the following bank accounts:

**Primary Bank Account**

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

Cash book balance at beginning of year	1,260,098	6,622,034
Cash book balance at end of year	<u>3,057,497</u>	<u>1,260,098</u>
Bank statement balance at beginning of year	1,894,658	7,639,329
Bank statement balance at end of year	<u>3,533,103</u>	<u>1,894,658</u>

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

Cash book balance at beginning of year	5,406,915	1,442,879
Cash book balance at end of year	<u>1,695,994</u>	<u>5,406,915</u>
Bank statement balance at beginning of year	5,406,915	1,498,297
Bank statement balance at end of year	<u>1,695,994</u>	<u>5,406,915</u>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>5. CASH AND CASH EQUIVALENTS (Continued)</b>		
<b>Standard Bank - Noupoot - Account Number: 280412835</b>		
Cash book balance at beginning of year	3,822,972	1,771,670
Cash book balance at end of year	<u>4,217,861</u>	<u>3,822,972</u>
Bank statement balance at beginning of year	3,805,526	1,752,490
Bank statement balance at end of year	<u>4,199,794</u>	<u>3,805,526</u>
<b>ABSA Bank - Colesberg - Account Number : 4061642031</b>		
Cash book balance at beginning of year	2,010,913	599,837
Cash book balance at end of year	<u>3,981,184</u>	<u>2,010,913</u>
Bank statement balance at beginning of year	2,010,913	599,837
Bank statement balance at end of year	<u>3,981,184</u>	<u>2,010,913</u>

An amount of R14 696 619.89 (2015: R11 164 521) 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><u>3,700</u></b>	<b><u>3,700</u></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	3,137	7,119
Operating Lease Revenue effected	(1,512)	(3,983)
<b>Total Operating Lease Receivables</b>	<b><u>1,624</u></b>	<b><u>3,137</u></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 (2014: 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 2016**

	2016 R	2015 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	500	1,624
2 to 5 years	1,524	1,750
More than 5 years	133	407
<b>Total Operating Lease Arrangements</b>	<b>2,158</b>	<b>3,782</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 R1,512 (2015: increase of R-3,983) 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 2016**

**7 PROPERTY, PLANT AND EQUIPMENT**

**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>44,128,646</b>	<b>443,972,295</b>	<b>10,245,380</b>	<b>498,346,320</b>
Cost	52,448,579	831,488,563	21,579,522	905,516,664
- Completed Assets	48,247,647	696,306,673	21,579,522	766,133,842
- Under Construction	4,200,932	135,181,890	-	139,382,823
Accumulated Impairment Losses	-	-	(653,889)	(653,889)
Accumulated Depreciation:	(8,319,934)	(387,516,268)	(10,680,253)	(406,516,455)
- Cost	(8,319,934)	(387,516,268)	(10,680,253)	(406,516,455)
Acquisitions	-	686,910	773,727	1,460,637
Capital under Construction - Additions:	291,353	62,801,546	-	63,092,899
- Cost	291,353	62,801,546	-	63,092,899
Additions	291,353	62,801,546	-	63,092,899
Depreciation:	(876,964)	(25,811,154)	(1,401,769)	(28,089,886)
- Based on Cost	(876,964)	(25,811,154)	(1,401,769)	(28,089,886)
Carrying value of Disposals:	-	(3,100,714)	(150,710)	(3,251,424)
- Cost	-	(6,742,314)	(836,202)	(7,578,516)
- Accumulated Impairment Losses	-	-	984	984
- Accumulated Depreciation	-	3,641,600	684,508	4,326,107
- Based on Cost	-	3,641,600	684,508	4,326,107
Impairment Losses	-	(579,750)	(4,909)	(584,659)
Capital under Construction - Completed	(4,492,286)	(114,262,341)	-	(118,754,627)
<b>Carrying values at 30 June 2016</b>	<b>43,543,036</b>	<b>477,969,132</b>	<b>9,461,719</b>	<b>530,973,887</b>
Cost	52,739,933	888,234,705	21,517,047	962,491,684
- Completed Assets	52,739,933	804,513,610	21,517,047	878,770,589
- Under Construction	-	83,721,095	-	83,721,095
Accumulated Impairment Losses	-	(579,750)	(657,813)	(1,237,563)
Accumulated Depreciation:	(9,196,897)	(409,685,822)	(11,397,514)	(430,280,234)
- Cost	(9,196,897)	(409,685,822)	(11,397,514)	(430,280,234)

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

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

30 June 2015

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra- structure	Other	Total
	R	R	R	R
<b>Carrying values at 01 July 2014</b>	<b>40,749,392</b>	<b>430,218,198</b>	<b>12,250,255</b>	<b>483,217,846</b>
Cost	48,356,792	796,616,106	21,692,967	866,665,865
- Completed Assets	48,247,647	696,306,673	21,692,967	766,247,286
- Under Construction	109,145	100,309,433	-	100,418,578
Accumulated Impairment Losses	-	-	(409,555)	(409,555)
Accumulated Depreciation:	(7,607,400)	(366,397,908)	(9,033,156)	(383,038,464)
- Cost	(7,607,400)	(366,397,908)	(9,033,156)	(383,038,464)
Acquisitions	-	-	301,122	301,122
Capital under Construction - Additions:	4,091,787	34,872,457	-	38,964,244
- Cost	4,091,787	34,872,457	-	38,964,244
Additions	4,091,787	34,872,457	-	38,964,244
Depreciation:	(712,534)	(21,118,361)	(1,945,259)	(23,776,153)
- Based on Cost	(712,534)	(21,118,361)	(1,945,259)	(23,776,153)
Carrying value of Disposals:	-	-	(115,471)	(115,471)
- Cost	-	-	(414,567)	(414,567)
- Accumulated Impairment Losses	-	-	933	933
- Accumulated Depreciation	-	-	298,162	298,162
- Based on Cost	-	-	298,162	298,162
Impairment Losses	-	-	(245,267)	(245,267)
<b>Carrying values at 30 June 2015</b>	<b>44,128,646</b>	<b>443,972,295</b>	<b>10,245,380</b>	<b>498,346,320</b>
Cost	52,448,579	831,488,563	21,579,522	905,516,664
- Completed Assets	48,247,647	696,306,673	21,579,522	766,133,842
- Under Construction	4,200,932	135,181,890	-	139,382,823
Accumulated Impairment Losses	-	-	(653,889)	(653,889)
Accumulated Depreciation:	(8,319,934)	(387,516,268)	(10,680,253)	(406,516,455)
- Cost	(8,319,934)	(387,516,268)	(10,680,253)	(406,516,455)

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 2016**

2016  
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2015  
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**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 R584,659 (2015: R245,267) has been recognised in operating surplus and are included in Impairment Losses in the Statement of Financial Performance as indicated in Note 30.

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 R584 659 (2015: R245 267), which has been recognised in the Statement of Financial Performance.

Infrastructure: Electricity	465,780	-
Infrastructure: Roads	502	-
Infrastructure: Sanitation	6,789	-
Infrastructure: Water	106,679	-
Other Assets: Computer Equipment	-	16,082
Other Assets: Furniture and Office Equipment	780	6,791
Other Assets: Motor Vehicles	-	198,978
Other Assets: Machinery and Equipment	4,129	23,416
<b>Total Impairment of Property, Plant and Equipment</b>	<b>584,659</b>	<b>245,267</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)	(74,922)
Corporate Services	-	(4,242)
Finance and Administration	(353,256)	(350,085)
Community and Social Services	-	(148,152)
Roads and Transport	(165,460)	(543,883)
Water	-	(51,691)
Waste Management	(175,084)	-
Electricity	-	(833,248)
<b>Total Change in Estimate for Useful Life of Property, Plant and Equipment</b>	<b>(774,056)</b>	<b>(2,006,224)</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 2016**

	2016 R	2015 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	83,721,095	135,181,890
	<b>83,721,094.70</b>	<b>135,181,890.24</b>

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

**8 INTANGIBLE ASSETS**

At Cost less Accumulated Amortisation and Accumulated Impairment Losses

	<b>53,826</b>	<b>58,739</b>
--	---------------	---------------

The movement in Intangible Assets is reconciled as follows:

	<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)
	<b>Computer Software</b>	<b>Total</b>
<b>Carrying values at 01 July 2014</b>	<b>72,886</b>	<b>72,886</b>
Cost	1,675,451	1,675,451
Accumulated Amortisation	(1,602,565)	(1,602,565)
Acquisitions:	23,698	23,698
Purchased	23,698	23,698
Amortisation:	(37,844)	(37,844)
Purchased	(37,844)	(37,844)
<b>Carrying values at 30 June 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)

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 29).

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.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

2016  
R

2015  
R

**8 INTANGIBLE ASSETS (Continued)**

**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 R5 466 (2015: R12 755). 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>
--	------------------	------------------

The movement in Investment Property is reconciled as follows:

**Carrying values at 1 July**

	<b>2,060,899</b>	<b>1,654,811</b>
--	------------------	------------------

Fair Value

	2,060,899	1,654,811
--	-----------	-----------

Net Gains / (Losses) from Fair Value Adjustments

	-	406,088
--	---	---------

**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>
--	------------------	------------------

Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

Rental Revenue earned from Investment Property

	585,465	882,844
--	---------	---------

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%

**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 2016**

	2016 R	2015 R
<b>10 CONSUMER DEPOSITS</b>		
Electricity and Water	774,489	741,885
<b>Total Consumer Deposits</b>	<b>774,489</b>	<b>741,885</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	225,648	199,716
Current Portion of Long-term Service:	82,837	110,054
Current Portion of Non-Current Provisions:	426,314	455,016
Rehabilitation of Land-fill Sites	426,314	455,016
<b>Total Provisions</b>	<b>734,799</b>	<b>764,786</b>

	Rehabilitation of Land-fill Sites	Long-term Service	Post-retirement
	R	R	R
<b>30 June 2016</b>			
Balance at beginning of year	455,016	110,054	199,716
Transfer from non-current	(28,701)	(27,217)	25,932
<b>Balance at end of year</b>	<b>426,314</b>	<b>82,837</b>	<b>225,648</b>
	Rehabilitation of Land-fill Sites	Long-term Service	Post-retirement
	R	R	R
<b>30 June 2015</b>			
Balance at beginning of year	600,636	182,905	141,564
Transfer from non-current	(145,620)	(72,851)	58,152
<b>Balance at end of year</b>	<b>455,016</b>	<b>110,054</b>	<b>199,716</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>12 PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Trade Creditors	9,427,457	11,591,744
Retentions	6,698,061	5,347,080
Other Creditors	2,900,813	1,633,076
<b>Total Payables</b>	<b>19,026,332</b>	<b>18,571,899</b>

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	735,024	670,928
Staff Leave Accrued	2,588,044	2,168,229
Sundry Deposits	171,136	-
<b>Total Payables</b>	<b>3,494,203</b>	<b>2,839,158</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>9,810,902</b>	<b>10,234,325</b>
National Government Grants	726,463	8,187,885
Provincial Government Grants	3,532,358	1,527,154
Other Spheres of Government	5,552,081	519,286
<b>Total Conditional Grants and Receipts</b>	<b>9,810,902</b>	<b>10,234,325</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 2016**

	2016 R	2015 R
<b>15 VAT PAYABLE</b>		
Vat Payable	7,239,831	2,089,516
	<b>7,239,831</b>	<b>2,089,516</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.

**16 LONG-TERM LIABILITIES**

Annuity Loans	2,161,470	3,162,454
Finance Lease Liabilities	335,726	27,760
Sub-total	2,497,196	3,190,213
Less: Current Portion transferred to Current Liabilities:-	1,240,883	910,816
Annuity Loans	1,114,150	883,057
Finance Lease Liabilities	126,733	27,760
<b>Total Long-term Liabilities</b> (Neither past due, nor impaired)	<b>1,256,312</b>	<b>2,279,397</b>

**16.1 Summary of Arrangements**

Annuity Loans are repaid over periods varying from 2 to 11 (2015: 1 to 12) years and at interest rates varying from 9,25% to 16,50% (2015: 9,25% to 16,50%) per annum. Annuity Loans are not secured.

Finance Lease Liabilities relates toIT Equipment with lease terms of 5 (2015: 5) years. The effective interest rate on Finance Leases is between 13,21% and 48,13% (2015: 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 (2013: 5 years). The effective interest rate on Finance Leases is between 9.00% and 15.00% (2011: 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 2016**

	2016 R	2015 R	2016 R	2015 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>	
	2016 R	2015 R	2016 R	2015 R
<b>Amounts payable under finance leases:</b>				
Within one year	167,194	28,387	167,194	28,387
In the second to fifth years, inclusive	208,992	-	208,992	-
Over five years	-	-	-	-
	376,186	28,387	376,186	28,387
Less: Future Finance Obligations	40,460	628	40,460	628
<b>Present Value of Minimum Lease Obligations</b>	<b>335,726</b>	<b>27,760</b>	<b>335,726</b>	<b>27,760</b>
Less: Amounts due for settlement within 12 months (Current Portion)			126,733	27,760
<b>Finance Lease Obligations due for settlement after 12 months (Non-current Portion)</b>			<b>208,992</b>	<b>-</b>

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 92,327.52	R 22,935.63
- Carry amount at year end	R 351,397.59	R 63,936.06

**17 EMPLOYEE BENEFIT LIABILITY**

Post-retirement Health Care Benefits Liability	11,265,256	10,774,837
Provision for Long Service Awards	1,400,703	1,240,508
<b>Total Employee Benefits</b>	<b>12,665,959</b>	<b>12,015,345</b>

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

Balance at beginning of Year	10,974,553	10,676,301
Expected Employer Benefit Payments	(199,716)	(141,564)
Current-service Cost	841,893	891,070
Interest Cost	986,616	983,342
Actuarial (Gain)/Loss Recognised in P&L	(1,112,442)	(1,434,596)
Balance at end of Year	11,490,904	10,974,553
Transfer to Current Provisions	(225,648)	(199,716)
<b>Total Post-retirement Health Care Benefits Liability</b>	<b>11,265,256</b>	<b>10,774,837</b>

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 2016**

	2016 R	2015 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 2016 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)	42	40
In-service Non-members (Employees)	133	133
Continuation Members (Retirees, widowers and orphans)	5	4
<b>Total Members</b>	<b>180</b>	<b>177</b>
<p>The liability in respect of past service has been estimated as follows:</p>		
In-service Members	5,855,043	5,200,311
In-service (employee) non-members	2,292,942	2,497,024
Continuation Members	3,342,919	3,277,218
<b>Total Liability</b>	<b>11,490,904</b>	<b>10,974,553</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 2016 is estimated to be R841,893, whereas the cost for the ensuing year is estimated to be R 819 724 (30 June 2015: R891,070 and R841,893 respectively).</p>		
<p><b>The principal assumptions used for the purposes of the actuarial valuations were as follows:</b></p>		
Discount Rate	9.17%	9.07%
Health Care Cost Inflation Rate	8.27%	8.17%
Net Effective Discount Rate	0.83%	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	10,974,553	10,676,301
Current service costs	841,893	891,070
Interest cost	986,616	983,342
Benefits paid	(199,716)	(141,564)
Actuarial losses / (gains)	(1,112,442)	(1,434,596)
<b>Present Value of Fund Obligation at the end of the Year</b>	<b>11,490,904</b>	<b>10,974,553</b>
<b>Total Recognised Benefit Liability</b>	<b>11,490,904</b>	<b>10,974,553</b>
<p><b>The amounts recognised in the Statement of Financial Position are as follows:</b></p>		
Present value of fund obligations	11,490,904	10,974,553
Unfunded Accrued Liability	11,490,904	10,974,553
<b>Total Benefit Liability</b>	<b>11,490,904</b>	<b>10,974,553</b>
<p><b>The amounts recognised in the Statement of Financial Performance are as follows:</b></p>		
Current service cost	841,893	891,070
Interest cost	986,616	983,342
Benefits paid	(199,716)	(141,564)
Actuarial losses / (gains)	(1,112,442)	(1,434,596)
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 27)</b>	<b>516,351</b>	<b>298,252</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R	2016 R	2015 R
<b>17 EMPLOYEE BENEFIT LIABILITY (Continued)</b>				
<b>The history of experienced adjustments is as follows:</b>				
	2016 R	2015 R	2014 R	2013 R
Present Value of Defined Benefit Obligation	11,490,904	10,974,553	8,336,604	6,980,619
<b>Deficit</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:

<b>Increase:</b>		
Effect on the aggregate of the current service cost and the interest cost	2,208,100	2,266,100
Effect on the defined benefit obligation	12,851,000	13,024,000
<b>Decrease:</b>		
Effect on the aggregate of the current service cost and the interest cost	1,528,200	1,528,200
Effect on the defined benefit obligation	9,179,000	9,330,000

The municipality expects to make a contribution of R755 900 (2015: R841 893) 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**

	2016 R	2015 R
Balance at beginning of year	1,350,562	1,240,340
Current-service Cost	164,394	146,810
Interest Cost	103,295	90,127
Actuarial (Gain)/Loss	(24,657)	56,190
Expected Employer Benefit Payments	(110,054)	(182,905)
	<u>1,483,540</u>	<u>1,350,562</u>
Transfer to current provisions	(82,837)	(110,054)
<b>Balance at end of year</b>	<b><u>1,400,703</u></b>	<b><u>1,240,508</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 2016 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, 175 (2015: 173) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2016 is estimated to be R164,394, whereas the cost for the ensuing year is estimated to be R192 365 (30 June 2015: R146,810 and R164,394 respectively).

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 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	8.42%	7.97%			
Net Effective Discount Rate	1.24%	0.84%			
Expected Rate of Salary Increase	7.09%	7.06%			
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	1,350,562	1,240,340			
Current service costs	164,394	146,810			
Interest cost	103,295	90,127			
Benefits paid	(110,054)	(182,905)			
Actuarial losses / (gains)	(24,657)	56,190			
<b>Present Value of Fund Obligation at the end of the Year</b>	<b>1,483,540</b>	<b>1,350,562</b>			
<b>Total Recognised Benefit Liability</b>	<b>1,483,540</b>	<b>1,350,562</b>			
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>					
Present value of fund obligations	1,483,540	1,350,562			
Unfunded Accrued Liability	1,483,540	1,350,562			
<b>Total Benefit Liability</b>	<b>1,483,540</b>	<b>1,350,562</b>			
<b>The amounts recognised in the Statement of Financial Performance are as follows:</b>					
Current service cost	164,394	146,810			
Interest cost	103,295	90,127			
Benefits paid	(110,054)	(182,905)			
Actuarial losses / (gains)	(24,657)	56,190			
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 27)</b>	<b>132,978</b>	<b>110,222</b>			
<b>The history of experienced adjustments is as follows:</b>					
	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	R	R	R	R	R
Present Value of Defined Benefit Obligation	1,483,540	1,350,562	1,240,340	1,225,105	750,586
<b>Deficit</b>	<b>1,483,540</b>	<b>1,350,562</b>	<b>1,240,340</b>	<b>1,225,105</b>	<b>750,586</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	286,100	254,100			
Effect on the defined benefit obligation	1,569,000	1,430,000			
<b>Decrease:</b>					
Effect on the aggregate of the current service cost and the interest cost	251,000	221,400			
Effect on the defined benefit obligation	1,405,000	1,278,000			
The municipality expects to make a contribution of R192 365 (2015: R164 394) to the defined benefit plans during the next financial year.					

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>18 NON-CURRENT PROVISIONS</b>		
Provision for Rehabilitation of Land-fill Sites	3,910,555	3,493,695
<b>Total Non-current Provisions</b>	<b>3,910,555</b>	<b>3,493,695</b>

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

		<b>Land-fill Sites</b>
		<b>R</b>
<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>
		<b>Land-fill Sites</b>
		<b>R</b>
<b>30 June 2015</b>		
Balance at beginning of year		3,595,294
Contributions to provision		353,417
		3,948,711
Transfer to current provisions		(455,016)
<b>Balance at end of year</b>		<b>3,493,695</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 R4,336,869 (2015: R3,948,711) to restore the site at the end of its useful life, estimated to be in 2033.

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 9.83%

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	3,948,711	3,595,294
Contributions in current year	388,158	353,417
Less: Transfer to Current Provisions	(426,314)	(455,016)
<b>Balance of landfill site</b>	<b>3,910,555</b>	<b>3,493,695</b>

The council will incur rehabilitation cost on its seven dumping/landfill sites over the period 2012/13 up to 2018/19. Provision has been made for the net present value of this cost.

	<b>Proposed rehabilitation</b>	<b>2016</b>	<b>2015</b>
Noupoort	2032/2033	1,445,623	1,316,237
Norvalspont	2032/2033	1,021,543	930,113
Colesberg	2032/2033	1,869,703	1,702,361
		<b>4,336,869</b>	<b>3,948,711</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 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	507,837,934	492,955,579
<b>Total Accumulated Surplus</b>	<b>508,031,279</b>	<b>493,148,924</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 2016	July 2015		
Agricultural	1,487,336,159	1,194,457,940	489,960	487,339
Commercial	204,948,816	164,591,400	2,251,269	2,122,371
Residential	561,062,380	450,581,000	4,359,361	4,467,222
State	87,828,145	70,533,500	1,043,461	1,236,356
<b>Total Property Rates</b>	<b>2,341,175,500</b>	<b>1,880,163,840</b>	<b>8,144,051</b>	<b>8,313,287</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 (2014/15: 1.1.0879 c/R)
- Business Properties: 1.34 c/R (2014/15: 1.287 c/R)
- Agricultural Properties: 0.28 c/R (2014/15: 0.2720 c/R)
- State Properties: 1.82 c/R (2014/15: 1.754 c/R)

A discount of 20,00% (2014/15: 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	34,931,000	32,382,000
<b>Operational Grants</b>	34,931,000	32,382,000
<b>Conditional Grants</b>	99,389,539	77,358,294
National Government: EQUITABLE SHARE	34,931,000	32,382,000
National Government: FINANCE MANAGEMENT GRANT	1,932,385	1,667,615
National Government: MIG	13,237,414	9,987,420
National Government: MSIG	940,000	617,672
National Government: DWAF	39,547,094	26,148,043
National Government: EEDG	3,241,665	-
National Government: INEP	1,184,212	1,241,394
Provincial Government: DEPT. PUBLIC WORKS	2,127,898	4,323,151
Provincial Government: DEPT. SPORT, ARTS AND CULTURE	1,542,000	991,000
Other Government: DBSA	449,226	-
Other Government: WATER BLUE DROP MANAGEMENT	256,644	-
<b>Total Government Grants and Subsidies</b>	<b>99,389,539</b>	<b>77,358,294</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>21 GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>Operational Grants:</b>		
<b>21.1 National: Equitable Share</b>	<b>34,931,000</b>	<b>32,382,000</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 (2015: 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	34,931,000	31,655,000
Conditions met - transferred to Revenue: Operating Expenses	(34,931,000)	(32,382,000)
Other Adjustments/Refunds	-	727,000
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. Unspent portion of the Electricity Demand Side Management Grant from the 2013 financial year was deducted from the Equitable Share, total amount of R0 (2014/15: R727 000.)		
<b>21.3 National: Financial Management Grant</b>		
Balance unspent at beginning of year	132,385	-
Current year receipts	1,800,000	1,800,000
Conditions met - transferred to Revenue: Operating Expenses	(1,932,385)	(1,667,615)
Conditions still to be met - transferred to Liabilities (see Note 14)	-	132,385
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	7,102,507
Current year receipts	8,090,000	11,148,000
Conditions met - transferred to Revenue: Operating Expenses	(402,700)	(557,400)
Conditions met - transferred to Revenue: Capital Expenses	(12,834,714)	(9,430,000)
Conditions met - transferred to Revenue: VAT portion released	(1,796,860)	(1,318,834)
Conditions still to be met - transferred to Liabilities (see Note 14)	-	6,944,274
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. National Treasury issued a letter on 05/02/2016 indicated that a portion of the 2015/16 allocation will be stopped due to under performance of the grant allocation, R3 200 000.00 (2014/15: R0)		
<b>21.5 National: Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	316,328	-
Current year receipts	940,000	934,000
Conditions met - transferred to Revenue: Operating Expenses	(940,000)	(617,672)
Other Adjustments/Refunds	(316,328)	-
Conditions still to be met - transferred to Liabilities (see Note 14)	-	316,328
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. The opening balance 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 2016**

	2016 R	2015 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	(5,543,624)	(2,841,482)
Current year receipts	48,305,989	26,611,208
Conditions met - transferred to Revenue: Operating Expenses	(83,139)	(1,022,581)
Conditions met - transferred to Revenue: Capital Expenses	(39,463,955)	(25,125,462)
Conditions met - transferred to Revenue: VAT portion released	(5,527,712)	(3,165,307)
Conditions still to be met - transferred to Liabilities (see Note 14)	<b>(2,312,441)</b>	<b>(5,543,624)</b>

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	617	727,617
Current year receipts	7,000,000	-
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(3,241,665)	-
Conditions met - transferred to Revenue: VAT portion released	(453,833)	-
Other Adjustments/Refunds	-	(727,000)
Conditions still to be met - transferred to Liabilities (see Note 14)	<b>3,305,118</b>	<b>617</b>

Expenses were incurred to promote rural development and upgrade electricity infrastructure. An unspent amount of R0 (2015: R727 000) has been withheld.

**21.8 National: Integrated National Electrification Programme**

Balance unspent at beginning of year	84,811	-
Current year receipts	1,350,000	1,500,000
Conditions met - transferred to Revenue: Capital Expenses	(1,184,211)	(1,241,394)
Conditions met - transferred to Revenue: VAT portion released	(165,789)	(173,795)
Other Adjustments/Refunds	(84,811)	-
Conditions still to be met - transferred to Liabilities (see Note 14)	<b>-</b>	<b>84,811</b>

Expenses were incurred to promote rural development and upgrade electricity infrastructure. An unspent amount of R84 811 (2014: R0) has been paid back to the funder

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

Balance unspent at beginning of year	1,273,426	2,371,180
Current year receipts	1,000,000	3,410,240
Conditions met - transferred to Revenue: Operating Expenses	(310,636)	(797,596)
Conditions met - transferred to Revenue: Capital Expenses	(1,817,264)	(3,525,555)
Conditions met - transferred to Revenue: VAT portion released	(86,587)	(184,842)
Conditions still to be met - transferred to Liabilities (see Note 14)	<b>58,940</b>	<b>1,273,426</b>

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.

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

Balance unspent at beginning of year	-	-
Current year receipts	1,542,000	991,000
Conditions met - transferred to Revenue: Operating Expenses	(1,542,000)	(991,000)
Conditions still to be met - transferred to Liabilities (see Note 14)	<b>-</b>	<b>-</b>

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 2016**

	2016 R	2015 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	664,046	664,046
Conditions met - transferred to Revenue: Capital Expenses	(449,226)	-
Conditions met - transferred to Revenue: VAT portion released	(50,840)	-
Other Adjustments/Refunds	-	-
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>163,980</u>	<u>664,046</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	-	-
Current year receipts	5,757,000	-
Conditions still to be met - transferred to Liabilities (see Note 14)	<u>5,757,000</u>	<u>-</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	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>292,575</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 met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: VAT portion released	-	-
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 2016), government grant funding is expected to increase over the forthcoming three financial years.</p>		
<b>22 PUBLIC CONTRIBUTIONS AND DONATIONS</b>		
Other Donations	-	49,500
<b>Total Public Contributions and Donations</b>	<u>-</u>	<u>49,500</u>
Attributable to:		
Continuing Operations	-	49,500
	<u>-</u>	<u>49,500</u>
<p>The municipality received chairs from SSASSA in the 2014/15 financial year. The donation was utilised for this purpose. No funds have been withheld.</p>		

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>23 SERVICE CHARGES</b>		
Sale of Electricity	28,118,834	23,163,034
Sale of Water	8,449,322	12,260,395
Refuse Removal	6,450,153	5,974,139
Sewerage and Sanitation Charges	8,647,544	7,815,903
<b>Total Service Charges</b>	<b><u>38,892,697</u></b>	<b><u>38,063,139</u></b>
Attributable to:		
Continuing Operations	38,892,697	38,063,139
	<b><u>38,892,697</u></b>	<b><u>38,063,139</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.

**24 RENTAL OF FACILITIES AND EQUIPMENT**

**Rental Revenue:**

- Investment Property	584,163	883,055
Rental Revenue from Buildings	6,383	12,842
Rental Revenue from Halls	70,552	59,184
Rental Revenue from Land	86,668	82,013
Rental Revenue from Machinery	10,958	8,656
<b>Total Rental of Facilities and Equipment</b>	<b><u>758,723</u></b>	<b><u>1,045,750</u></b>
Attributable to:		
Continuing Operations	758,723	1,045,750
	<b><u>758,723</u></b>	<b><u>1,045,750</u></b>

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

**25 INTEREST EARNED**

**Property Rates:**

Penalties imposed and Collection Charges	217,246	207,645
	<b><u>217,246</u></b>	<b><u>207,645</u></b>

**External Investments:**

Bank Account	177,043	83,281
Investments	361,237	448,422
	<b><u>538,281</u></b>	<b><u>531,703</u></b>

**Outstanding Debtors:**

Outstanding Billing Debtors	2,168,573	1,980,484
	<b><u>2,168,573</u></b>	<b><u>1,980,484</u></b>

**Total Interest Earned**

	<b><u>2,924,099</u></b>	<b><u>2,719,833</u></b>
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Interest earned from outstanding debtors contribute R1 995 087 (2015: R1 643 802) towards debtors impaired and R173 486 (2015: R336 682) from debtors not impaired

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

Available-for-Sale Financial Assets	538,281	531,703
Loans and Receivables	2,385,819	2,188,129
	2,924,099	2,719,833
	<b><u>2,924,099</u></b>	<b><u>2,719,833</u></b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>26 OTHER REVENUE</b>		
Advertising Boards	3,600	5,493
Brick Oven	13,872	14,552
Building Plan Fees	45,906	18,624
Cemetery Fees	23,009	21,197
Commission On Collections	92,830	75,625
Dumping Fees	6,635	6,635
Guest House	4,647	789
Commission received on fines	2,677,884	2,096,384
Commission received on License and Permits	555,052	539,189
Insurance Claims	28,257	73,495
Other Income	400,945	423,473
Photocopies	2,019	2,607
Re-Zone	5,994	7,745
Sand, Gravel & Soil	6,331	26,904
Sdl Claims	68,106	159,298
Tender Documents	5,746	7,683
Vat Income	8,117,551	4,842,778
<b>Total Other Revenue</b>	<b>12,058,383</b>	<b>8,322,472</b>
Attributable to:		
Continuing Operations	12,058,383	8,322,472
	<b>12,058,383</b>	<b>8,322,472</b>

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 20 to 25, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.

**27 EMPLOYEE RELATED COSTS**

Employee Related Costs - Salaries and Wages	29,811,029	26,855,947
Basic Salaries and Wages	27,614,980	24,987,639
Long Service Bonuses	29,683	20,095
Service Bonuses	2,166,366	1,848,213
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	5,320,473	4,908,808
Group Life	7,092	6,401
Medical	757,538	736,072
Pension	3,941,674	3,667,652
Skills Development Levy	366,970	277,574
UIF	247,199	221,110
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	841,169	903,703
Allowances	841,169	903,703
Housing Benefits and Allowances	371,513	48,000
Overtime Payments	1,459,126	1,307,368
Defined Benefit Plan Expense:	(470,265)	(685,090)
Current Service Cost	841,893	891,070
Expected Return on Plan Assets	(199,716)	(141,564)
Net Actuarial (gains)/losses recognised	(1,112,442)	(1,434,596)
<b>Total Employee Related Costs</b>	<b>37,333,044</b>	<b>33,338,736</b>
Attributable to:		
Continuing Operations	37,333,044	33,338,736
	<b>37,333,044</b>	<b>33,338,736</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 2016**

	2016 R	2015 R
<b>27 EMPLOYEE RELATED COSTS (Continued)</b>		
<b>Remuneration of Section 57 Employees:</b>		
<i><b>Remuneration of the Municipal Manager</b></i>		
Annual Remuneration	957,606	890,005
Annual Bonus	143,396	105,504
Car and Other Allowances	312,967	134,250
Company Contributions to UIF, Medical and Pension Funds	1,871	1,866
<b>Total</b>	<b>1,415,840</b>	<b>1,131,625</b>
<i><b>Remuneration of the Chief Financial Officer</b></i>		
Annual Remuneration	791,484	734,023
Annual Bonus	121,886	89,679
Car and Other Allowances	163,851	136,594
Company Contributions to UIF, Medical and Pension Funds	1,871	1,866
<b>Total</b>	<b>1,079,091</b>	<b>962,161</b>
<i><b>Remuneration of the Manager: Corporate Manager</b></i>		
Annual Remuneration	825,635	768,174
Annual Bonus	95,768	14,946
Car and Other Allowances	158,680	102,443
Company Contributions to UIF, Medical and Pension Funds	1,871	1,866
<b>Total</b>	<b>1,081,953</b>	<b>887,429</b>
<i><b>Remuneration of the Manager: Technical Services</b></i>		
Annual Remuneration	856,077	798,617
Annual Bonus	95,768	81,526
Car and Other Allowances	198,362	72,000
Company Contributions to UIF, Medical and Pension Funds	1,871	1,866
<b>Total</b>	<b>1,152,078</b>	<b>954,009</b>
<b>28 REMUNERATION OF COUNCILLORS</b>		
Mayor	532,324	504,572
Councillors	2,167,915	2,058,688
Other Allowances (Cellular Phones, Housing, Transport, etc.)	394,935	432,715
Telephone Allowance	208,680	208,680
Travelling Allowance	186,255	224,035
<b>Total Councillors' Remuneration</b>	<b>3,095,174</b>	<b>2,995,975</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>29 DEPRECIATION AND AMORTISATION</b>		
Depreciation: Property, Plant and Equipment	28,089,886	23,776,184
Amortisation: Intangible Assets	30,060	37,844
<b>Total Depreciation and Amortisation</b>	<b>28,119,946</b>	<b>23,814,028</b>
Attributable to:		
Continuing Operations	28,119,946	23,814,028
	<b>28,119,946</b>	<b>23,814,028</b>

*Depreciation and Amortisation* have been restated to correctly disclose the expense on correction of opening balance and 2014 balance terms in terms of GRAP 17. Refer to Note 34.3 on "Correction of Error" for details of the restatement.

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>30 IMPAIRMENT LOSSES</b>		
<i>30.1 Impairment Losses on Fixed Assets (Fair Value)</i>		
<b>Impairment Losses Recognised:</b>	584,659	245,267
Property, Plant and Equipment	584,659	245,267
	<b>584,659</b>	<b>245,267</b>
<i>30.2 Impairment Losses on Financial Assets (Fair Value)</i>		
<b>Impairment Losses Recognised:</b>	31,096,756	16,651,423
Receivables from Exchange Transactions	27,702,098	15,306,329
Receivables from Non-exchange Transactions	3,394,658	1,345,094
	<b>31,096,756</b>	<b>16,651,423</b>
<b>Total Impairment Losses</b>	<b>31,681,415</b>	<b>16,896,690</b>
Attributable to:		
Continuing Operations	31,681,415	16,896,690
	<b>31,681,415</b>	<b>16,896,690</b>
<b>31 FINANCE COSTS</b>		
Finance Leases	43,079	9,295
Interest costs on employee benefits	1,089,911	1,073,469
Loans and Payables at amortised cost	293,261	374,394
Landfill Sites Expenses	388,158	353,417
Total Interest Expense	1,814,409	1,810,576
<b>Total Interest Paid on External Borrowings</b>	<b>1,814,409</b>	<b>1,810,576</b>
Attributable to:		
Continuing Operations	1,814,409	1,810,576
	<b>1,814,409</b>	<b>1,810,576</b>
The weighted average capitalisation rate on funds borrowed generally is 5,27% per annum (2015: 5,24% per annum).		
<b>32 BULK PURCHASES</b>		
Electricity	20,671,934	18,253,729
Water	393,286	477,554
<b>Total Bulk Purchases</b>	<b>21,065,220</b>	<b>18,731,283</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 2016**

	2016 R	2015 R
<b>33 GENERAL EXPENSES</b>		
Included in General Expenses are the following:		
Advertising	102,348	113,002
Audit Fees	1,671,823	2,085,991
Bank Charges	373,635	302,208
Branding Of The Municipality	83,090	546,368
Cleaning Costs	31,040	37,334
Entertainment	20,812	84,262
EPWP Grave Cleaning Project	310,636	200,303
EPWP Stormwater Project	7,444	595,724
Fuel And Oil	1,291,332	1,357,944
<b>Indigent Support</b>	<b>1,239,826</b>	<b>1,279,509</b>
Insurance	564,997	487,126
Lease Charges	379,876	290,576
Legal Cost	404,211	54,620
Library Costs	555,152	481,067
Licences	74,729	109,729
Local Economical Development	550,710	444,751
Material	155,248	172,733
Membership Fees	531,000	533,439
Other General Expenses	1,700,272	1,456,416
Postage And Telegrams	226,459	206,089
Printing And Stationery	226,072	250,823
Special Programme - Learnerships	-	119,846
Special Programme - IT Support	760,377	690,579
Special Programme - M S I G	838,371	535,892
Special Programme - M F M A	2,199,463	1,422,349
Special Programme - EEDMS	-	836,019
Special Programme - Norval Water Feasibility	83,139	1,069,047
Special Programme - Water Training (Dbsa)	139,126	-
Special Programme - Community Participation	38,321	62,711
Subsistence And Travelling	2,474,288	2,194,031
Telephone Cost	900,721	693,934
Traffic	3,400	15,142
Training Cost	72,565	444,459
Uniforms And Protective Clothing	99,881	57,001
Valuation	24,350	150,220
Ward Committee Meeting Costs	331,300	265,500
Workmen's Compensation	213,950	206,461
<b>Total General Expenses</b>	<b>18,679,963</b>	<b>19,853,205</b>

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>12,217,451</b>	<b>9,242,513</b>
Distribution Losses:		
Electricity Losses	4,739,611	4,808,617
Water Losses	7,477,840	4,433,896

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 2016**

	2016 R	2015 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>		
Trade Receivables from Exchange Transactions	(24,381,254)	(24,381,254)
Trade Receivables from Non-Exchange Transactions	1,740,079	1,740,079
Property, Plant and Equipment	(14,580,628)	(14,580,628)
Non-current Provisions	8,575,815	8,575,815
Accumulated Surplus / (Deficit) - Prior Year Adjustments	24,061,152	24,061,152
Accumulated Surplus / (Deficit) - (Surplus) / Deficit for the Year	4,584,836	4,584,836
	-	-

**Statement of Financial Performance:**

Fines		4,659,342
Licences and Permits		2,769,280
Government Grants and Subsidies Received		(3,464,005)
Service Charges		5,491,552
Other Income		(2,708,423)
Depreciation and Amortisation		(4,807,628)
Impairment Losses		13,110,203
General Expenses		(10,465,486)
		4,584,836

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

No prior year figures of Revenue Classes have been restated.

Details of the appropriations are as follows:

	2016/2015	2015/2014	Restated Amount
Fines	98,182	25,333	72,849
Licences and Permits	-	4,386	(4,386)
Service Charges	38,063,139	43,721,917	(5,658,778)
Other Revenue	8,322,472	8,390,936	(68,464)
Employee Related Costs	33,338,736	34,412,205	(1,073,469)
Finance Costs	1,457,159	383,690	1,073,469
General Expenses	20,206,622	25,865,401	5,658,779
	<b>101,486,310</b>	<b>112,803,868</b>	-

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

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

Details of the appropriations are as follows:

	2016/2015	2015/2014	Restated Amount
Provisions	764,786	941,006	(176,220)
Payables from Exchange Transactions	18,571,899	19,091,186	(519,286)
Unspent Conditional Grants and Receipts	10,234,325	9,715,039	519,286
Non-current Provisions	3,493,695	3,317,475	176,220
	<b>33,064,706</b>	<b>33,064,706</b>	-

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

During the financial year management discovered Gains under PPE during the verification process, furthermore management also found that same assets belonging to Eskom was accidentally included in the FAR during the adoption of GRAP 17. All of the above was corrected retrospectively.

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

**Statement of Financial Position:**

(Increase) / decrease in Accumulated Surplus	8,651,487	13,140,587
Increase / (decrease) in Property, Plant and Equipment	(8,651,487)	(8,651,487)

**Statement of Financial Performance:**

(Increase) / decrease in Depreciation and		(4,489,099)
	-	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>34 CORRECTION OF ERROR (Continued)</b>		
<b><u>34.4 Misstatement of Non-current Provisions</u></b>		
Restatement was made to the Landfill Site Provision as per the valuator as the methodology changed to be more in line with GRAP 19 and IGRAP 2. All of the above was corrected retrospectively.		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Position:</b>		
(Increase) / decrease in Accumulated Surplus	(2,646,674)	(2,074,411)
Increase / (decrease) in Property, Plant and Equipment	(5,929,141)	(5,929,141)
(Increase) / decrease in Non-current Provisions	8,575,815	8,575,815
<b>Statement of Financial Performance:</b>		
Increase / (decrease) in Depreciation and Amortisation		(318,528)
Increase / (decrease) in General Expenses		(253,734)
	-	-
	-	-
<b><u>34.5 Misstatement of Trade Receivables from Non-Exchange Transactions</u></b>		
Restatement was made to Trade Receivables from Non-Exchange Transactions for the RBIG Grant as the 2015 closing balance did not agree with the information submitted late by the funder.. All of the above was corrected retrospectively.		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Position:</b>		
(Increase) / decrease in Accumulated Surplus	(3,464,005)	
Increase / (decrease) in Trade Receivables from Non-Exchange Transactions	3,464,005	3,464,005
<b>Statement of Financial Performance:</b>		
(Increase) / decrease in Government Grants and Subsidies Received		(3,464,005)
	-	-
	-	-
<b><u>34.6 Misstatement of Trade Receivables from Exchange Transactions and Trade Receivables from Non-Exchange Transactions</u></b>		
Management recalculated the Debt Impairment provision to comply with GRAP 104. The above was corrected retrospectively.		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Position:</b>		
(Increase) / decrease in Accumulated Surplus	26,105,180	12,994,977
Increase / (decrease) in Trade Receivables from Exchange Transactions	(24,381,254)	(24,381,254)
Increase / (decrease) in Trade Receivables from Non-Exchange Transactions	(1,723,926)	(1,723,926)
<b>Statement of Financial Performance:</b>		
Increase / (decrease) in Impairment Losses		13,110,203
	-	-
	-	-
<b><u>34.7 Misstatement of Revenue</u></b>		
Management adjusted the revenue for 2015 to comply with GRAP 9		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Performance:</b>		
Increase / (decrease) in General Expenses	(5,491,552)	(5,491,552)
(Increase) / decrease in Services Charges	5,491,552	5,491,552
	-	-
	-	-
<b><u>34.8 Misstatement of Fines &amp; Licences and Permits</u></b>		
Management adjusted the revenue for 2015 to comply with GRAP 9		
<b>The effect of the Correction of Error is as follows:</b>		
<b>Statement of Financial Performance:</b>		
(Increase) / decrease in Fines	4,659,342	4,659,342
(Increase) / decrease in Licences and	2,769,280	2,769,280
(Increase) / decrease in Other Income	(2,708,423)	(2,708,423)
Increase / (decrease) in General Expenses	(4,720,200)	(4,720,200)
	-	-
	-	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

<b>2016</b>	<b>2015</b>
<b>R</b>	<b>R</b>

**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 2016. 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	(774,056)	
<b>Increase / (Decrease) in Depreciation of PPE</b>	<b>(774,056)</b>	<b>-</b>
Depreciation as previously stated	898,119	
Adjustment due to Change in Accounting Estimate	124,062	
<b>Depreciation as per Note 29</b>	<b>(774,056)</b>	<b>-</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>36 CASH GENERATED BY OPERATIONS</b>		
Surplus / (Deficit) for the Year	14,882,355	14,888,415
Adjustment for:		
Depreciation and Amortisation	28,438,475	23,814,028
Impairment Losses on Property, Plant and Equipment	584,659	245,267
Losses / (Gains) on Disposal of Property, Plant and Equipment	3,251,424	115,471
Contribution to Retirement Benefit Liabilities	(61,264)	423,173
Contribution to Provisions - Current	(95,272)	(160,319)
Contribution to Provisions - Non-current	(4,133,403)	752,771
Gains on Other Operations (Fair Value Adjustment on IP)	-	(406,088)
<b>Operating surplus before working capital changes</b>	<b>42,866,974</b>	<b>39,672,718</b>
Decrease/(Increase) in Inventories	(15,819)	4,167
Decrease/(Increase) in Receivables from Exchange Transactions	16,323,538	(87,723)
Decrease/(Increase) in Receivables from Non-exchange Transactions	1,847,509	(3,683,308)
Decrease/(Increase) in Operating Lease Assets	1,513	3,982
Increase/(Decrease) in Consumer Deposits	32,604	44,745
Increase/(Decrease) in Payables from Exchange Transactions	(368,135)	2,479,826
Increase/(Decrease) in Payables from Non-exchange Transactions	655,045	452,946
Increase/(Decrease) in Conditional Grants and Receipts	(423,423)	(930,196)
Increase/(Decrease) in VAT Payable	5,152,226	876,181
<b>Cash generated by / (utilised in) Operations</b>	<b>66,072,032</b>	<b>38,833,338</b>

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

The municipality did not enter into any Non-cash Investing and Financing Transactions during the 2015/16 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)	2,497,196	3,190,213
Used to finance Property, Plant and Equipment - at cost	(2,497,196)	(3,190,213)
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	7,145,759	1,586,014
Unauthorised Expenditure current year	20,625,178	7,145,759
Approved by Council or condoned on 29 July 2016	(7,145,759)	(1,586,014)
Unauthorised Expenditure awaiting authorisation	<b>20,625,178</b>	<b>7,145,759</b>

Incident	Disciplinary Steps / Criminal Proceedings
<i>Budgeted votes exceeded:-</i>	<i>To be condoned by Council</i>
- Executive and Council - R20,488 (2015: R34,387)	
- Finance and Administration - R3,884,315 (2015: R498,743)	
- Community and Social Services - R291,353 (2015: R2,754,094)	
- Technical Services - R16,429,020 (2015: R3,858,535)	

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

2016  
R

2015  
R

**40 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)**

**40.2 Fruitless and Wasteful Expenditure**

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 (2015: R0)</i>	None

**40.3 Irregular Expenditure**

Reconciliation of Irregular Expenditure:

Opening balance	2,238,717	6,376,384
Irregular Expenditure current year	7,935,462	3,041,396
Approved by Council or condoned	-	(802,679)
<b>Approved by Council and written off on 29 July 2016</b>	(1,465,411)	(6,376,384)
Irregular Expenditure awaiting condonement	8,708,768	2,238,717

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 315 612 (2015: R4 025 959) 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	526,000	528,000
Amount Paid - current year	(526,000)	(528,000)
<b>Balance Unpaid (included in Creditors)</b>	-	-

**41.2 Audit Fees**

Opening Balance	-	-
Current year Audit Fee	1,671,823	2,084,611
Council Subscriptions - VAT Portion	234,055	291,846
Amount Paid - current year	(1,905,879)	(2,376,456)
<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	5,085,560	4,913,918
Amount Paid - current year	(5,085,560)	(4,913,918)
<b>Balance Unpaid (included in Creditors)</b>	-	-

**41.5 Pension and Medical Aid Deductions**

Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	7,407,162	6,845,287
Amount Paid - current year	(7,407,162)	(6,845,287)
<b>Balance Unpaid (included in Creditors)</b>	-	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 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 2016</b>	<b>Total</b>	<b>Outstanding up to 90 days</b>	<b>Outstanding more than 90 days</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>	<b>-</b>
<b>30 June 2015</b>	<b>Total</b>	<b>Outstanding up to 90 days</b>	<b>Outstanding more than 90 days</b>
Councillor FRITZ ANNIE	345	345	-
Councillor H.C. GRONUM	15,656	15,656	-
Councillor NL. HERMANS	(399)	(399)	-
Councillor E. HUMPHRIES	354	354	-
Councillor N.B. MDALA	(676)	(676)	-
Councillor S.G. MLENZANA	1,278	1,278	-
Councillor S. NGALIMANI	333	333	-
Councillor N. REYNERS	430	430	-
Councillor SESTILE M ALBERT	332	332	-
Councillor N.B. SIKO	24	24	-
<b>Total Councillor Arrear Consumer Accounts</b>	<b>17,678</b>	<b>17,678</b>	<b>-</b>

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

	Highest amount outstanding	Ageing
<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
<b>30 June 2015</b>		
Councillor FRITZ ANNIE	345	< 90 Days
Councillor H.C. GRONUM	15,656	< 90 Days
Councillor NL. HERMANS	(399)	< 90 Days
Councillor E. HUMPHRIES	354	> 90 Days
Councillor N.B. MDALA	(676)	< 90 Days
Councillor S.G. MLENZANA	1,278	< 90 Days
Councillor S. NGALIMANI	333	< 90 Days
Councillor N. REYNERS	430	< 90 Days
Councillor SESTILE M ALBERT	332	< 90 Days
Councillor N.B. SIKO	24	< 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 2016**

	2016 R	2015 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 2016</b>	Unaccounted Electricity Losses	<u>4,027,880</u>	<u>1.1767</u>	<u>4,739,611</u>
<b>30 June 2015</b>	Unaccounted Electricity Losses	<u>3,675,831</u>	<u>1.3082</u>	<u>4,808,617</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.

	2016 R	2015 R
<b>Volumes in kWh/year:</b>		
System Input Volume	24,324,689	23,879,009
Billed Consumption	20,296,809	20,203,178
Distribution Loss	4,027,880	3,675,831
Percentage Distribution Loss	16.56%	15.39%

**Water:**

		Lost Units	Tariff	Value
<b>30 June 2016</b>	Unaccounted Water Losses	<u>1,776,209</u>	<u>4.2100</u>	<u>7,477,840</u>
<b>30 June 2015</b>	Unaccounted Water Losses	<u>1,321,986</u>	<u>3.3540</u>	<u>4,433,896</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.

	2016 R	2015 R
<b>Volumes in Kl/year:</b>		
System Input Volume	3,096,552	2,567,742
Billed Consumption	1,320,343	1,245,756
Distribution Loss	1,776,209	1,321,986
Percentage Distribution Loss	57.36%	51.48%

**42 COMMITMENTS FOR EXPENDITURE**

**42.1 Capital Commitments**

Commitments in respect of Capital Expenditure:

**- Approved and Contracted for:-**

*Infrastructure*  
*Other*

	32,906,604	77,798,798
<i>Infrastructure</i>	30,394,888	73,805,658
<i>Other</i>	2,511,717	3,993,141

**- Approved but Not Yet Contracted for:-**

*Infrastructure*

<i>Infrastructure</i>	-	-
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**Total Capital Commitments**

	<u>32,906,604</u>	<u>77,798,798</u>
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This expenditure will be financed from:

Government Grants

Government Grants	32,906,604	77,798,798
	<u>32,906,604</u>	<u>77,798,798</u>

Commitments for the acquisition of Property, Plant and Equipment

	<u>30,394,888</u>	<u>73,805,658</u>
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**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

		2016 R	2015 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	4,762,045	3,671,266
Refuse	Amortised cost	1,012,840	3,315,215
Sewerage	Amortised cost	1,570,082	3,866,206
Water	Amortised cost	2,984,292	7,916,343
Other Receivables	Amortised cost	80,863	194,394
<b>Receivables from Non-exchange Transactions</b>			
Assessment Rates Debtors	Amortised cost	1,963,160	2,855,944
Payments made in Advance	Amortised cost	2,200	7,828
Sundry Debtors	Amortised cost	706,051	364,644
<b>Cash and Cash Equivalents</b>			
Notice Deposits	Amortised cost	6,291,870	5,943,179
Bank Balances	Amortised cost	12,952,536	12,500,898
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	4,762,045	3,671,266
Receivables from Exchange Transactions	Refuse	1,012,840	3,315,215
Receivables from Exchange Transactions	Sewerage	1,570,082	3,866,206
Receivables from Exchange Transactions	Water	2,984,292	7,916,343
Receivables from Exchange Transactions	Other Debtors	80,863	194,394
Receivables from Non-exchange Transactions	Assessment Rates Debtors	1,963,160	2,855,944
Receivables from Non-exchange Transactions	Payments made in Advance	2,200	7,828
Receivables from Non-exchange Transactions	Sundry Debtors	706,051	364,644
Cash and Cash Equivalents	Bank Balances	12,952,536	12,500,898
Cash and Cash Equivalents	Notice Deposits	6,291,870	5,943,179
		32,325,939	40,635,918
<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>32,329,639</b>	<b>40,639,618</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

		2016 R	2015 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	1,047,320	2,279,397
Finance Lease Liabilities	Amortised cost	208,992	-
<b>Payables from Exchange Transactions</b>			
Trade Creditors	Amortised cost	9,427,457	11,591,744
Retentions	Amortised cost	6,698,061	5,347,080
<b>Payables from Non-exchange Transactions</b>			
Staff Bonuses	Amortised cost	735,024	670,928
Staff Leave Accrued	Amortised cost	2,588,044	2,168,229
Sundry Deposits	Amortised cost	171,136	-
Annuity Loans	Amortised cost	1,114,150	883,057
Finance Lease Liabilities	Amortised cost	126,733	27,760
<b>SUMMARY OF FINANCIAL LIABILITIES</b>			
<b>Financial Liabilities at Amortised Cost:</b>			
Long-term Liabilities	Annuity Loans	1,047,320	2,279,397
Long-term Liabilities	Finance Lease Liabilities	208,992	-
Payables from Exchange Transactions	Trade Creditors	9,427,457	11,591,744
Payables from Exchange Transactions	Retentions	6,698,061	5,347,080
Payables from Non-exchange Transactions	Staff Bonuses	735,024	670,928
Payables from Non-exchange Transactions	Staff Leave Accrued	2,588,044	2,168,229
Payables from Non-exchange Transactions	Sundry Deposits	171,136	-
Current Portion of Long-term Liabilities	Annuity Loans	1,114,150	883,057
Current Portion of Long-term Liabilities	Finance Lease Liabilities	126,733	27,760
		22,116,917	22,968,195
<b>Total Financial Liabilities</b>		<b>22,116,917</b>	<b>22,968,195</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 2016**

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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 2016, 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 2016		30 June 2015	
	Carrying Amount R	Fair Value R	Carrying Amount R	Fair Value R
<b>FINANCIAL ASSETS</b>				
<b>Measured at Amortised Cost:</b>	32,325,939	32,325,939	40,635,918	40,635,918
Notice Deposits	6,291,870	6,291,870	5,943,179	5,943,179
Trade Receivables from Exchange Transactions	10,410,122	10,410,122	18,963,425	18,963,425
Trade Receivables from Non-exchange Transactions	2,671,411	2,671,411	3,228,415	3,228,415
Bank Balances and Cash	12,952,536	12,952,536	12,500,898	12,500,898
<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>32,329,639</u>	<u>32,329,639</u>	<u>40,639,618</u>	<u>40,639,618</u>
<b>FINANCIAL LIABILITIES</b>				
<b>Measured at Amortised Cost:</b>	22,116,917	22,116,917	22,968,195	22,968,195
Annuity Loans	1,047,320	1,047,320	2,279,397	2,279,397
Finance Lease Liabilities	208,992	208,992	-	-
Trade and Other Payables:				
- Payables from Exchange Transactions	16,125,519	16,125,519	16,938,824	16,938,824
- Payables from Non-exchange Transactions	3,494,203	3,494,203	2,839,158	2,839,158
- Current Portion of Long-term Liabilities	1,240,883	1,240,883	910,816	910,816
<b>Total Financial Liabilities</b>	<u>22,116,917</u>	<u>22,116,917</u>	<u>22,968,195</u>	<u>22,968,195</u>
<b>Total Financial Instruments</b>	<u>10,212,722</u>	<u>10,212,722</u>	<u>17,671,423</u>	<u>17,671,423</u>
<b>Unrecognised Gain / (Loss)</b>		<u>-</u>		<u>-</u>

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 2016**

	2016 R			2015 R
<b>43 FINANCIAL INSTRUMENTS (Continued)</b>				
<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>
<b>30 June 2015</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	-	12,504,598	-	12,504,598
<b>Total Financial Assets</b>	<u>-</u>	<u>12,504,598</u>	<u>-</u>	<u>12,504,598</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>12,504,598</u>	<u>-</u>	<u>12,504,598</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	5,991,399	6,029,371
Cash and Cash Equivalents	(3,700)	(3,700)
<b>Net Debt</b>	<u>5,987,699</u>	<u>6,025,671</u>
Equity	508,031,279	493,148,924
<b>Net debt to equity ratio</b>	<u>1.18%</u>	<u>1.22%</u>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

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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 2016**

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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 2016 would have increased / decreased by R127,267 (30 June 2015: increased / decreased by R67,366). 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 2016 would have decreased / increased by R6,037 (30 June 2015: 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 2016**

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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	96,408,498	76,617,769
Other Debtors	13,354,943	13,646,900
Bank, Cash and Cash Equivalents	19,248,106	18,447,777
<b>Maximum Credit and Interest Risk Exposure</b>	<b>129,011,547</b>	<b>108,712,446</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	89.35%	86.69%
- Industrial / Commercial	5.62%	4.67%
- National and Provincial Government	5.04%	8.64%
Other Debtors:		
- Other not Classified	3.71%	7.16%
<b>Total Credit Risk</b>	<b>103.71%</b>	<b>107.16%</b>

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

	2016 R	2015 R
<b>43 FINANCIAL INSTRUMENTS (Continued)</b>		
<b>Bank and Cash Balances</b>		
ABSA Bank Ltd	14,767,067	14,361,627
First National Bank	24,356	24,356
Standard Bank	4,452,984	4,058,094
Cash Equivalents	3,700	3,700
<b>Total Bank and Cash Balances</b>	<b>19,248,107</b>	<b>18,447,777</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	8,879,258	3,820,067
Group 2	1,282,401	745,941
Group 3	-	-
	10,161,660	4,566,008
<b>Total Receivables from Exchange Transactions</b>	<b>10,161,660</b>	<b>4,566,008</b>
<b>Receivables from Non-exchange Transactions</b>		
Group 1	3,493,608	5,852,673
<b>Total Receivables from Non-exchange Transactions</b>	<b>3,493,608</b>	<b>5,852,673</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 2016**

**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 2016</b>								
Non-interest Bearing		0.00%	19,619,722	19,619,722	-	-	-	-
- Payables from Exchange transactions			16,125,519	16,125,519	-	-	-	-
- Payables from Non-exchange transactions			3,494,203	3,494,203	-	-	-	-
			-	-	-	-	-	-
Variable Interest Rate Instruments		8.08%	-	-	-	-	-	-
- Bank Overdraft			-	-	-	-	-	-
			-	-	-	-	-	-
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>20,899,437</b>	<b>20,759,107</b>	-	-	<b>140,330</b>	-
<b>30 June 2015</b>								
Non-interest Bearing		0.00%	19,777,981	19,777,981	-	-	-	-
- Payables from Exchange transactions			16,938,824	16,938,824	-	-	-	-
- Payables from Exchange transactions			2,839,158	2,839,158	-	-	-	-
			-	-	-	-	-	-
Fixed Interest Rate Instruments		5.00%	1,426,386	1,284,789	-	-	141,597	-
- ABSA		5.00%	1,426,386	1,284,789	-	-	141,597	-
			<b>21,204,367</b>	<b>21,062,770</b>	-	-	<b>141,597</b>	-

**UMSOBOMVU LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016**

**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 2016</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 2015</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 2016**

<b>2016</b>	<b>2015</b>
<b>R</b>	<b>R</b>

**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 R3,941,674 (2015: R3,667,652) 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 R3,941,674 (2015: R3,667,652) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. As at 30 June 2016, contributions of R8 000 (30 June 2015: R8 000) due in respect of the 2015/16 (2014/15) 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 2016**

<b>2016</b>	<b>2015</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 2016**

2016  
R

2015  
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

**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 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>
<b>For the Year ended 30 June 2015</b>				
Councillors	20,580	84,101	5,266	17,678
Municipal Manager and Section 57 Personnel	19,419	63,461	42	924
<b>Total Services</b>	<b>39,999</b>	<b>147,563</b>	<b>5,308</b>	<b>18,602</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 2016**

	2016 R	2015 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 (2015: R7 070 000)	7,070,000	7,070,000
<b>46.3 Insurance Claims:</b>	<b>314,902</b>	<b>5,268,315</b>
(i) One of the farmers in the municipal area put claim in against the municipality for fire damage on his farm. According to the farmer, the municipality was negligent. This matter was resolved	-	4,953,413
(ii) Street light pole falls over – The Insurer attorney is busy negotiate with the T/P for settlement	18,248	18,248
(iii) T/P falls in manhole - Still waiting for excess from the Municipality	296,654	296,654
<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 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>119,843</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 2016**

	2016	2015
	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.

	117,531	-
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LA17BL006. Manament 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 cost implications could not yet been calculated and management is waiting for the quote from the insurance service provider.

	-	-
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**48 EVENTS AFTER THE REPORTING DATE**

No events having financial implications requiring disclosure occurred subsequent to 30 June 2016.

**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 2016**

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2015	Received during the Period	Ineterst Charged during period	Redeemed/ Written Off during Period	Balance at 30 June 2016
	R				R	R		R	R
<b>ANNUITY LOANS</b>									
ABSA Bank Ltd									
Account 83517250	447,137	9.50%	83517250	2018/02/01	265,927	-	24,295	(115,126)	175,095
Account 83528279	993,106	9.50%	83528279	2018/02/01	590,632	-	53,960	(255,699)	388,892
Account 83527833	993,106	9.50%	83527833	2018/02/01	590,632	-	53,960	(255,699)	388,892
Account 84008046	1,951,765	9.50%	84008046	2018/06/01	1,287,879	-	120,468	(504,102)	904,245
Account 84215231	724,608	9.50%	84215231	2018/07/01	427,384	-	40,579	(163,619)	304,345
<b>Total Annuity Loans</b>	<b>5,109,721</b>				<b>3,162,454</b>	-	<b>293,261</b>	<b>(1,294,245)</b>	<b>2,161,470</b>
<b>TOTAL EXTERNAL LOANS</b>	<b>5,109,721</b>				<b>3,162,454</b>	-	<b>293,263</b>	<b>(1,294,245)</b>	<b>2,161,470</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 2016**

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	-	-	-	30,377,857	-	-	-	-	30,377,857
Buildings	5,790,448	-	-	-	5,790,448	4,107,828	232,660	-	4,340,488	1,449,960
<b>Total</b>	<b>36,168,305</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>36,168,305</b>	<b>4,107,828</b>	<b>232,660</b>	<b>-</b>	<b>4,340,488</b>	<b>31,827,817</b>
<b>Community Assets</b>										
Land	2,099,651	-	-	-	2,099,651	-	-	-	-	2,099,651
Buildings	14,180,623	291,353	-	-	14,471,976	4,212,106	644,303	-	4,856,409	9,615,568
<b>Total</b>	<b>16,280,274</b>	<b>291,353</b>	<b>-</b>	<b>-</b>	<b>16,571,628</b>	<b>4,212,106</b>	<b>644,303</b>	<b>-</b>	<b>4,856,409</b>	<b>11,715,219</b>
<b>Infrastructure</b>										
<i>Electricity</i>										
Hv - Network	3,456,548	-	8,291,717	-	11,748,265	2,151,829	83,576	-	2,235,404	9,512,861
Lv - Network	32,204,536	-	-	(30,107)	32,174,429	17,421,519	1,427,360	(19,952)	18,828,927	13,345,502
Mv - Network	10,222,959	75,629	-	-	10,298,588	5,567,740	242,760	-	5,810,500	4,488,088
<i>Roads</i>										
Bridges, Subways & Culverts	26,520,103	-	7,887	(480,915)	26,047,075	15,895,415	331,501	(288,549)	15,938,367	10,108,707
Road Structures	287,537,650	20,034,943	-	(1,219,116)	306,353,477	182,272,855	6,536,374	(919,999)	187,889,230	118,464,247
Storm Water	3,085,392	-	-	(40,348)	3,045,044	1,895,516	51,423	(27,421)	1,919,518	1,125,526
Traffic Management	401,929	-	-	(34,559)	367,370	274,001	12,482	(32,416)	254,068	113,303
<i>Solid Waste</i>										
Landfill Sites	10,079,874	-	-	-	10,079,874	2,585,707	416,343	-	3,002,049	7,077,825
<i>Sanitation</i>										
Collection / Reticulation Network	65,975,262	-	4,992,844	-	70,968,107	41,234,539	1,649,382	-	42,883,920	28,084,186
Sewer Pump Stations	1,151,661	-	-	-	1,151,661	384,299	93,550	-	477,848	673,812
Waste Water Treatment Works	55,270,532	-	-	-	55,270,532	17,716,530	2,476,923	-	20,193,453	35,077,079
<i>Water</i>										
Boreholes	2,423,259	-	70,428,646	(959,046)	71,892,859	1,306,923	186,926	(612,261)	881,588	71,011,271
Bulk Distribution	438,177	-	-	-	438,177	306,724	21,909	-	328,633	109,544
Distribution / Reticulation Network	88,229,560	81,659,534	-	-	169,889,094	61,760,692	8,322,937	-	70,083,629	99,805,465
Water Pump Stations	8,541,963	12,432,896	-	(3,240,625)	17,734,234	3,691,406	998,928	(1,214,409)	3,475,926	14,258,308
Water Storage	34,817,659	-	-	(737,598)	34,080,062	12,597,861	1,195,589	(526,593)	13,266,858	20,813,204
Water Treatment Works	72,884,188	59,339	-	-	72,943,527	20,771,272	2,661,469	-	23,432,741	49,510,786
<b>Total</b>	<b>703,241,252</b>	<b>114,262,341</b>	<b>83,721,095</b>	<b>(6,742,314)</b>	<b>894,482,374</b>	<b>387,834,828</b>	<b>26,709,432</b>	<b>(3,641,600)</b>	<b>410,902,660</b>	<b>483,579,714</b>

<b>Other Assets</b>										
<i>COMPUTER EQUIPMENT</i>										
COMPUTER HARDWARE	2,002,700.58	459,541.37	-	(86,642.47)	2,375,599.48	1,654,395.30	162,012.95	(71,625.22)	1,744,783.03	630,816.45
<i>FURNITURE AND OFFICE EQUIPMENT</i>										
AIR CONDITIONERS	322,871.46	46,191.50	-	(3,241.00)	365,821.96	226,269.77	29,837.35	(2,913.76)	253,193.36	112,628.60
AUDIOVISUAL EQUIPMENT	178,145.05	8,000.00	-	(6,744.00)	179,401.05	124,485.43	14,313.35	(5,005.82)	133,792.97	45,608.08
DOMESTIC AND HOSTEL FURNITURE	116,306.52	-	-	(2,999.00)	113,307.52	76,684.19	8,857.45	(1,484.51)	84,057.14	29,250.38
DOMESTIC EQUIPMENT	70,386.98	21,957.00	-	(3,865.65)	88,478.33	50,873.41	7,479.57	(3,492.91)	54,860.06	33,618.27
FIXTURES & FITTINGS	147,502.00	-	-	(11,621.00)	135,881.00	102,066.86	10,846.42	(8,234.95)	104,678.32	31,202.68
KITCHEN APPLIANCES	92,352.69	2,149.00	-	(4,437.00)	90,064.69	71,092.57	5,143.35	(3,973.37)	72,262.55	17,802.14
OFFICE EQUIPMENT	253,400.77	25,165.79	-	(98,259.97)	180,306.58	185,893.78	16,468.12	(85,584.27)	116,777.63	63,528.95
OFFICE FURNITURE	3,192,317.25	24,261.47	-	(510,979.34)	2,705,599.39	2,351,739.39	193,388.60	(417,874.60)	2,127,253.39	578,346.00
<i>MACHINERY AND EQUIPMENT</i>										
ELECTRIC WIRE AND POWER DISTRIBUTION E	65,779.40	-	-	-	65,779.40	40,548.85	5,713.67	-	46,262.52	19,516.88
FIRE FIGHTING EQUIPMENT	46,634.00	-	-	(6,455.00)	40,179.00	30,899.96	4,605.64	(5,805.09)	29,700.51	10,478.49
GARDENING EQUIPMENT	130,662.53	-	-	(24,594.13)	106,068.40	101,212.92	11,668.40	(19,709.68)	93,171.63	12,896.77
MEDICAL AND ALLIED EQUIPMENT	8,858.00	-	-	-	8,858.00	8,294.62	127.62	-	8,422.23	435.77
MUSIC INSTRUMENTS	84,608.00	-	-	-	84,608.00	60,796.89	3,535.41	-	64,332.30	20,275.70
PUMPS PLUMBING PURIFICATION SANITATION	278,986.14	13,500.00	-	(15,499.23)	276,986.91	123,225.70	39,568.89	(13,690.99)	149,103.61	127,883.30
RADIO EQUIPMENT	32,577.76	-	-	(8,352.00)	24,225.76	20,567.50	3,261.76	(5,893.89)	17,935.38	6,290.38
ROAD CONSTRUCTION AND MAINTENANCE EC	4,674,688.16	-	-	(32,797.42)	4,641,890.74	1,668,561.27	388,292.92	(22,729.74)	2,034,124.44	2,607,766.30
SURVEY EQUIPMENT	3,891.00	-	-	-	3,891.00	2,918.25	233.46	-	3,151.71	739.29
TRACTORS	1,546,260.00	-	-	-	1,546,260.00	526,749.35	246,894.60	-	773,643.95	772,616.05
WORKSHOP EQUIPMENT AND LOOSE TOOLS I	9,020.00	-	-	-	9,020.00	5,401.42	928.26	-	6,329.68	2,690.32
WORKSHOP EQUIPMENT AND LOOSE TOOLS I	822,972.67	21,651.10	-	(19,715.00)	824,908.77	643,090.81	40,809.66	(17,473.37)	666,427.10	158,481.67
<i>TRANSPORT ASSETS</i>										
BAKKIES	1,945,747.32	-	-	-	1,945,747.32	802,933.63	71,088.84	-	874,022.47	1,071,724.84
EMERGENCY VEHICLES	490,022.33	-	-	-	490,022.33	212,662.28	9,141.17	-	221,803.45	268,218.88
MOTOR VEHICLES	641,664.68	151,310.00	-	-	792,974.68	224,093.62	29,620.57	-	253,714.19	539,260.49
TRAILERS AND ACCESSORIES	986,220.70	-	-	-	986,220.70	255,299.04	67,647.67	-	322,946.71	663,273.99
TRUCKS	3,434,945.74	-	-	-	3,434,945.74	1,763,385.02	35,192.13	-	1,798,577.16	1,636,368.59
					-					
<b>Total</b>	<b>21,579,522</b>	<b>773,727</b>	<b>-</b>	<b>(836,202)</b>	<b>21,517,047</b>	<b>11,334,142</b>	<b>1,406,678</b>	<b>(685,492)</b>	<b>12,055,328</b>	<b>9,461,719</b>
<b>Total</b>	<b>777,269,353</b>	<b>115,327,422</b>	<b>83,721,095</b>	<b>(7,578,516)</b>	<b>968,739,354</b>	<b>407,488,903</b>	<b>28,993,073</b>	<b>(4,327,092)</b>	<b>432,154,885</b>	<b>536,584,469</b>

**UMSOBOMVU LOCAL MUNICIPALITY  
ANALYSIS OF INVESTMENT PROPERTIES AS AT 30 JUNE 2016**

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>Investment Properties</b>										
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 2016**

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>Intangible Assets</b>										
Computer Software	1,699,149	25,147	-	-	1,724,296	1,640,410	30,060	-	1,670,470	53,826
<b>Total</b>	<b>1,699,149</b>	<b>25,147</b>	<b>-</b>	<b>-</b>	<b>1,724,296</b>	<b>1,640,410</b>	<b>30,060</b>	<b>-</b>	<b>1,670,470</b>	<b>53,826</b>
<b>Total Asset Register</b>	<b>781,029,402</b>	<b>115,352,569</b>	<b>83,721,095</b>	<b>(7,578,516)</b>	<b>972,524,550</b>	<b>409,129,313</b>	<b>29,023,134</b>	<b>(4,327,092)</b>	<b>433,825,355</b>	<b>538,699,195</b>

**APPENDIX C**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**SEGMENTAL ANALYSIS OF CAPITAL ASSETS AS AT 30 JUNE 2016**

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
Executive and Council	2,869,448	20,488	-	(156,921)	2,733,016	1,739,931	180,771	(128,987)	1,791,714	941,301
Finance and Administration	2,442,251	708,086	-	(304,720)	2,845,617	1,512,537	299,936	(258,268)	1,554,205	1,291,412
Community and Social Services	52,448,579	291,353	-	-	52,739,933	8,319,934	876,964	-	9,196,897	43,543,036
Technical Services	723,269,123	114,332,641	83,721,095	(7,116,875)	914,205,984	397,556,911	27,665,463	(3,939,836)	421,282,539	492,923,445
<b>Total</b>	<b>781,029,402</b>	<b>115,352,569</b>	<b>83,721,095</b>	<b>(7,578,516)</b>	<b>972,524,550</b>	<b>409,129,313</b>	<b>29,023,134</b>	<b>(4,327,092)</b>	<b>433,825,355</b>	<b>538,699,195</b>
This appendix does not form part of the annual financial statements.										

**APPENDIX D**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016**

2015 Actual Income	2015 Budgeted Income	2015 Actual Expenditure	2015 Budgeted Expenditure	2015 Surplus/ (Deficit)	Description	2016 Actual Income	2016 Budgeted Income	2016 Actual Expenditure	2016 Budgeted Expenditure	2016 Surplus/ (Deficit)
R	R	R	R	R		R	R	R	R	R
26,890,448	32,382,000	11,979,283	20,025,120	14,911,165	Executive and Council	35,033,555	34,931,000	12,887,103	20,997,811	22,146,452
18,792,244	21,719,483	22,089,067	27,360,562	(2,139,074)	Finance and Administration	12,667,641	17,197,828	26,703,298	23,318,477	(14,035,657)
11,641,884	9,877,857	7,727,564	8,494,692	3,914,321	Community and Social Services	5,775,628	10,186,984	6,814,557	17,950,686	(1,038,929)
79,051,969	95,977,572	79,692,215	74,672,761	2,786,840	Technical Services	109,362,186	141,999,243	101,551,697	85,122,677	7,810,489
<b>136,376,545</b>	<b>159,956,911</b>	<b>121,488,130</b>	<b>130,553,135</b>	<b>19,473,252</b>	<b>Total</b>	<b>162,839,010</b>	<b>204,315,055</b>	<b>147,956,655</b>	<b>147,389,651</b>	<b>14,882,355</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 2016**

Description	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
	R	R	R	R	R	R	R	R
<b>REVENUE - STANDARD</b>								
<b>Governance and Administration:</b>								
Executive and Council	34,931,000	-	34,931,000	34,931,000	35,033,555	102,555	100.29	100.29
Budget and Treasury Office	15,648,987	1,538,041	17,187,028	17,187,028	12,348,861	(4,838,167)	71.85	78.91
Corporate Services	20,247	(9,447)	10,800	10,800	9,594	(1,206)	88.83	47.38
<b>Community and Public Safety:</b>								
Community and Social Services	2,833,654	(355,224)	2,478,430	2,478,430	2,182,804	(295,626)	88.07	77.03
Public Safety	3,253,090	4,455,464	7,708,554	7,708,554	3,902,010	(3,806,544)	50.62	119.95
Housing	-	-	-	-	-	-	0.00	0.00
Road Transport	1,060,261	6,982,596	8,042,857	8,042,857	10,173,531	2,130,674	126.49	959.53
<b>Trading Services:</b>								
Electricity	38,926,651	3,632,647	42,559,298	42,559,298	27,681,894	(14,877,404)	65.04	71.11
Water	51,251,878	16,958,135	68,210,013	68,210,013	50,384,385	(17,825,628)	73.87	98.31
Waste Water Management	19,209,303	(2,672,939)	16,536,364	16,536,364	14,349,189	(2,187,175)	86.77	74.70
Waste Management	6,520,972	129,739	6,650,711	6,650,711	6,773,187	122,476	101.84	103.87
<b>Total Revenue - Standard</b>	<b>173,656,043</b>	<b>30,659,012</b>	<b>204,315,055</b>	<b>204,315,055</b>	<b>162,839,011</b>	<b>(41,476,044)</b>	<b>79.70</b>	<b>93.77</b>
<b>EXPENDITURE - STANDARD</b>								
<b>Governance and Administration:</b>								
Executive and Council	20,463,740	534,072	20,997,812	20,997,812	12,887,103	(8,110,709)	61.37	62.98
Budget and Treasury Office	20,270,331	(2,683,808)	17,586,523	17,586,523	17,813,386	226,863	101.29	87.88
Corporate Services	5,584,474	147,480	5,731,954	5,731,954	7,249,312	1,517,358	126.47	129.81
<b>Community and Public Safety:</b>								
Community and Social Services	5,872,146	1,439,398	7,311,544	7,311,544	4,804,719	(2,506,825)	65.71	81.82
Sport and Recreation	2,745,071	85,942	2,831,013	2,831,013	932,126	(1,898,887)	32.93	33.96
Public Safety	4,134,972	2,931,932	7,066,904	7,066,904	2,140,283	(4,926,621)	30.29	51.76
Housing	661,451	79,774	741,225	741,225	578,029	(163,196)	77.98	87.39
<b>Economic and Environmental Services:</b>								
Road Transport	11,079,971	5,441,385	16,521,356	16,521,356	17,688,240	1,166,884	107.06	159.64
<b>Trading Services:</b>								
Electricity	27,465,560	(1,027,950)	26,437,610	26,437,610	25,542,160	(895,450)	96.61	93.00
Water	22,093,539	4,558,104	26,651,643	26,651,643	32,990,170	6,338,527	123.78	149.32
Waste Water Management	9,814,477	(525,788)	9,288,689	9,288,689	14,015,813	4,727,124	150.89	142.81
Waste Management	5,072,555	1,150,823	6,223,378	6,223,378	11,315,315	5,091,937	181.82	223.07
<b>Total Expenditure - Standard</b>	<b>135,258,287</b>	<b>12,131,364</b>	<b>147,389,651</b>	<b>147,389,651</b>	<b>147,956,655</b>	<b>567,004</b>	<b>100.38</b>	<b>109.39</b>
<b>Surplus/(Deficit) for the year</b>	<b>38,397,756</b>	<b>18,527,648</b>	<b>56,925,404</b>	<b>56,925,404</b>	<b>14,882,355</b>	<b>(42,043,049)</b>	<b>26.14</b>	<b>38.76</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 2016**

Description	2015/16								
	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	34,931,000	-	34,931,000	34,931,000	35,033,555	-	102,555	100.29	100.29
Vote 2 - FINANCE & ADMIN	16,625,846	571,982	17,197,828	17,197,828	12,667,641	-	(4,530,187)	73.66	76.19
Vote 3 - COMMUNITY SERVICES	4,965,907	5,221,077	10,186,984	10,186,984	5,775,628	-	(4,411,356)	56.70	116.31
Vote 4 - TECHNICAL SERVICES	113,899,034	28,100,209	141,999,243	141,999,243	109,362,186	-	(32,637,057)	77.02	96.02
<b>Total Revenue by Vote</b>	<b>170,421,787</b>	<b>33,893,268</b>	<b>204,315,055</b>	<b>204,315,055</b>	<b>162,839,010</b>	<b>-</b>	<b>(41,476,045)</b>	<b>79.70</b>	<b>95.55</b>
<b>EXPENDITURE BY VOTE</b>									
Vote 1 - EXECUTIVE & COUNCIL	20,463,742	534,069	20,997,811	20,997,811	12,887,103	-	(8,110,708)	61.37	62.98
Vote 2 - FINANCE & ADMIN	27,729,289	(4,410,812)	23,318,477	23,318,477	26,703,298	3,384,821	3,384,821	114.52	96.30
Vote 3 - COMMUNITY SERVICES	11,374,929	6,575,757	17,950,686	17,950,686	6,814,557	-	(11,136,129)	37.96	59.91
Vote 4 - TECHNICAL SERVICES	72,456,071	12,666,606	85,122,677	85,122,677	101,551,697	16,429,020	16,429,020	119.30	140.16
<b>Total Expenditure by Vote</b>	<b>132,024,031</b>	<b>15,365,620</b>	<b>147,389,651</b>	<b>147,389,651</b>	<b>147,956,655</b>	<b>19,813,842</b>	<b>567,004</b>	<b>100.38</b>	<b>112.07</b>
<b>Surplus/(Deficit) for the year</b>	<b>38,397,756</b>	<b>18,527,648</b>	<b>56,925,404</b>	<b>56,925,404</b>	<b>14,882,355</b>	<b>(19,813,842)</b>	<b>(42,043,049)</b>	<b>26.14</b>	<b>38.76</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 2016**

Description	2015/16							2014/15	
	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	8,116,592	289,076	8,405,668	8,405,668	8,144,051	(261,617)	96.89	100.34	8,313,287
Property Rates - Penalties & Collection Charges	178,652	29,148	207,800	207,800	217,246	9,446	104.55	121.60	207,645
Service Charges - Electricity	31,276,224	2,272,782	33,549,006	33,549,006	27,767,391	(5,781,615)	82.77	88.78	23,163,034
Service Charges - Water	13,110,313	-	13,110,313	13,110,313	8,449,322	(4,660,991)	64.45	64.45	12,260,395
Service Charges - Sanitation	8,259,194	232,370	8,491,564	8,491,564	8,647,544	155,980	101.84	104.70	7,815,903
Service Charges - Refuse	6,333,376	21,834	6,355,210	6,355,210	6,450,153	94,943	101.49	101.84	5,974,139
Service Charges - Other	-	-	-	-	(12,421,713)	(12,421,713)	0.00	0.00	(11,150,331)
Rental of Facilities and Equipment	1,102,587	(216,000)	886,587	886,587	758,723	(127,864)	85.58	68.81	1,045,750
Interest Earned - External Investments	422,000	48,600	470,600	470,600	538,281	67,681	114.38	127.55	531,703
Interest Earned - Outstanding Debtors	1,806,439	248,218	2,054,657	2,054,657	2,168,573	113,916	105.54	120.05	1,980,484
Dividends Received	-	-	-	-	-	-	0.00	0.00	-
Fines	2,520,876	2,800,003	5,320,879	5,320,879	671,518	(4,649,361)	12.62	26.64	98,182
Licences and Permits	757,090	1,655,464	2,412,554	2,412,554	-	(2,412,554)	0.00	0.00	-
Agency Services	-	-	-	-	-	-	0.00	0.00	-
Transfers Recognised - Operational	57,084,244	3,683,352	60,767,596	60,767,596	84,507,184	23,739,588	139.07	148.04	38,465,392
Other Revenue	4,290,700	1,066,517	5,357,217	5,357,217	12,058,383	6,701,166	225.09	281.04	8,728,560
Gains on Disposal of PPE	-	-	-	-	-	-	0.00	0.00	-
<b>Total Revenue (excluding Capital Transfers &amp; Contributions)</b>	<b>135,258,287</b>	<b>12,131,364</b>	<b>147,389,651</b>	<b>147,389,651</b>	<b>147,956,655</b>	<b>567,004</b>	<b>100.38</b>	<b>109.39</b>	<b>97,434,143</b>
<b>Expenditure</b>									
Employee Related Costs	40,627,602	1,684,309	42,311,911	42,311,911	37,333,044	(4,978,867)	88.23	91.89	33,338,736
Remuneration of Councillors	3,091,745	30,615	3,122,360	3,122,360	3,095,174	(27,186)	99.13	100.11	2,995,975
Debt Impairment	-	-	-	-	-	-	0.00	0.00	-
Depreciation and Asset Impairment	29,302,253	6,374,377	35,676,630	35,676,630	59,801,361	24,124,731	167.62	204.08	40,710,718
Finance Charges	310,000	33,695	343,695	343,695	1,814,409	1,470,714	527.91	585.29	1,810,576
Bulk Purchases	21,284,464	-	21,284,464	21,284,464	21,065,220	(219,244)	98.97	98.97	18,731,283
Other Materials	3,275,200	767,890	4,043,090	4,043,090	2,916,059	(1,127,031)	72.12	89.03	3,932,167
Contracted Services	-	-	-	-	-	-	0.00	0.00	-
Transfers and Grants	-	-	-	-	-	-	0.00	0.00	-
Other Expenditure	37,365,795	3,240,478	40,606,273	40,606,273	18,679,963	(21,926,310)	46.00	49.99	19,853,205
Loss on Disposal of PPE	1,228	-	1,228	1,228	3,251,424	3,250,196	264,773.97	264,773.97	115,471
<b>Total Expenditure</b>	<b>135,258,287</b>	<b>12,131,364</b>	<b>147,389,651</b>	<b>147,389,651</b>	<b>147,956,655</b>	<b>567,004</b>	<b>100.38</b>	<b>109.39</b>	<b>121,488,130</b>
<b>Surplus/(Deficit)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00</b>	<b>0.00</b>	<b>(24,053,987)</b>
Transfers Recognised - Capital	38,397,756	18,527,648	56,925,404	56,925,404	14,882,355	(42,043,049)	26.14	38.76	38,942,402
<b>Surplus/(Deficit) after Capital Transfers and</b>	<b>38,397,756</b>	<b>18,527,648</b>	<b>56,925,404</b>	<b>56,925,404</b>	<b>14,882,355</b>	<b>(42,043,049)</b>	<b>26.14</b>	<b>38.76</b>	<b>14,888,415</b>
<b>Surplus/(Deficit) for the Year</b>	<b>38,397,756</b>	<b>18,527,648</b>	<b>56,925,404</b>	<b>56,925,404</b>	<b>14,882,355</b>	<b>(42,043,049)</b>	<b>26.14</b>	<b>38.76</b>	<b>14,888,415</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 2016**

Description	2015/16								
	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>Multi-year Expenditure</b>									
Vote 2 - FINANCE & ADMIN	-	-	-	-	-	-	-	0.00	0.00
Vote 4 - TECHNICAL SERVICES	36,872,000	17,128,000	54,000,000	54,000,000	54,000,000	-	-	100.00	146.45
<b>Total Capital Expenditure - Multi-year</b>	36,872,000	17,128,000	54,000,000	54,000,000	54,000,000	-	-	100.00	146.45
<b>Single-year Expenditure</b>									
Vote 1 - EXECUTIVE & COUNCIL	-	-	-	-	20,488	20,488	20,488	0.00	0.00
Vote 2 - FINANCE & ADMIN	1,710,000	(1,476,261)	233,739	233,739	733,233	499,494	499,494	313.70	42.88
Vote 3 - COMMUNITY SERVICES	-	-	-	-	291,353	291,353	291,353	0.00	0.00
Vote 4 - TECHNICAL SERVICES	18,691,300	5,254,000	23,945,300	23,945,300	9,533,608	-	(14,411,692)	39.81	51.01
<b>Total Capital Expenditure - Single-year</b>	20,401,300	3,777,739	24,179,039	24,179,039	10,578,683	811,336	(13,600,356)	43.75	51.85
<b>Total Capital Expenditure - Vote</b>	<b>57,273,300</b>	<b>20,905,739</b>	<b>78,179,039</b>	<b>78,179,039</b>	<b>64,578,683</b>	<b>811,336</b>	<b>(13,600,356)</b>	<b>82.60</b>	<b>112.76</b>
<b>CAPITAL EXPENDITURE - STANDARD</b>									
<b>Governance and Administration:</b>									
Executive and Council	-	-	-	-	20,488		20,488	0.00	0.00
Budget and Treasury Office	1,550,000	(1,476,261)	73,739	73,739	581,923		508,184	789.17	37.54
Corporate Services	160,000	-	160,000	160,000	151,310		(8,690)	94.57	94.57
<b>Community and Public Safety:</b>									
Community and Social Services	-	-	-	-	291,353		291,353	0.00	0.00
<b>Economic and Environmental Services:</b>									
Road Transport	1,000,000	6,944,000	7,944,000	7,944,000	9,092,605		1,148,605	114.46	909.26
<b>Trading Services:</b>									
Electricity	7,000,000	1,350,000	8,350,000	8,350,000	6,161,797		(2,188,203)	73.79	88.03
Water	36,872,000	17,128,000	54,000,000	54,000,000	43,198,021		(10,801,979)	80.00	117.16
Waste Water Management	10,691,300	(3,040,000)	7,651,300	7,651,300	5,081,185		(2,570,115)		
<b>Total Capital Expenditure - Standard</b>	<b>57,273,300</b>	<b>20,905,739</b>	<b>78,179,039</b>	<b>78,179,039</b>	<b>64,578,683</b>	<b>-</b>	<b>(13,600,356)</b>	<b>82.60</b>	<b>112.76</b>
<b>FUNDED BY:</b>									
National Government	55,563,300	22,382,000	77,945,300	77,945,300	63,779,809		(14,165,491)	81.83	114.79
Provincial Government	-	-	-	-	-		-	0.00	0.00
<b>Transfers Recognised - Capital</b>	<b>55,563,300</b>	<b>22,382,000</b>	<b>77,945,300</b>	<b>77,945,300</b>	<b>63,779,809</b>		<b>(14,165,491)</b>	<b>81.83</b>	<b>114.79</b>
Public Contributions & Donations	-	-	-	-	-		-	0.00	0.00
Internally Generated Funds	1,710,000	(1,476,261)	233,739	233,739	798,874		565,135	341.78	46.72
<b>Total Capital Funding</b>	<b>57,273,300</b>	<b>20,905,739</b>	<b>78,179,039</b>	<b>78,179,039</b>	<b>64,578,683</b>	<b>-</b>	<b>(13,600,356)</b>	<b>82.60</b>	<b>112.76</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 2016**

Description	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
	R	R	R	R	R	R	R	R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>								
<b>Receipts</b>								
Ratepayers and Other	8,295,244	318,224	8,613,468	8,613,468	6,349,350	(2,264,118)	73.71	76.54
Government - Operating	39,918,700	(303,000)	39,615,700	39,615,700	84,083,761	44,468,061	212.25	210.64
Government - Capital	55,563,300	15,438,000	71,001,300	71,001,300	14,882,355	(56,118,945)	20.96	26.78
Public Contributions and Donations		-	-	-	-	-	0.00	0.00
Service Charges	50,096,114	2,337,473	52,433,587	52,433,587	32,849,914	(19,583,673)	62.65	65.57
Interest	2,228,439	767,418	2,995,857	2,995,857	2,706,854	(289,003)	90.35	121.47
Other Receipts	8,671,253	5,437,984	14,109,237	14,109,237	27,480,083	13,370,846	194.77	316.91
<b>Payments</b>								
Suppliers and Employees	(96,678,136)	(5,723,292)	(102,401,428)	(102,401,428)	(98,812,804)	3,588,624	0.00	0.00
Finance Charges	(310,000)	(33,695)	(343,695)	(343,695)	(336,340)	7,355	0.00	0.00
Other payments	(8,966,670)	-	(8,966,670)	(8,966,670)	(3,131,141)	5,835,529	0.00	0.00
<b>NET CASH FROM / (USED) OPERATING ACTIVITIES</b>	<b>58,818,244</b>	<b>18,239,112</b>	<b>77,057,356</b>	<b>77,057,356</b>	<b>66,072,032</b>	<b>(10,985,324)</b>	<b>85.74</b>	<b>112.33</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>								
<b>Payments</b>								
Capital Assets	(50,006,970)	(20,994,330)	(71,001,300)	(71,001,300)	(64,578,683)	6,422,617	0.00	0.00
<b>NET CASH FROM / (USED) INVESTING ACTIVITIES</b>	<b>(50,006,970)</b>	<b>(20,994,330)</b>	<b>(71,001,300)</b>	<b>(71,001,300)</b>	<b>(64,578,683)</b>	<b>6,422,617</b>	<b>0.00</b>	<b>0.00</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
<b>Receipts</b>								
New Loans raised	130,000	-	130,000	130,000	-	(130,000)	0.00	0.00
<b>Payments</b>								
Loans repaid	(800,000)	(110,816)	(910,816)	(910,816)	(693,020)	217,796	0.00	0.00
<b>NET CASH FROM / (USED) FINANCING ACTIVITIES</b>	<b>(670,000)</b>	<b>(110,816)</b>	<b>(780,816)</b>	<b>(780,816)</b>	<b>(693,020)</b>	<b>87,796</b>	<b>0.00</b>	<b>0.00</b>
<b>NET INCREASE / (DECREASE) IN CASH HELD</b>	<b>(8,141,274)</b>	<b>2,866,034</b>	<b>(5,275,240)</b>	<b>(5,275,240)</b>	<b>(800,329)</b>	<b>4,474,911</b>	<b>0.00</b>	<b>0.00</b>
Cash / Cash Equivalents at the Year begin:	18,447,777	-	18,447,777	18,447,777	18,447,777	-	100.00	100.00
Cash / Cash Equivalents at the Year end:	26,589,051	(2,866,034)	23,723,017	23,723,017	19,248,106	(4,474,911)	81.14	72.39

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	14,556,000	11,643,000	8,732,000	-	8,732,750	8,732,750	8,732,750	8,732,750	N/A	Yes	N/A
FMG	Nat Treasury	1,800,000	-	-	-	450,000	450,000	450,000	450,000	N/A	Yes	N/A
INEP	Nat Treasury	-	-	1,350,000	-	-	84,811	-	1,454,841	N/A	Yes	N/A
MIG Projects	MIG	1,761,000	4,329,000	2,000,000	-	5,066,501	4,568,435	1,074,956	4,324,382	N/A	Yes	N/A
Bulk Infrastructure Grant	DWAF	7,885,369	23,291,277	17,126,343	3,000	11,799,016	14,518,181	18,695,461	62,148	N/A	Yes	N/A
EDSMG	Province	2,000,000	2,000,000	3,000,000	-	-	-	-	3,695,498	N/A	Yes	N/A
MSIG	DPLG	940,000	-	-	-	235,000	235,000	235,000	235,000	N/A	Yes	N/A
EPWP Incentive Grant	Province	-	400,000	600,000	-	474,282	501,094	757,414	481,696	N/A	Yes	N/A
Library Grant	Province	-	771,000	771,000	-	385,500	385,500	385,500	385,500	N/A	Yes	N/A
Sports Facilities - Noupoot	Lotto	-	5,757,000	-	-	-	-	-	-	N/A	Yes	N/A
Water Management Grant	DBSA	-	-	-	-	193,214	294,048	12,804	-	N/A	Yes	N/A
Blue Water Drop Project	Other	-	-	-	-	110,116	154,447	20,870	7,141	N/A	Yes	N/A
<b>Total Grants and Subsidies Received</b>		<b>28,942,369</b>	<b>48,191,277</b>	<b>33,579,343</b>	<b>3,000</b>	<b>27,446,379</b>	<b>29,924,266</b>	<b>30,364,755</b>	<b>19,828,957</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 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>

**APPENDIX G**  
**UMSOBOMVU LOCAL MUNICIPALITY**  
**STATEMENT OF REMUNERATION OF MANAGEMENT**

30 June 2015

Incumbent	Basic Salaries	Bonuses	Allowances	Total Remuneration
	R	R	R	R
<b>Mayor</b>				
Hermans N.L	504,572	-	189,059	693,631
<b>Other Councillors</b>				
Mdala N.B	259,014	-	20,868	279,882
Reyners N	201,829	-	20,868	222,697
Mlenzana S.G	259,014	-	20,868	279,882
Gronum C.F	215,316	-	20,868	236,184
Ngaliman S	201,829	-	20,868	222,697
Humphries S.E	259,014	-	20,868	279,882
Fritz S.A	201,829	-	20,868	222,697
Siko S	215,316	-	20,868	236,184
Sestile M.A	245,527	-	20,868	266,395
<b>Total for Councillors</b>	<b>2,563,260</b>	<b>-</b>	<b>376,871</b>	<b>2,940,131</b>
<b>Municipal Manager</b>				
Mplea A.C	890,005	105,504	134,250	1,129,759
<b>Chief Financial Officer</b>				
Visagie D.T	734,023	89,679	136,594	960,296
<b>Manager: Community Services</b>				
Rossouw B.D	798,617	81,526	72,000	952,143
<b>Manager: Technical Services</b>				
Mosompha P	768,174	14,946	102,443	885,563
<b>Total for Senior Managers</b>	<b>2,300,814</b>	<b>186,151</b>	<b>311,037</b>	<b>2,798,002</b>
<b>Total for Management</b>	<b>4,864,074</b>	<b>186,151</b>	<b>687,908</b>	<b>5,738,133</b>

This appendix does not form part of the annual financial statements.

## APPENDIX H UMSOBOMVU LOCAL MUNICIPALITY RATIO ANALYSIS

30 June 2016

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%	30%	
			Total Operating Expenditure	147,956,655
			Taxation Expense	-
			Total Capital Expenditure	64,578,683
<b>2</b>	Impairment of Property, Plant and Equipment, Investment Property and Intangible assets (Carrying Value)	0%	6%	
			PPE, Investment Property and Intangible Impairment	31,681,415
			PPE at carrying value	530,973,887
			IP at carrying value	2,060,899
			Intangible Assets at carrying value	53,826
<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	2,916,059
			PPE at carrying value	530,973,887
			Investment Property at Carrying value	2,060,899
<b>B. Debtors Management</b>				
<b>1</b>	Collection Rate	95%	50%	
			Gross Debtors closing balance	96,408,498
			Gross Debtors opening balance	76,617,769
			Bad debts written Off	-359,996
			Billed Revenue	38,892,697
<b>2</b>	Bad Debts Written-off as % of Provision for Bad Debt	100%	0%	
			Consumer Debtors Bad debts written off	-359,996
			Consumer Debtors Current bad debt Provision	85,998,376
<b>3</b>	Net Debtors Days	30 days	98 days	
			Gross debtors	96,408,498
			Bad debts Provision	85,998,376
			Billed Revenue	38,892,697
<b>C. Liquidity Management</b>				
<b>1</b>	Cash / Cost Coverage Ratio (Excl. Unspent Conditional Grants)	1 - 3 Months	2 Month	
			Cash and cash equivalents	19,248,106
			Unspent Conditional Grants	9,810,902
			Overdraft	-
			Short Term Investments	-
			Total Annual Operational Expenditure	56,559,837
<b>2</b>	Current Ratio	1.5 - 2:1	0.83	
			Current Assets	35,096,934
			Current Liabilities	42,321,441

## 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%		3%
			Interest Paid	1,814,409
			Redemption	-
			Total Operating Expenditure	56,559,837
			Taxation Expense	-

2	Debt (Total Borrowings) / Revenue	45%		2%
			Total Debt	1,256,312
			Total Operating Revenue	162,839,010
			Operational Conditional Grants	99,389,539

### E. Sustainability

1	Level of Cash Backed Reserves (Net Assets - Accumulated Surplus)	100%		127537447%
			Cash and cash Equivalents	19,248,106
			Unspent Grants	9,810,902
			Net Assets	508,031,279
			Accumulated Surplus	508,031,271

## 2. FINANCIAL PERFORMANCE

### A. Efficiency

1	Net Operating Surplus Margin	= or > 0%		9%
			Total Operating Revenue	162,839,010
			Depreciation - Revalued Portion <i>(Only populate if depreciation line item in</i>	
			Total Operating Expenditure	147,956,655
			Taxation Expense	-

2	Net Surplus /Deficit Electricity	0% - 15%		26%
			Total Electricity Revenue	28,118,834
			Total Electricity Expenditure	20,671,934

3	Net Surplus /Deficit Water	= or > 0%		95%
			Total Water Revenue	8,449,322
			Total Water Expenditure	393,286

4	Net Surplus /Deficit Refuse	= or > 0%		100%
			Total Refuse Revenue	6,450,153
			Total Refuse Expenditure	

5	Net Surplus /Deficit Sanitation and Waste Water	= or > 0%		100%
			Total Sanitation and Water Waste Revenue	8,647,544
			Total Sanitation and Water Waste Expenditure	

### B. Distribution Losses

1	Electricity Distribution Losses (Percentage)	7% - 10%		17%
			Number of units purchased and/or generated	24,324,689
			Number of units sold	20,296,809

2	Water Distribution Losses (Percentage)	15% - 30%		57%
			Number of kilolitres purchased and/or purified	3,096,552
			Number of kilolitres sold	1,320,343

## APPENDIX H UMSOBOMVU LOCAL MUNICIPALITY RATIO ANALYSIS

### C. Revenue Management

1	Revenue Growth (%)	= CPI		19%
			CPI	7%
			Total Revenue (Previous)	136,376,545
			Total Revenue (Current)	162,839,010

3	Revenue Growth (%) - Excluding capital grants	= CPI		8%
			CPI	6%
			Total Revenue Exl.Capital (Previous)	59,018,251
			Total Revenue Exl.Capital (Current)	63,449,472

### D. Expenditure Management

1	Creditors Payment Period (Trade Creditors)	30 days		32 days
			Trade Creditors	9,427,457
			Contracted Services	-
			Repairs and Maintenance	2,916,059
			General expenses	18,679,963
			Bulk Purchases	21,065,220
			Capital Credit Purchases ( <i>Capital Credit Purchases refers to additions of Investment Property and Property, Plant and Equipment</i> )	64,578,683

2	Irregular, Fruitless and Wasteful and Unauthorised Expenditure / Total Operating Expenditure	0%		14%
			Irregular, Fruitless and Wasteful and Unauthorised Expenditure	20,625,178
			Total Operating Expenditure	147,956,655
			Taxation Expense	-

3	Remuneration as % of Total Operating Expenditure	25% - 40%		27%
			Employee/personnel related cost	37,333,044
			Councillors Remuneration	3,095,174
			Total Operating Expenditure	147,956,655
			Taxation Expense	-

4	Contracted Services % of Total Operating Expenditure	2% - 5%		0%
			Contracted Services	-
			Total Operating Expenditure	147,956,655
			Taxation Expense	-

### E. Grant Dependency

1	Own funded Capital Expenditure (Internally generated funds + Borrowings) to Total Capital Expenditure	None		79%
			Internally generated funds	48,466,989
			Borrowings	2,497,196
			Total Capital Expenditure	64,578,683

2	Own funded Capital Expenditure (Internally Generated Funds) to Total Capital Expenditure	None		75%
			Internally generated funds	48,466,989
			Total Capital Expenditure	64,578,683

3	Own Source Revenue to Total Operating Revenue(Including Agency Revenue)	None		39%
			Total Revenue	162,839,010
			Government grant and subsidies	99,389,539
			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	64,578,683
			Budget Capital Expenditure	78,179,039
2	Operating Expenditure Budget Implementation Indicator	95% - 100%		100%
			Actual Operating Expenditure	147,956,655
			Budget Operating Expenditure	147,389,651
3	Operating Revenue Budget Implementation Indicator	95% - 100%		84%
			Actual Operating Revenue	106,742,392
			Budget Operating Revenue	126,369,755
4	Service Charges and Property Rates Revenue Budget Implementation Indicator	95% - 100%		67%
			Actual Service Charges and Property Rates Revenue	47,036,748
			Budget Service Charges and Property Rates Revenue	69,911,761

#### 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.