

## Ubuntu Municipality



*menswaardigheid • hoop • erfenis  
ubuntu • ithemba • izithethe  
humanity • hope • heritage*

Ubuntu Local Municipality  
Annual financial statements  
for the year ended 30 June 2017

# Ubuntu Local Municipality

(Registration number NC 071)

Annual Financial Statements for the year ended 30 June 2017

## General Information

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<b>Legal form of entity</b>	South African Category B Local Municipality as defined by the Municipal Structures Act. (Act no.117 of 1998).
<b>Nature of business and principal activities</b>	Ubuntu Municipality is a local municipality performing the functions as set out in the Constitution (Act no. 105 of 1996)
<b>Mayoral committee</b>	
Executive Mayor	ME PE Jantjies
Councillors	Mr JZ Lolwana Mr KJ Arens ME AL Kweleta Mr JH Vorster ME W Schutz ME CC Jantjies
<b>Grading of local authority</b>	Category B as defined by the Municipal Structures Act, Act no 117 of 1998
<b>Chief Finance Officer (CFO)</b>	Mr RA Jacobs
<b>Accounting Officer</b>	Mr T Makhoba
<b>Registered office</b>	78 Church Street Victoria West 7070
<b>Business address</b>	78 Church Street Victori West 7070
<b>Bankers</b>	First National Bank a division of FirstRand Bank Limited
<b>Auditors</b>	The Auditor-General of South Africa
<b>Attorneys</b>	Lionel Trichardt and Associates Lourens, De lange and Minnie Attorneys
<b>Enabling legislation</b>	Municipal Finance Management Act (Act no. 56 of 2003) Division of Revenue Act The Income Tax Act (Act no. 58 of 1962) Value Added Tax Act (Act no 89 of 1991) Municipal Structures Act (Act no. 117 of 1998) Municipal Systems Act (Act no. 32 of 2000) Municipal Planning anf Performance Management Regulations Housing Act (Act no. 107 of 1997) Skills Development Levies Act (Act no. 9 of 1999) Employment Equity Act (Act no. 55 of 1998) Unemployment Insurance Act (Act no. 30 of 1966) Basic Conditions of Employment Act (Act no. 75 of 1997) Supply Chain Management Regulations, 2005 Disaster Management Act of 2016 Spatial Planning and Land Use Management Act (Act 16 of 2013)

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

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IDP	Integrated Development Plan
IMFO	Institute of Municipal Finance Officers
INEP	Integrated National Electrification Programme
MSA	Municipal Systems Act
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal System Improvement Grant
NERSA	National Energy Regulator of South Africa
PAYE	Pay As You Earn
SALGA	South African Local Government Association
SARS	South African Revenue Service

# Ubuntu Local Municipality

(Registration number NC 071)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Officer's Responsibilities and Approval

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

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

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

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

However, historical and current institutional challenges inclusive of critical vacant posts, financial systems instability and inappropriately skilled staff have compromised the reliability of the internal system of financial control and, consequently, the control environment to the detriment of certification of credibility of pertinent financial management, compliance with internal controls and risk management processes.

The Accounting Officer is of the opinion, based on information and explanations given by the Chief Financial Officer, that the system of internal control – given the institutional instability presented above – provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

Given the institutional challenges alluded to above, it is with reservations that I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public office Bearers Act and the Minister of cooperative Governance and Traditional Affairs determination in accordance with this act.

The annual financial statements set out on pages 5 to 90, which have been prepared on the going concern basis, were approved by the on 01 December 2017 and were signed on its behalf by:

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**Accounting Officer**  
**Mr T Makhoba**

# Ubuntu Local Municipality

(Registration number NC 071)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2017.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interest of the local community within the Ubuntu municipal area and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 66 384 465 (2016: deficit R 70 880 174).

### 2. Going concern

I draw attention to the fact that at 30 June 2017, the municipality had accumulated surpluses of R 588 923 565 and that the municipality's total assets exceed its total liabilities assets by R 588 923 565.

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

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2018 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue its operation existing for the foreseeable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2016).

For details of managements assumptions with respect to the applicability of the going concern assumption refer to note 46.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### 4. Accounting Officer's interest in contracts

No matters to report.

### 5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act No.56 of 2003).

### 6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Mr T Makhoba	South African	Appointed 04 January 2017

### 7. Auditors

The Auditor-General of South Africa will continue in office for the next financial period.

# Ubuntu Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Position as at 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Assets</b>			
Current Assets			
Inventories	8	10 906	10 906
Operating lease asset	6	-	22 415
Other receivables from exchange transactions	9	260 907	102 870
Receivables from non-exchange transactions	10	8 259 891	7 115 536
Receivables from exchange transactions	11	4 339 139	10 155 939
Cash and cash equivalents	12	2 528 826	3 163 132
		<b>15 399 669</b>	<b>20 570 798</b>
Non-Current Assets			
Investment property	3	29 322 112	29 339 404
Property, plant and equipment	4	624 867 326	668 473 658
Intangible assets	5	2 278 070	2 261 439
		<b>656 467 508</b>	<b>700 074 501</b>
<b>Total Assets</b>		<b>671 867 177</b>	<b>720 645 299</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	15	289 099	303 641
Finance lease obligation	13	331 275	94 227
Payables from exchange transactions	17	60 086 368	40 536 690
VAT payable	18	611 371	1 953 813
Consumer deposits	19	193 699	189 460
Employee benefit obligation	7	582 000	111 299
Unspent conditional grants and receipts	14	9 039 594	10 006 568
Provisions	16	2 964 249	2 979 231
Bank overdraft	12	-	595 416
		<b>74 097 655</b>	<b>56 770 345</b>
Non-Current Liabilities			
Other financial liabilities	15	-	252 462
Finance lease obligation	13	1 618 515	-
Employee benefit obligation	7	6 056 000	7 126 366
Provisions	16	1 171 442	1 188 097
		<b>8 845 957</b>	<b>8 566 925</b>
<b>Total Liabilities</b>		<b>82 943 612</b>	<b>65 337 270</b>
<b>Net Assets</b>		<b>588 923 565</b>	<b>655 308 029</b>
Accumulated surplus		588 923 565	655 308 029

\* See Note 43

# Ubuntu Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

## Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	22 676 400	17 556 712
Rental of facilities and equipment	22	252 409	262 780
Interest received (trading)		4 036 767	3 526 919
Licences and permits		556 393	627 652
Other income		373 349	267 999
Interest received - investment	24	317 974	261 165
<b>Total revenue from exchange transactions</b>		<b>28 213 292</b>	<b>22 503 227</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	5 342 908	5 802 067
<b>Transfer revenue</b>			
Government grants & subsidies	26	31 534 975	31 524 858
Public contributions and donations	27	2 142 434	-
Fines, Penalties and Forfeits	28	30 507 769	11 741 199
<b>Total revenue from non-exchange transactions</b>		<b>69 528 086</b>	<b>49 068 124</b>
<b>Total revenue</b>	20	<b>97 741 378</b>	<b>71 571 351</b>
<b>Expenditure</b>			
Employee related costs	29	(29 097 607)	(30 982 026)
Remuneration of councillors	30	(2 463 979)	(2 778 896)
Depreciation and amortisation	31	(46 635 627)	(47 314 903)
Impairment loss / Reversal of impairments	32	(44 337 545)	(26 738 503)
Finance costs	33	(5 685 550)	(4 192 106)
Repairs and maintenance	34	(1 260 400)	(1 768 864)
Bulk purchases	35	(17 544 271)	(15 742 725)
Contracted services	36	(5 877 829)	(4 390 408)
General Expenses	37	(11 501 692)	(9 495 469)
<b>Total expenditure</b>		<b>(164 404 500)</b>	<b>(143 403 900)</b>
<b>Operating deficit</b>		<b>(66 663 122)</b>	<b>(71 832 549)</b>
Loss on disposal of assets and liabilities		(688 561)	-
Actuarial gains/losses	7	967 218	952 375
		<b>278 657</b>	<b>952 375</b>
<b>Deficit for the year</b>		<b>(66 384 465)</b>	<b>(70 880 174)</b>

\* See Note 43



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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	147 137 491	147 137 491
Adjustments		
Prior year adjustments	579 050 712	579 050 712
<b>Balance at 01 July 2015 as restated*</b>	<b>726 188 203</b>	<b>726 188 203</b>
Changes in net assets		
Surplus for the year	(70 880 174)	(70 880 174)
Total changes	(70 880 174)	(70 880 174)
<b>Restated* Balance at 01 July 2016</b>	<b>655 308 030</b>	<b>655 308 030</b>
Changes in net assets		
Surplus for the year	(66 384 465)	(66 384 465)
Total changes	(66 384 465)	(66 384 465)
<b>Balance at 30 June 2017</b>	<b>588 923 565</b>	<b>588 923 565</b>

Note(s)

\* See Note 43

# Ubuntu Local Municipality

(Registration number NC 071)

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## Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		(4 492 620)	(7 386 569)
Grants		59 931 415	61 754 258
Interest income		4 354 741	3 788 084
		<u>59 793 536</u>	<u>58 155 773</u>
<b>Payments</b>			
Employee costs		(31 194 033)	(32 163 721)
Suppliers		(19 975 633)	(21 034 118)
Finance costs		(5 685 550)	(4 192 106)
		<u>(56 855 216)</u>	<u>(57 389 945)</u>
<b>Net cash flows from operating activities</b>	38	<b><u>2 938 320</u></b>	<b><u>765 828</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(4 611 743)	(139 042)
Proceeds from sale of property, plant and equipment	4	34 207	-
Proceeds from sale of investment property	3	17 292	-
Purchase of other intangible assets	5	(31 040)	-
Proceeds from sale of other intangible assets	5	3 099	-
		<u>(4 588 185)</u>	<u>(139 042)</u>
<b>Net cash flows from investing activities</b>		<b><u>(4 588 185)</u></b>	<b><u>(139 042)</u></b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(267 004)	(246 516)
Finance lease payments		1 855 563	(266 356)
Finance lease receipts		22 416	21 893
		<u>1 610 975</u>	<u>(490 979)</u>
<b>Net cash flows from financing activities</b>		<b><u>1 610 975</u></b>	<b><u>(490 979)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(38 890)</b>	<b>135 807</b>
Cash and cash equivalents at the beginning of the year		2 567 716	2 431 909
<b>Cash and cash equivalents at the end of the year</b>	12	<b><u>2 528 826</u></b>	<b><u>2 567 716</u></b>

\* See Note 43

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	22 399 891	1 110 033	<b>23 509 924</b>	22 676 400	<b>(833 524)</b>	54, x1
Rental of facilities and equipment	413 831	111 570	<b>525 401</b>	252 409	<b>(272 992)</b>	54, x2
Interest received (trading)	3 180 000	(546 292)	<b>2 633 708</b>	4 036 767	<b>1 403 059</b>	54, x3
Agency services	4 503	(4 503)	-	-	-	
Licences and permits	1 129 536	(123 380)	<b>1 006 156</b>	556 393	<b>(449 763)</b>	54, x4
Other income	1 557 983	5 453 929	<b>7 011 912</b>	373 349	<b>(6 638 563)</b>	54, x5
Interest received - investment	215 000	178 260	<b>393 260</b>	317 974	<b>(75 286)</b>	54, x6
<b>Total revenue from exchange transactions</b>	<b>28 900 744</b>	<b>6 179 617</b>	<b>35 080 361</b>	<b>28 213 292</b>	<b>(6 867 069)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	6 810 217	3 266 549	<b>10 076 766</b>	5 342 908	<b>(4 733 858)</b>	54, x7
<b>Transfer revenue</b>						
Government grants & subsidies	30 585 000	(1 185 000)	<b>29 400 000</b>	31 534 975	<b>2 134 975</b>	54, x8
Public contributions and donations	-	-	-	2 142 434	<b>2 142 434</b>	54, x9
Fines, Penalties and Forfeits	60 156 033	(35 386 665)	<b>24 769 368</b>	30 507 769	<b>5 738 401</b>	54, x10
<b>Total revenue from non-exchange transactions</b>	<b>97 551 250</b>	<b>(33 305 116)</b>	<b>64 246 134</b>	<b>69 528 086</b>	<b>5 281 952</b>	
<b>Total revenue</b>	<b>126 451 994</b>	<b>(27 125 499)</b>	<b>99 326 495</b>	<b>97 741 378</b>	<b>(1 585 117)</b>	
<b>Expenditure</b>						
Personnel	(30 629 639)	(8 421 090)	<b>(39 050 729)</b>	(29 097 607)	<b>9 953 122</b>	54, x11
Remuneration of councillors	(2 861 729)	150 192	<b>(2 711 537)</b>	(2 463 979)	<b>247 558</b>	54, x12
Depreciation and amortisation	(6 221 550)	(664 959)	<b>(6 886 509)</b>	(46 635 627)	<b>(39 749 118)</b>	54, x13
Impairment loss/ Reversal of impairments	(51 844 258)	51 844 258	-	(44 337 545)	<b>(44 337 545)</b>	54, x14
Finance costs	(1 481 940)	1 075 540	<b>(406 400)</b>	(5 685 550)	<b>(5 279 150)</b>	54, x15
Repairs and maintenance	-	-	-	(1 260 400)	<b>(1 260 400)</b>	54, x16
Bulk purchases	(14 869 478)	2 722 719	<b>(12 146 759)</b>	(17 544 271)	<b>(5 397 512)</b>	54, x17
Contracted Services	(6 360 000)	6 158 000	<b>(202 000)</b>	(5 877 829)	<b>(5 675 829)</b>	54, x18
General Expenses	-	(37 985 212)	<b>(37 985 212)</b>	(11 501 692)	<b>26 483 520</b>	54, x19
<b>Total expenditure</b>	<b>(114 268 594)</b>	<b>14 879 448</b>	<b>(99 389 146)</b>	<b>(164 404 500)</b>	<b>(65 015 354)</b>	
<b>Operating deficit</b>	<b>12 183 400</b>	<b>(12 246 051)</b>	<b>(62 651)</b>	<b>(66 663 122)</b>	<b>(66 600 471)</b>	
Loss on disposal of assets and liabilities	-	-	-	(688 561)	<b>(688 561)</b>	54, x20
Actuarial gains/losses	-	-	-	967 218	<b>967 218</b>	54, x21
	-	-	-	<b>278 657</b>	<b>278 657</b>	
<b>Deficit before taxation</b>	<b>12 183 400</b>	<b>(12 246 051)</b>	<b>(62 651)</b>	<b>(66 384 465)</b>	<b>(66 321 814)</b>	

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Annual Financial Statements for the year ended 30 June 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>12 183 400</b>	<b>(12 246 051)</b>	<b>(62 651)</b>	<b>(66 384 465)</b>	<b>(66 321 814)</b>	

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	10 150	-	10 150	10 906	756	
Other receivables from exchange transactions	-	-	-	260 907	260 907	
Receivables from non-exchange transactions	-	-	-	8 259 891	8 259 891	
Consumer debtors	19 563 954	-	19 563 954	4 339 139	(15 224 815)	
Cash and cash equivalents	662 823	2 252 501	2 915 324	2 528 826	(386 498)	
	<b>20 236 927</b>	<b>2 252 501</b>	<b>22 489 428</b>	<b>15 399 669</b>	<b>(7 089 759)</b>	
<b>Non-Current Assets</b>						
Biological assets that form part of an agricultural activity	207 630	-	207 630	-	(207 630)	
Investment property	23 085 338	-	23 085 338	29 322 112	6 236 774	
Property, plant and equipment	174 185 826	-	174 185 826	624 867 326	450 681 500	
Intangible assets	-	-	-	2 278 070	2 278 070	
Other receivables from exchange transactions	1 879 458	-	1 879 458	-	(1 879 458)	
Other assets	67 189	-	67 189	-	(67 189)	
	<b>199 425 441</b>	<b>-</b>	<b>199 425 441</b>	<b>656 467 508</b>	<b>457 042 067</b>	
<b>Total Assets</b>	<b>219 662 368</b>	<b>2 252 501</b>	<b>221 914 869</b>	<b>671 867 177</b>	<b>449 952 308</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	382 959	-	382 959	289 099	(93 860)	
Finance lease obligation	-	-	-	331 275	331 275	
Payables from exchange transactions	26 274 219	-	26 274 219	60 086 367	33 812 148	
VAT payable	-	-	-	611 371	611 371	
Consumer deposits	259 155	-	259 155	193 699	(65 456)	
Employee benefit obligation	-	-	-	582 000	582 000	
Unspent conditional grants and receipts	-	-	-	9 039 594	9 039 594	
Provisions	6 038 200	-	6 038 200	2 964 249	(3 073 951)	
	<b>32 954 533</b>	<b>-</b>	<b>32 954 533</b>	<b>74 097 654</b>	<b>41 143 121</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	306 315	-	306 315	-	(306 315)	
Finance lease obligation	-	-	-	1 618 515	1 618 515	
Employee benefit obligation	-	-	-	6 056 000	6 056 000	
Provisions	9 243 380	-	9 243 380	1 171 442	(8 071 938)	
	<b>9 549 695</b>	<b>-</b>	<b>9 549 695</b>	<b>8 845 957</b>	<b>(703 738)</b>	
<b>Total Liabilities</b>	<b>42 504 228</b>	<b>-</b>	<b>42 504 228</b>	<b>82 943 611</b>	<b>40 439 383</b>	
<b>Net Assets</b>	<b>177 158 140</b>	<b>2 252 501</b>	<b>179 410 641</b>	<b>588 923 566</b>	<b>409 512 925</b>	

# Ubuntu Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	177 158 140	2 252 501	<b>179 410 641</b>	588 923 566	<b>409 512 925</b>	

# Ubuntu Local Municipality

(Registration number NC 071)

Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Trade receivables / Held to maturity investments and/or loans and receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Fair value estimation

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

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

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the 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 the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

#### Allowance for doubtful debts

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

#### Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) 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.



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### 1.4 Investment property (continued)

Property with a currently undetermined use is also classified as investment property.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

#### Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

### 1.5 Property, plant and equipment

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

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### 1.5 Property, plant and equipment (continued)

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

#### **Subsequent measurement:**

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings and community assets which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity, by registered valuers for every class separately, such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus included in the net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

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### 1.5 Property, plant and equipment (continued)

The revaluation surplus included in the net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

#### Depreciation and impairment:

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

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

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Item	Depreciation method	Average useful life
Community facilities	Straight line	5 - 100 years
Sport and recreation facilities	Straight line	5 - 100 years
Electricity Network	Straight line	10 - 60 years
Water supply network	Straight line	10 - 100 years
Roads and stormwater network	Straight line	5 - 100 years
Sanitation network	Straight line	5 - 100 years
Community facilities	Straight line	5 - 100 years
Housing	Straight line	7 - 100 years
Operational buildings	Straight line	5 - 100 years
Computer equipments	Straight line	5 years
Electrical equipment	Straight line	5 years
Furniture and fittings	Straight line	7 years
Leased assets - office equipment	Straight line	5 years
Mechanical equipment	Straight line	5 years
Office machines	Straight line	5 years
Vehicles	Straight line	6 - 10 years

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

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

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

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

#### Derecognition:

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

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### 1.5 Property, plant and equipment (continued)

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

Property plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

#### Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 40. The commitments as disclosed are the contractual amount less any payment made in respect of the contract.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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### 1.7 Intangible assets (continued)

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

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

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

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

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

Internally generated goodwill is not recognised as an intangible asset.

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

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Item	Depreciation method	Average useful life
Servitudes	Straight line	Infinite
Computer software	Straight line	4 years

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Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.8 Financial instruments

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

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

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## Accounting Policies

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### 1.8 Financial instruments (continued)

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

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

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or

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### 1.8 Financial instruments (continued)

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments 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.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### Classification

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

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

### Initial recognition

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

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### 1.8 Financial instruments (continued)

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

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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

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

- Financial instruments at amortised cost.
- Financial instruments at cost.

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

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 are not reversed.



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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

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

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

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### 1.8 Financial instruments (continued)

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

#### Presentation

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

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

#### Cash and cash equivalents

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

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

### 1.9 Leases

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

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

#### Finance leases - lessor

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

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

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### 1.9 Leases (continued)

#### Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

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

#### Operating leases - lessor

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

#### Operating leases - lessee

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

### 1.10 Inventories

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

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

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

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

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

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

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

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

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

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### 1.10 Inventories (continued)

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

### 1.11 Impairment of cash-generating assets

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

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.12 Employee benefits

#### Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

#### Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-end for each employee.

### 1.13 Provisions and contingencies

Provisions are recognised when:

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

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### 1.13 Provisions and contingencies (continued)

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

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

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### 1.13 Provisions and contingencies (continued)

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.15 Revenue from exchange transactions

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

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

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

#### Measurement

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

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### 1.15 Revenue from exchange transactions (continued)

#### Sale of goods

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

- the municipality has transferred to the purchaser 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; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed .

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

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### 1.15 Revenue from exchange transactions (continued)

#### Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

### 1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

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

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

#### Recognition

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

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



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

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

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

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### 1.17 Investment income

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

### 1.18 Borrowing costs

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

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

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### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised. This consists currently mostly of interest and penalties on late payments made.

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

### 1.21 Irregular expenditure

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

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

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

### 1.22 Use of estimates

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

### 1.23 Conditional grants and receipts

Revenue received from 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. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

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### 1.24 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statement. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

### 1.25 Budget information

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

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

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

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

The budget for the economic entity includes all the entities approved budgets under its control.

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

### 1.26 Related parties

The municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

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

The following are regarded as related parties of the municipality

- (a) A person or a close member of that person's family is related to the municipality if that person
  - has control or joint control over the municipality.
  - has significant influence over the municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the municipality.
  - is a member of the management of the municipality or its controlling entity.
- (b) An entity is related to the municipality if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
  - both entities are joint ventures of the same third party.
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - the entity is a post-employment benefit plan for the benefit of employees of either the municipality or an entity related to the municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
  - the entity is controlled or jointly controlled by a person identified in (a).
  - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

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

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

# Ubuntu Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.26 Related parties (continued)

Management (formerly known as “Key Management”) includes all persons having the authority and responsibility for planning, directing and controlling the activities of the municipality, including:

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

Management personnel include:

- (a) All directors or members of the governing body of the municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

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

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

### 1.27 Events after reporting date

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

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

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

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

### 1.28 Value Added Tax (VAT)

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

The Municipality accounts for VAT on a bi-monthly basis.

### 1.29 Accumulated surplus

The municipality’s surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

# Ubuntu Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

## Accounting Policies

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### 1.29 Accumulated surplus (continued)

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

# Ubuntu Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

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2016

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 16 (as revised 2015) Investment property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has adopted the standard for the first time in the 2017 financial statements.

The impact of the standard is not material as the municipality has no investment properties.

GRAP 17 (as amended 2015) Property, Plant and equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality has adopted the standard for the first time in the 2017 financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

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

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

# Ubuntu Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### **GRAP 34: Separate Financial Statements**

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 35: Consolidated Financial Statements**

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

To meet this objective, the Standard:

- requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements;
- defines the principle of control, and establishes control as the basis for consolidation;
- sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity;
- sets out the accounting requirements for the preparation of consolidated financial statements; and
- defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity.

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair value requirement, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 38: Disclosure of Interests in Other Entities**

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

# Ubuntu Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### GRAP 110: Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality expects to adopt the interpretation for the first time in the 2019 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

#### GRAP 12 (as amended 2016): Inventories

Amendments to the Standard of GRAP on Inventories resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 12 on Inventories (IPSAS 12) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12)
- IPSASB amendments: To align terminology in GRAP 12 with that in IPSAS 12. The term "ammunition" in IPSAS 12 was replaced with the term "military inventories" and provides a description of what it comprises in accordance with Government Finance Statistics terminology

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.



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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### **GRAP 17 (as amended 2016): Property, Plant and Equipment**

Amendments to the Standard of GRAP on Property, Plant and Equipment resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of property, plant, and equipment is revalued; To clarify acceptable methods of depreciating assets; To align terminology in GRAP 17 with that in IPSAS 17. The term "specialist military equipment" in IPSAS 17 was replaced with the term "weapon systems" and provides a description of what it comprises in accordance with Government Finance Statistics terminology; and To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 21 (as amended 2016): Impairment of non-cash-generating assets**

Amendments to the Standard of GRAP on Impairment of Non-cash Generating Assets resulted from changes made to IPSAS 21 on Impairment of Non-Cash-Generating Assets (IPSAS 21) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 26 (as amended 2016): Impairment of cash-generating assets**

Amendments Changes to the Standard of GRAP on Impairment of Cash Generating Assets resulted from changes made to IPSAS 26 on Impairment of Cash-Generating Assets (IPSAS 26) as a result of the IPSASB's Impairment of Revalued Assets issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To update the Basis of conclusions and Comparison with IPSASs to reflect the IPSASB's recent decision on the impairment of revalued assets.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### **GRAP 31 (as amended 2016): Intangible Assets**

Amendments to the Standard of GRAP on Intangible Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 31 on Intangible Assets (IPSAS 31) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015.

The most significant changes to the Standard are:

- General improvements: To add the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when an item of intangible assets is revalued; and To clarify acceptable methods of depreciating assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 106 (as amended 2016): Transfers of functions between entities not under common control**

Amendments to the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control resulted from changes made to IFRS 3 on Business Combinations (IFRS 3) as a result of the IASB's amendments on Annual Improvements to IFRSs 2010 – 2012 Cycle issued in December 2013.

The most significant changes to the Standard are:

- IASB amendments: To require contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting period.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 110 (as amended 2016): Living and Non-living Resources**

Amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality expects to adopt the amendment for the first time in the 2018 annual financial statements.

# Ubuntu Local Municipality

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

# Ubuntu Local Municipality

(Registration number NC 071)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### 2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2017 or later periods but are not relevant to its operations:

#### **GRAP 36: Investments in Associates and Joint Ventures**

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 37: Joint Arrangements**

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the Standard defines joint control and requires an entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement.

It furthermore covers Definitions, Joint arrangements, Financial statements and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

# Ubuntu Local Municipality

(Registration number NC 071)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### **GRAP 16 (as amended 2016): Investment Property**

Amendments to the Standard of GRAP on Investment Property resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IAS 40 on Investment Property (IAS 40) as a result of the IASB's amendments on Annual Improvements to IFRSs 2011 – 2013 Cycle issued in December 2013.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
- IASB amendments: To clarify the interrelationship between the Standards of GRAP on Transfer of Functions Between Entities Not Under Common Control and Investment Property when classifying investment property or owner-occupied property.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 18 (as amended 2016): Segment Reporting**

Amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the amendment is for years beginning on or after 01 April 2018

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### **GRAP 27 (as amended 2016): Agriculture**

Amendments to the Standard of GRAP on Agriculture resulted from changes made to IPSAS 27 on Agriculture (IPSAS 27) as a result of the IPSASB's Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- IPSASB amendments: To define a bearer plant and include bearer plants within the scope of GRAP 17, while the produce growing on bearer plants will remain within the scope of GRAP 27. In addition to the changes made by the IPSASB, a consequential amendment has been made to GRAP 103 on Heritage Assets. The IPSASB currently does not have a pronouncement on this topic.

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

# Ubuntu Local Municipality

(Registration number NC 071)

Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### GRAP 103 (as amended 2016): Heritage Assets

Amendments to the Standard of GRAP on Heritage Assets resulted from inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from editorial changes to the original text.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23 (paragraph .12); and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets

The effective date of the amendment is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

#### Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### 3. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	29 322 112	-	29 322 112	29 339 404	-	29 339 404

#### Reconciliation of investment property - 2017

	Opening balance	Disposals	Total
Investment property	29 339 404	(17 292)	29 322 112

#### Reconciliation of investment property - 2016

	Opening balance	Total
Investment property	29 339 404	29 339 404

#### Pledged as security

There are no investment properties pledged as security

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

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

#### Deemed cost

Deemed cost was determined using fair value.

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### 4. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 458 320	-	13 458 320	13 458 320	-	13 458 320
Buildings	56 470 523	(40 965 186)	15 505 337	56 470 523	(38 642 306)	17 828 217
Infrastructure assets	839 291 844	(393 534 564)	445 757 280	837 458 772	(359 525 024)	477 933 748
Community assets	250 368 219	(104 619 805)	145 748 414	250 652 269	(95 063 936)	155 588 333
Other property, plant and equipment	7 680 234	(5 171 863)	2 508 371	9 065 118	(5 736 442)	3 328 676
Finance leased assets	2 410 936	(521 332)	1 889 604	1 118 906	(782 542)	336 364
<b>Total</b>	<b>1 169 680 076</b>	<b>(544 812 750)</b>	<b>624 867 326</b>	<b>1 168 223 908</b>	<b>(499 750 250)</b>	<b>668 473 658</b>

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

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Land	13 458 320	-	-	-	-	-	13 458 320
Buildings	17 828 217	-	-	-	(1 942 242)	(380 638)	15 505 337
Infrastructure assets	477 933 748	1 909 990	(31 935)	-	(34 054 523)	-	445 757 280
Community assets	155 588 333	-	-	(284 051)	(9 555 868)	-	145 748 414
Other property, plant and equipment	3 328 676	711 208	(486 503)	-	(838 710)	(206 300)	2 508 371
Finance leased assets	336 364	1 990 545	(204 330)	-	(232 975)	-	1 889 604
	<b>668 473 658</b>	<b>4 611 743</b>	<b>(722 768)</b>	<b>(284 051)</b>	<b>(46 624 318)</b>	<b>(586 938)</b>	<b>624 867 326</b>

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

	Opening balance	Additions	Depreciation	Total
Land	13 458 320	-	-	13 458 320
Buildings	19 770 458	-	(1 942 241)	17 828 217
Infrastructure assets	512 053 854	-	(34 120 106)	477 933 748
Community assets	165 372 308	-	(9 783 975)	155 588 333
Other property, plant and equipment	4 415 086	139 042	(1 225 452)	3 328 676
Finance leased assets	560 401	-	(224 037)	336 364
	<b>715 630 427</b>	<b>139 042</b>	<b>(47 295 811)</b>	<b>668 473 658</b>

### Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

### Assets subject to finance lease (Net carrying amount)

Office equipment	1 889 604	336 364
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### 4. Property, plant and equipment (continued)

#### Property, plant and equipment in the process of being constructed or developed

#### Cumulative expenditure recognised in the carrying value of property, plant and equipment

Infrastructure	4 877 741	3 022 569
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#### Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	3 022 569	3 022 569
Additions/capital expenditure	1 909 990	1 909 990
Transferred to completed items	(54 818)	(54 818)
	<b>4 877 741</b>	<b>4 877 741</b>

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

	Included within Infrastructure	Total
Opening balance	3 022 569	3 022 569

#### Expenditure incurred to repair and maintain property, plant and equipment

#### Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Office equipment	143 072	175 475
Motor vehicles	312 279	525 966
Infrastructure	805 049	1 067 423
	<b>1 260 400</b>	<b>1 768 864</b>

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

#### Deemed cost

Deemed cost was determined using the depreciated replacement cost.

### 5. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	2 242 145	-	2 242 145	2 242 145	-	2 242 145
Computer software and licenses	82 101	(46 176)	35 925	82 599	(63 305)	19 294
<b>Total</b>	<b>2 324 246</b>	<b>(46 176)</b>	<b>2 278 070</b>	<b>2 324 744</b>	<b>(63 305)</b>	<b>2 261 439</b>

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### 5. Intangible assets (continued)

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Servitudes	2 242 145	-	-	-	2 242 145
Computer software and licenses	19 294	31 040	(3 099)	(11 310)	35 925
	<b>2 261 439</b>	<b>31 040</b>	<b>(3 099)</b>	<b>(11 310)</b>	<b>2 278 070</b>

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Servitudes	2 242 145	-	2 242 145
Computer software and licenses	38 386	(19 092)	19 294
	<b>2 280 531</b>	<b>(19 092)</b>	<b>2 261 439</b>

#### Pledged as security

There are no intangible assets pledged as security.

#### Deemed cost

Deemed cost was determined using the depreciated replacement cost.

### 6. Operating lease asset (accrual)

#### The municipality as Lessor

Balance at 01 July	22 415	44 308
Movement during the year	(22 415)	(21 893)
	<b>-</b>	<b>22 415</b>

At the Statement of financial position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:

Up to 1 year	-	22 415
1 to 5 years	-	-
	<b>-</b>	<b>22 415</b>

This relates to a 9 years 11 months lease agreement with MTN as Lessee for land on which a cell phone tower was erected. This lease commenced in 1 May 2007 and escalates at 10% per year. The lease expired on 31 March 2017.

This lease income was determined from contracts that have a specific conditional income and does not include lease income which has a undetermined conditional income.

The municipality does not engage in any sub-lease arrangements.

The Municipality did not receive any contingent rent during the year.

### 7. Employee benefit obligations

#### Defined benefit plan

The plan is a post employment medical benefit plan.

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### 7. Employee benefit obligations (continued)

The amounts recognised in the statement of financial position are as follows:

<b>Carrying value</b>		
Present value of post retirement benefits	(5 295 000)	(6 092 473)
Present value of long service awards	(1 343 000)	(1 145 192)
	<b>(6 638 000)</b>	<b>(7 237 665)</b>
Non-current liabilities	(6 056 000)	(7 126 366)
Current liabilities	(582 000)	(111 299)
	<b>(6 638 000)</b>	<b>(7 237 665)</b>

### Post retirement benefits

#### Post Retirement Medical Aid Benefit

Balance 1 July	(6 092 473)	(6 592 839)
Contribution for the year	(307 775)	(347 862)
Interest cost	(518 152)	(549 053)
Expenditure for the year	646 744	459 408
Actuarial Gain	976 656	937 873
Total post retirement benefit - 30 June	(5 295 000)	(6 092 473)
Less: Transfer to current portion	449 000	352 803
	<b>(4 846 000)</b>	<b>(5 739 670)</b>

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

#### Members

In-service (employee) members	13	13
In-service (employee) non-members	-	120
Continuation members (e.g. Retirees, widows, orphans)	9	12
	<b>22</b>	<b>145</b>

The liability in respect of past service has been estimated to be as follows:

#### Liability

In-service (employee) members	(1 177 000)	(824 818)
In-service (employee) non-members	-	(1 837 734)
Continuation members (e.g. Retirees, widows, orphans)	(4 118 000)	(3 429 921)
	<b>(5 295 000)</b>	<b>(6 092 473)</b>

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Fedhealth
- Samwumed

Key actuarial assumptions used:

Discount rate Yield Curve 8,84 %

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>7. Employee benefit obligations (continued)</b>		
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	6,98 %
Health Care Cost Inflation Rate	CPI+1%	7,98 %
Net Effective Discount Rate	Yield curve based	0,79 %

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We used the nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

### Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

### Normal retirement age

It has been assumed that in-service members will retire at age 63, which then implicitly allows for expected rates of early and ill-health retirement.

### Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

### Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

### Sensitivity Analysis on the Accrued Liability

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### 7. Employee benefit obligations (continued)

Assumption	Change	Change
Valuation Assumptions		5 295 000
Health care inflation	+1%	5 903 000
Health care inflation	-1%	4 788 000
Mortality rate	+20%	4 827 000
Mortality rate	-20%	5 898 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

Assumption	Change	Current service	Interest Cost
Valuation Assumption		103 000	523 000
Health care inflation	+1%	131 000	586 000
Health care inflation	-1%	82 000	470 000
Mortality rate	+20%	95 000	475 000
Mortality rate	-20%	114 000	585 000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

### Long service award

#### Long service award

Balance 1 July	(1 145 192)	(1 110 196)
Contribution for the year	(132 706)	(122 641)
Interest cost	(92 264)	(83 883)
Expenditure for the year	36 600	116 068
Actuarial loss	(9 438)	55 460
Subtotal	(1 343 000)	(1 145 192)
Less: Transfer to current portion	133 000	113 671
<b>Balance 30 June</b>	<b>(1 210 000)</b>	<b>(1 031 521)</b>

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

#### Total eligible

As at year end, the following number of employees were eligible for long service bonuses.	129	133
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Key actuarial assumptions used:

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>7. Employee benefit obligations (continued)</b>		
Discount rate	Yield Curve	8,05%
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	6,12%
General Salary Inflation	CPI+1%	7,12%
Net Effective Discount Rate applied to salary-related Long Service Bonuses	Yield Curve Based	1,25%

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We use the nominal and real zero curves as at 30 June 2017 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

### Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2017 of 7.36%. The next salary increase was assumed to take place on 01 July 2018.

### Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

### Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

### Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

### Sensitivity Analysis on the unfunded accrued liability:

Assumption	Change	Liability
Valuation assumptions		1 343 000
General salary inflation	+1%	1 437 000
General salary inflation	-1%	1 259 000
Withdrawal rate	+20%	1 259 000
Withdrawal rate	-20%	1 439 000
		<b>6 737 000</b>

### Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

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### 7. Employee benefit obligations (continued)

Assumption	Change	Current service cost	Interest cost	Total
Valuation Assumption		154 000	141 000	295 000
Health care inflation	+1%	167 000	151 000	318 000
Health care inflation	-1%	143 000	132 000	275 000
Withdrawal rate	+20%	142 000	132 000	274 000
Withdrawal rate	-20%	168 000	152 000	320 000
		<b>774 000</b>	<b>708 000</b>	<b>1 482 000</b>

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2017

### 8. Inventories

Water	10 906	10 906
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#### Inventory pledged as security

There are no inventories pledged as security.

### 9. Other receivables from exchange transactions

Sundry receivables	164 338	-
Medical aid contributions recoverable	56 474	15 057
Payroll receivables	40 095	21 717
Receipts not yet banked	-	66 096
	<b>260 907</b>	<b>102 870</b>

#### Other receivables from exchange transactions pledged as security

None of the other receivables from exchange transactions were pledged as security for any financial liability at year-end.

#### Credit quality of other receivables from exchange transactions

The credit quality of other receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Other receivables from exchange transactions past due but not impaired

Other receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 260 907 (2016: R 102 870) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	260 907	102 870
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### 10. Receivables from non-exchange transactions

Traffic fines	4 728 095	1 348 402
Property rates	3 531 796	5 767 134
	<b>8 259 891</b>	<b>7 115 536</b>

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### 10. Receivables from non-exchange transactions (continued)

#### Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.

#### Property rates: Ageing

Current (0 - 30 days)	815 612	418 345
31 - 60 days	433 716	361 850
61 - 90 days	390 837	321 138
91 days +	16 238 246	15 623 615
Less: Impairment	(14 346 615)	(10 957 814)
	<b>3 531 796</b>	<b>5 767 134</b>

#### Property rates by classification: consumers

Current (0 - 30 days)	214 211	187 532
31 - 60 days	196 489	144 857
61 - 90 days	173 681	128 433
91 days +	7 957 972	9 278 230
Less: Impairment	(8 194 383)	(5 780 427)
	<b>347 970</b>	<b>3 958 625</b>

#### Property rates by classification: Industrial / commercial

Current (0 - 30 days)	337 435	200 421
31 - 60 days	197 958	189 453
61 - 90 days	182 403	165 226
91 days +	5 584 370	5 055 038
Less: Impairment	(6 152 232)	(5 177 387)
	<b>149 934</b>	<b>432 751</b>

#### Property rates by classification: National and Provincial

Current (0 - 30 days)	263 966	30 392
31 - 60 days	39 270	27 540
61 - 90 days	34 753	27 478
91 days +	2 695 903	1 290 348
	<b>3 033 892</b>	<b>1 375 758</b>

#### Total

Current (0 - 30 days)	815 612	418 345
31 - 60 days	433 716	361 850
61 - 90 days	390 837	321 138
91 days +	16 238 246	15 623 615
Less: Impairment	(14 346 615)	(10 957 814)
	<b>3 531 796</b>	<b>5 767 134</b>

#### Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:



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<b>10. Receivables from non-exchange transactions (continued)</b>		
<b>Receivables from non-exchange transactions past due but not impaired</b>		
Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 8 259 891 (2016: R 7 115 536) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 - 3 months past due (Property rates)	3 531 796	5 767 134
1 - 3 months past due (Traffic fines)	4 728 095	1 348 402
<b>Receivables from non-exchange transactions impaired</b>		
As of 30 June 2017, receivables from non-exchange transactions of R R 137 315 516 (2016: R 111 234 408) were impaired and provided for.		
The ageing of these loans is as follows:		
3 to 6 months (Property rates)	14 346 615	10 957 814
3 to 6 months (Traffic fines)	122 968 901	100 276 594
<b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>		
Opening balance	111 234 408	86 109 367
Provision for impairment	26 081 108	27 730 443
Unused amounts reversed	-	(2 605 402)
	<b>137 315 516</b>	<b>111 234 408</b>
<b>11. Receivable from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	5 652 555	4 652 662
Water	26 716 142	22 941 879
Sewerage	12 891 894	9 595 830
Refuse	14 495 477	10 837 321
Housing and other sundry	1 255 140	1 130 816
	<b>61 011 208</b>	<b>49 158 508</b>
<b>Less: Allowance for impairment</b>		
Electricity	(3 499 492)	(2 081 852)
Water	(26 320 932)	(18 487 769)
Sewerage	(11 895 758)	(7 804 711)
Refuse	(13 940 882)	(9 821 941)
Housing and other sundry	(1 015 005)	(806 296)
	<b>(56 672 069)</b>	<b>(39 002 569)</b>
<b>Net balance</b>		
Electricity	2 153 063	2 570 810
Water	395 210	4 454 110
Sewerage	996 136	1 791 119
Refuse	554 595	1 015 380
Housing and other sundry	240 135	324 520
	<b>4 339 139</b>	<b>10 155 939</b>

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### 11. Receivable from exchange transactions (continued)

#### Electricity

Current (0 -30 days)	619 755	719 914
31 - 60 days	388 331	344 004
61 - 90 days	270 030	312 001
91 - 120 days	411 108	513 000
> 120 days	3 963 331	2 763 743
Less: Impairment	(3 499 492)	(2 081 852)
	<b>2 153 063</b>	<b>2 570 810</b>

#### Water

Current (0 -30 days)	15 683 908	2 889 183
31 - 60 days	575 228	492 736
61 - 90 days	1 507 214	522 865
91 - 120 days	1 726 467	426 388
> 120 days	7 223 325	18 610 707
Less: impairment	(26 320 932)	(18 487 769)
	<b>395 210</b>	<b>4 454 110</b>

#### Sewerage

Current (0 -30 days)	370 309	299 926
31 - 60 days	334 992	271 860
61 - 90 days	316 672	953 855
91 - 120 days	292 431	218 263
> 120 days	11 577 490	7 851 926
Less: impairment	(11 895 758)	(7 804 711)
	<b>996 136</b>	<b>1 791 119</b>

#### Refuse

Current (0 -30 days)	399 867	338 645
31 - 60 days	375 339	295 149
61 - 90 days	357 330	283 305
91 - 120 days	345 849	258 351
> 120 days	13 017 092	9 661 871
Less: impairment	(13 940 882)	(9 821 941)
	<b>554 595</b>	<b>1 015 380</b>

#### Housing rental and other sundry

Current (0 -30 days)	20 988	19 708
31 - 60 days	19 822	15 173
61 - 90 days	18 674	13 955
91 - 120 days	17 385	14 170
> 120 days	1 178 271	1 067 810
Less: Impairment	(1 015 005)	(806 296)
	<b>240 135</b>	<b>324 520</b>

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>11. Receivable from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	13 672 040	2 599 264
31 - 60 days	1 051 651	923 961
61 - 90 days	1 065 581	961 127
91 - 120 days	2 215 693	911 304
> 120 days	32 172 134	34 172 021
	<u>50 177 099</u>	<u>39 567 677</u>
Less: Allowance for impairment	(49 468 044)	(34 968 425)
	<b>709 055</b>	<b>4 599 252</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	2 369 522	1 253 565
31 - 60 days	396 294	229 810
61 - 90 days	1 256 118	863 641
91 - 120 days	274 600	149 236
> 120 days	2 954 114	3 884 908
	<u>7 250 648</u>	<u>6 381 160</u>
Less: Allowance for impairment	(7 204 024)	(4 034 144)
	<b>46 624</b>	<b>2 347 016</b>
<b>National and provincial government</b>		
Current (0 -30 days)	1 053 264	414 547
31 - 60 days	245 766	265 152
61 - 90 days	148 221	261 214
91 - 120 days	302 947	369 633
> 120 days	1 833 261	1 899 125
	<u>3 583 459</u>	<u>3 209 671</u>
<b>Total</b>		
Current (0 -30 days)	17 094 826	4 267 376
31 - 60 days	1 693 711	1 418 923
61 - 90 days	2 469 920	2 085 981
91 - 120 days	2 793 240	1 430 173
121 - 365 days	36 959 511	39 956 055
	<u>61 011 208</u>	<u>49 158 508</u>
Less: Allowance for impairment	(56 672 069)	(39 002 569)
	<b>4 339 139</b>	<b>10 155 939</b>
<b>Less: Allowance for impairment</b>		
> 365 days	(56 672 069)	(39 002 569)
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(39 002 569)	(37 389 107)
Contributions to allowance	(17 669 500)	(1 613 462)
	<u>(56 672 069)</u>	<u>(39 002 569)</u>
<b>Consumer debtors pledged as security</b>		
None of the receivables from exchange transactions were pledged as security for any financial liability at year-end..		

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## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

### 11. Receivable from exchange transactions (continued)

#### Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

#### Consumer debtors impaired

As of 30 June 2017, receivables from exchange transaction R 56 672 069 (2016: R 39 002 569) were impaired and provided for.

The ageing of these loans is as follows:

3 to 6 months	56 672 069	39 002 569
---------------	------------	------------

### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	449	50
Bank balances	1 061 780	-
Short-term deposits	1 466 597	3 163 082
Bank overdraft	-	(595 416)
	<b>2 528 826</b>	<b>2 567 716</b>
Current assets	2 528 826	3 163 132
Current liabilities	-	(595 416)
	<b>2 528 826</b>	<b>2 567 716</b>

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings:

#### Credit rating

F3	1 698 359	2 324 667
F1+	830 019	242 998
	<b>2 528 378</b>	<b>2 567 665</b>

#### Cash and cash equivalents pledged as collateral

No cash and cash equivalents pledged as security for any financial liability at year-end

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## Notes to the Annual Financial Statements

Figures in Rand

2017

2016

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

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
First National Bank - Current Account	231 761	(838 413)	835 463	231 761	(838 413)	(1 983 222)
Standard Bank - Current Account	406 457	125 293	458 169	406 457	125 293	466 366
Standard Bank - Current Account	423 562	117 705	888 594	423 562	117 705	888 594
First National Bank - Money Market Account (MSIG)	6 013	35 806	66 757	6 013	35 806	66 757
First National Bank - Call Account (Own funds)	2 905	1 153	6 943	2 905	1 153	6 943
First National Bank - Call Account (Library project)	705	9 705	117 185	705	9 705	117 185
First National Bank - Call Account (FMG)	9 218	1 926	13 837	9 218	1 925	13 837
First National Bank - Call Account (IOT)	11 672	1 128	1 018	11 672	1 128	1 018
First National Bank - Fixed Deposit Account	-	1 870 327	1 702 118	-	1 870 327	1 702 118
First National Bank - Fixed Deposit Account (Church street subsidy)	114 267	106 295	94 395	114 267	106 295	94 395
First National Bank - Call Account (MIG)	1 318 824	1 133 778	397 524	1 318 823	1 133 777	397 524
First National Bank - Call Account (DME)	1 787	1 769	213 736	1 787	1 769	213 736
First National Bank - Call Account (Play ground)	1 207	1 195	145 173	1 207	1 195	145 173
<b>Total</b>	<b>2 528 378</b>	<b>2 567 667</b>	<b>4 940 912</b>	<b>2 528 377</b>	<b>2 567 665</b>	<b>2 130 424</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>13. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	(595 080)	(96 000)
- in second to fifth year inclusive	(2 077 227)	-
	(2 672 307)	(96 000)
less: future finance charges	722 517	1 773
<b>Present value of minimum lease payments</b>	<b>(1 949 790)</b>	<b>(94 227)</b>
<b>Present value of minimum lease payments due</b>		
- within one year	(331 275)	(94 227)
- in second to fifth year inclusive	(1 618 515)	-
	<b>(1 949 790)</b>	<b>(94 227)</b>
Non-current liabilities	(1 618 515)	-
Current liabilities	(331 275)	(94 227)
	<b>(1 949 790)</b>	<b>(94 227)</b>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 15% (2016: 9%).

Interest rates are fixed at the contract date. All leases escalate at 0% p.a and no arrangements have been entered into for contingent rent.

### 14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2017	2016
Municipal Infrastructure Grant	5 967 412	7 677 487
Library Grant	1 929 450	1 057 334
Municipal Systems Improvement Grant	3 768	10 671
Project - 36 Erfs Loxton	305 093	305 093
Intergrated National Electrification Programme Grant	1 248	1 248
Project - Cemetry	88 739	88 739
COGSTHA Incentive Grant	460 835	460 835
Finance Management Grant	66 655	188 767
Project - Housing	115 555	115 555
Project - EIA Solid Waste Victoria West	99 012	99 012
Project - River Richmond	1 827	1 827
	<b>(9 039 594)</b>	<b>(10 006 568)</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

### 15. Other financial liabilities

<b>At amortised cost</b>		
Development Bank of South Africa	289 099	556 103
Terms and conditions		

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## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

### 15. Other financial liabilities (continued)

Annuity loans at amortised cost is calculated at 8% interest rate, with a maturity date of 30 June 2018. The loan is unsecured.

#### Non-current liabilities

At amortised cost - 252 462

#### Current liabilities

At amortised cost 289 099 303 641

### 16. Provisions

#### Reconciliation of provisions - 2017

	Opening Balance	Reversed during the year	Unwinding of discounted interest	Total
Environmental rehabilitation	4 167 328	(284 051)	252 414	4 135 691

#### Reconciliation of provisions - 2016

	Opening Balance	Unwinding of discounted interest	Total
Environmental rehabilitation	3 930 005	237 323	4 167 328
Non-current liabilities		1 171 442	1 188 097
Current liabilities		2 964 249	2 979 231
		<b>4 135 691</b>	<b>4 167 328</b>

#### Provision for environmental rehabilitation

In terms of the licencing of the landfill refuse sites, the municipality will incur licencing and rehabilitation costs. A valuation was performed by independent experts and the relevant report is available for inspection at the municipality's main offices.

### 17. Payables from exchange transactions

Trade payables	44 475 325	28 824 545
Payments received in advance (debtors with credit balances)	3 268 227	3 832 172
Uncleared deposits	4 637 878	2 529 376
Accrued leave pay	2 230 529	1 709 469
Accrued bonus	507 530	540 351
Deposits received	10 030	6 747
Payroll creditors	4 651 855	2 086 662
Deferred revenue	100 057	-
Other payables	204 937	1 007 368
	<b>60 086 368</b>	<b>40 536 690</b>

### 18. VAT payable

Vat payable 611 371 1 953 813

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>19. Consumer deposits</b>		
Electricity	115 992	115 992
Water	77 707	73 468
	<b>193 699</b>	<b>189 460</b>
<b>20. Revenue</b>		
Service charges	22 676 400	17 556 712
Rental of facilities and equipment	252 409	262 780
Interest received (trading)	4 036 767	3 526 919
Licences and permits	556 393	627 652
Sundry income	373 349	267 999
Interest received - investment	317 974	261 165
Property rates	5 342 908	5 802 067
Government grants & subsidies	31 534 975	31 524 858
Public contributions and donations	2 142 434	-
Fines, Penalties and Forfeits	30 507 769	11 741 199
	<b>97 741 378</b>	<b>71 571 351</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	22 676 400	17 556 712
Rental of facilities and equipment	252 409	262 780
Interest received (trading)	4 036 767	3 526 919
Licences and permits	556 393	627 652
Other income	373 349	267 999
Interest received - investment	317 974	261 165
	<b>28 213 292</b>	<b>22 503 227</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	5 342 908	5 802 067
<b>Transfer revenue</b>		
Government grants & subsidies	31 534 975	31 524 858
Public contributions and donations	2 142 434	-
Fines, Penalties and Forfeits	30 507 769	11 741 199
	<b>69 528 086</b>	<b>49 068 124</b>
<b>21. Service charges</b>		
Sale of electricity	11 703 076	13 414 593
Sale of water	5 806 171	3 200 326
Sewerage and sanitation charges	3 583 918	3 810 558
Refuse removal	3 847 803	3 576 367
Less: Departmental charges	(2 255 331)	(1 773 148)
Less: Indigents subsidies	(9 237)	(4 671 984)
	<b>22 676 400</b>	<b>17 556 712</b>



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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>22. Rental of facilities and equipment</b>		
Premises	165 960	224 671
Venue hire	20 554	35 554
Other	65 895	2 555
	<b>252 409</b>	<b>262 780</b>
<b>23. Other revenue</b>		
Other income	373 349	267 999
<b>24. Investment revenue</b>		
<b>Interest revenue</b>		
Interest on call accounts	317 974	261 165
<b>25. Property rates</b>		
<b>Rates received</b>		
Residential	6 103 765	7 237 533
Less: Income forgone	(760 857)	(1 435 466)
	<b>5 342 908</b>	<b>5 802 067</b>
<b>Valuations</b>		
Residential	233 450 600	225 149 100
Commercial	72 798 900	70 447 900
State	54 167 100	54 075 100
Municipal	14 791 700	13 781 700
Farms	2 782 118 650	2 763 509 850
Public service infrastructure	12 475 400	12 472 900
Public benefit organisations	4 467 600	3 227 600
Vacant land	30 301 900	25 641 400
	<b>3 204 571 850</b>	<b>3 168 305 550</b>
<p>Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.</p> <p>A general rate per valuation category as specified in the annual municipal published tariff list is applied to property valuations to determine assessment rates. Rebates on the rateable value of R15 000 (R2016 - R15 000) are granted to residential and state property owners.</p> <p>Rates are levied on an annual basis with the final date for payment being 30 June 2017 (30 June 2016). Interest at prime plus 1% per annum is levied on rates outstanding two months after due date.</p> <p>The new general valuation will be implemented on 01 July 2019.</p>		
<b>26. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	25 817 000	25 241 099
Finance Management Grant	1 825 000	1 611 233
Municipal Systems Improvement Grant	-	919 329
Library Grant	791 885	640 683

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

Figures in Rand

	2017	2016
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### 26. Government grants and subsidies (continued)

Expanded Public Works Programme Grant	1 000 000	1 000 000
	<b>29 433 885</b>	<b>29 412 344</b>

### Capital grants

Municipal Infrastructure Grant	2 101 090	2 112 514
	<b>31 534 975</b>	<b>31 524 858</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. Allocated equitable share for the year was R 25 817 000 (2016: R25 241 099) however an amount of R5 252 000 (2016: R 7 555 000) was withheld by the National Treasury and only the R 17,686,000 above was disbursed to the municipality. The withheld amount was because the municipality uses the MIG unspent Amount for other purposes in the 2014/2015 financial year.

### Municipal Infrastructure Grant - MIG

Balance unspent at beginning of year	7 677 487	241 855
Current-year receipts	5 514 000	9 790 000
Conditions met - transferred to revenue	(2 101 090)	(2 112 513)
Transferred to Equitable share withheld	(5 122 985)	(241 855)
	<b>5 967 412</b>	<b>7 677 487</b>

Conditions still to be met - remain liabilities (see note 14).

### Library grant

Balance unspent at beginning of year	1 057 334	391 017
Current-year receipts	1 664 000	1 307 000
Conditions met - transferred to revenue	(791 884)	(640 683)
	<b>1 929 450</b>	<b>1 057 334</b>

Conditions still to be met - remain liabilities (see note 14).

### Department of Water Affairs

31 Conditions still to be met - remain liabilities (see note 14).

### Municipal Systems Improvement Grant - MSIG

Balance unspent at beginning of year	10 671	-
Current-year receipts	-	934 000
Conditions met - transferred to revenue	-	(919 329)
Transfer to equitable share withheld	(6 903)	(4 000)
	<b>3 768</b>	<b>10 671</b>

Conditions still to be met - remain liabilities (see note 14).

### Project - 36 Efs Loxton

Balance unspent at beginning of year	305 093	305 093
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Conditions still to be met - remain liabilities (see note 14).

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>26. Government grants and subsidies (continued)</b>		
<b>Integrated National Electrification Programme - INEP</b>		
Balance unspent at beginning of year	-	666 758
Transferred to Equitable share withheld	-	(666 758)
	-	-
Conditions still to be met - remain liabilities (see note 14).		
<b>Expanded Public Works Programme - EPWP</b>		
Current-year receipts	1 000 000	1 000 000
Other	(1 000 000)	(1 000 000)
	-	-
Conditions still to be met - remain liabilities (see note 14).		
<b>Electrification of erven</b>		
Balance unspent at beginning of year	1 248	1 248
Conditions still to be met - remain liabilities (see note 14).		
<b>Project - Cemetery</b>		
Balance unspent at beginning of year	88 739	88 739
Conditions still to be met - remain liabilities (see note 14).		
<b>COGSTHA Incentive Grant</b>		
Balance unspent at beginning of year	460 835	460 835
Conditions still to be met - remain liabilities (see note 14).		
<b>Financial Management Grant - FMG</b>		
Balance unspent at beginning of year	188 767	-
Current-year receipts	1 825 000	1 800 000
Conditions met - transferred to revenue	(1 825 000)	(1 611 233)
Transferred to Equitable share withheld	(122 112)	-
	<b>66 655</b>	<b>188 767</b>
Conditions still to be met - remain liabilities (see note 14).		
<b>Project Housing</b>		
Balance unspent at beginning of year	115 555	115 555
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>26. Government grants and subsidies (continued)</b>		
<b>Project Solid Waste</b>		
Balance unspent at beginning of year	99 012	99 012
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Project River Richmond</b>		
Balance unspent at beginning of year	1 827	1 827
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
<b>27. Public contributions and donations</b>		
Public contributions	115 000	-
Grants in aid - Northern Cape Provincial Treasury	2 027 434	-
	<b>2 142 434</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 14)		
Provide explanations of conditions still to be met and other relevant information		
<b>28. Fines, Penalties and Forfeits</b>		
Speed fines	30 497 935	11 667 728
Provincial traffic fines	7 100	70 650
Overdue books	2 734	2 821
	<b>30 507 769</b>	<b>11 741 199</b>
<b>29. Employee related costs</b>		
Basic	20 372 157	21 883 396
Medical aid - company contributions	-	267 885
UIF	195 870	186 170
SDL	198 833	219 979
Other payroll levies	17 322	15 672
Leave pay provision charge	705 288	617 344
Post retirement benefit	825 927	244 864
Pension fund contributions	3 152 763	3 157 724
Overtime payments	1 442 936	1 877 811
Long-service awards	132 706	6 573
13th Cheques	1 139 644	1 178 752
Car allowance	301 784	686 448
Housing benefits and allowances	394 814	408 086
Telephone allowance	12 994	19 967
Standby allowance	204 569	211 355
	<b>29 097 607</b>	<b>30 982 026</b>

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## Notes to the Annual Financial Statements

Figures in Rand 2017 2016

### 29. Employee related costs (continued)

#### Remuneration of the municipal manager

Annual Remuneration	458 266	-
Car Allowance	93 862	-
Contributions to UIF, Medical and Pension Funds	88 973	-
Other	55 213	-
	<b>696 314</b>	<b>-</b>

The municipal manager was appointed in January 2017.

#### Remuneration of the chief finance officer

Annual Remuneration	138 754	-
Car Allowance	6 000	-
Contributions to UIF, Medical and Pension Funds	26 914	-
Other	24 427	-
	<b>196 095</b>	<b>-</b>

The chief finance officer was appointed in April 2017

#### Remuneration of the deputy director of corporate services

Annual Remuneration	465 802	439 436
Car Allowance	171 670	161 953
Contributions to UIF, Medical and Pension Funds	132 222	122 142
Acting allowance	34 173	48 975
Other	5 394	5 088
	<b>809 261</b>	<b>777 594</b>

The deputy director of corporate services also acted in the position of the municipal manager and was compensated with an acting allowance for periods acted.

#### Remuneration of the acting municipal manager

Annual Remuneration	-	205 196
Contributions to UIF, Medical and Pension Funds	-	2 522
Other	-	50 309
	<b>-</b>	<b>258 027</b>

The Acting municipal manager was seconded from the Department of Cooperative Governance and Traditional Affairs for periods: December 2015 up to June 2016.

#### Remuneration of the acting chief finance officer

Annual Remuneration	-	475 032
Car Allowance	-	120 000
Contributions to UIF, Medical and Pension Funds	-	92 819
Back pay	-	19 185
Acting allowance	-	47 244
	<b>-</b>	<b>745 280</b>

# Ubuntu Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>29. Employee related costs (continued)</b>		
<b>Remuneration of the acting director of corporate services</b>		
Annual Remuneration	-	290 175
Car Allowance	-	38 863
Annual Bonuses	-	23 801
Contributions to UIF, Medical and Pension Funds	-	73 460
Acting allowance	-	65 383
	-	<b>491 682</b>
<b>Remuneration of the director of technical services</b>		
Annual Remuneration	-	479 255
Car Allowance	-	145 541
Contributions to UIF, Medical and Pension Funds	-	107 187
Other	-	44 834
	-	<b>776 817</b>
The employment services of the director of technical services were terminated in April 2016.		
<b>30. Remuneration of councillors</b>		
Councillors	2 463 979	2 778 896
Councillor's remuneration consist of the following:		
<b>Remuneration of the executive mayor</b>		
Mayor Allowance	433 151	471 169
Transport allowance	154 693	171 274
Telephone Allowance	21 331	24 468
Contribution to Medical aid, Pension fund & SDL	69 791	75 854
	<b>678 966</b>	<b>742 765</b>
<b>Remuneration of ward councillors</b>		
Councillor Allowance	1 075 834	1 074 420
Transport allowance	411 381	442 889
Telephone Allowance	151 879	171 276
Contribution to Medical aid, Pension fund & SDL	146 744	347 546
	<b>1 785 838</b>	<b>2 036 131</b>
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	46 624 317	47 295 811
Intangible assets	11 310	19 092
	<b>46 635 627</b>	<b>47 314 903</b>

# Ubuntu Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>32. Impairment loss / Reversal of impairments</b>		
<b>Impairments</b>		
Property, plant and equipment	586 938	-
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		
Receivables from exchange and non-exchange transactions	43 750 607	26 738 503
	<b>44 337 545</b>	<b>26 738 503</b>
<b>33. Finance costs</b>		
Non-current borrowings	46 897	67 386
Trade and other payables	5 093 303	3 188 582
Finance leases	153 010	21 643
Bank	47 663	44 237
Other interest incurred	344 677	870 258
	<b>5 685 550</b>	<b>4 192 106</b>
<b>34. Repairs and maintenance</b>		
Office equipment	143 072	175 475
Motor vehicles	312 279	525 966
Infrastructure	805 049	1 067 423
	<b>1 260 400</b>	<b>1 768 864</b>
<b>35. Bulk purchases</b>		
Electricity	16 314 912	15 024 411
Water	1 229 359	718 314
	<b>17 544 271</b>	<b>15 742 725</b>
<b>36. Contracted services</b>		
Specialist services	5 877 829	4 390 408

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## Notes to the Annual Financial Statements

Figures in Rand	2017	2016
<b>37. General expenses</b>		
Advertising	66 004	131 371
Auditors remuneration	2 291 288	1 655 743
Bank charges	298 613	282 069
Consulting and professional fees	4 056 200	2 980 719
Entertainment	364 097	20 000
Insurance	385 037	375 697
Motor vehicle expenses	59 319	32 707
Fuel and oil	690 667	883 479
Printing and stationery	252 745	257 265
Protective clothing	160 143	12 888
Research and development costs	128 729	83 538
Royalties and license fees	386 565	202 367
Security (Guarding of municipal property)	3 396	3 101
Subscriptions and membership fees	508 578	560 000
Telephone and fax	315 109	281 409
Training	22 225	12 629
Travel - local	717 962	1 320 604
Pauper burials	15 800	15 100
Other expenses	400 733	48 998
Rental paid	260 246	178 431
Paraffin subsidy	118 236	157 354
	<b>11 501 692</b>	<b>9 495 469</b>
<b>38. Net cash flows from operating activities</b>		
Deficit	(66 384 465)	(70 880 174)
<b>Adjustments for:</b>		
Depreciation and amortisation	46 635 627	47 314 903
Gain on sale of assets and liabilities	688 561	-
Impairment deficit	44 924 483	26 738 503
Movements in retirement benefit assets and liabilities	(599 665)	644 826
Movements in provisions	252 415	(872 873)
<b>Changes in working capital:</b>		
Other receivables from exchange transactions	(38 520 745)	19 346 058
Consumer debtors	(1 144 355)	(33 574 057)
Other receivables from non-exchange transactions	(158 037)	(102 870)
Payables from exchange transactions	19 549 678	13 898 059
VAT	(1 342 442)	(901 015)
Unspent conditional grants and receipts	(966 974)	(857 858)
Consumer deposits	4 239	12 326
	<b>2 938 320</b>	<b>765 828</b>
<b>39. Financial instruments disclosure</b>		
<b>Categories of financial instruments</b>		
<b>2017</b>		
<b>Financial assets</b>		
	<b>At amortised cost</b>	<b>Total</b>
Receivables from exchange transactions	4 339 139	4 339 139
Receivables from non-exchange transactions	8 259 891	8 259 891
Cash and cash equivalents	2 528 826	2 528 826
	<b>15 127 856</b>	<b>15 127 856</b>



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### Financial instruments disclosure (continued)

#### Financial liabilities

	At amortised cost	Total
Loans from economic entities	289 099	289 099
Consumer deposits	193 699	193 699
Trade and other payables from exchange transactions	60 086 368	60 086 368
	<b>60 569 166</b>	<b>60 569 166</b>

#### 2016

#### Financial assets

	At amortised cost	Total
Receivables from exchange transactions	10 155 939	10 155 939
Receivables from non-exchange transactions	7 115 536	7 115 536
Cash and cash equivalents	3 163 132	3 163 132
	<b>20 434 607</b>	<b>20 434 607</b>

#### Financial liabilities

	At amortised cost	Total
Loans from economic entities	303 641	303 641
Consumer deposits	189 460	189 460
Trade and other payables from exchange transactions	40 536 690	40 536 690
Bank overdraft	595 416	595 416
	<b>41 625 207</b>	<b>41 625 207</b>

### 40. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	15 135 127	3 520 262
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##### Total capital commitments

Already contracted for but not provided for	15 135 127	3 520 262
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This committed expenditure relates to property, plant and equipment and will be financed by government grants.

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### 41. Contingencies

#### 2017:

A claim was lodged against the municipality by Mr Conroy, due to a dispute over an account for the provision of water. If successful, the municipality will be liable for an amount of R 316 741 plus interest.

A claim was lodged against the municipality by Mr KJ Rigard for unlawful dismissal, the municipality could be liable for an amount to R 600 000.

A claim was lodged against the municipality by Mr MF Fillis for unlawful dismissal, the municipality could be liable for an amount to R 600 000.

The municipality does not have a permit or licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

#### 2016:

A claim was lodged against the municipality by Mr MF Fillis for unlawful dismissal, the municipality could be liable for an amount to R 600 000.

A claim was lodged against the municipality by Katie Rigard for unlawful dismissal, the municipality could be liable for an amount to R 600 000.

A claim was lodged against the municipality by Traffic Violation System (TVS), the matter settled but hand over process of the debt still pending, the municipality could be liable for an amount to R 4 000 000.

A claim was lodged by farmers represented by the Attorney Wynand Viljoen relating to property and tax matters (Outstanding debt R250 000). The matter is still pending with an estimated cost of R 250 000 including costs and disbursement.

Agri-Forum - Richmond farmers lodged a claim against the municipality relating to property and tax matters (Outstanding debt R1 million). The matter is still pending with an estimated cost of R 250 000 including costs and disbursements.

Martin Fillis lodged a claim against the municipality, pending investigations by the Hawks. The matter is still pending with an estimated cost of R 500 000 including costs and disbursements.

The MEC - Department of Environmental Affairs lodged a claim against the municipality stating that the municipality does not have a permit or license for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act. The matter is pending in the High Court in Kimberley with an underdetermined estimated cost.

A claim was lodged against the municipality by Mr AM Conroy due to a dispute over an account for the provision of water. If successful, the municipality will be liable for an amount of R 316 741. The matter is still pending in the High Court in Kimberley.

### 42. Related parties

#### Relationships

Councillors

Accounting Officer

Members of key management

Executive Mayor

Part-time councillors

Municipal Manager

Chief finance officer

Deputy director of corporate services

Director of technical services

#### Key Management Personnel

No related party transactions took place during the financial year except those at arms length for provision of services.

Refer to note 29 for detailed remuneration of Key management personnel and note 30 for the remuneration of councillors.

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### 43. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors.

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

#### 43.1. Prior period error - Misstatement of cash and cash equivalents

During the period under review it was noted that the cash and cash equivalents was incorrectly disclosed as overdrawn at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

Increase in cash and cash equivalents	2 495 703
Increase in payables from exchange transactions	(2 561 799)
Increase in trade and other receivables from exchange transactions	66 096
	<u>-</u>

#### 43.2. Prior period error - Understatement of payables from exchange transactions

During the period under review it was noted that the trade creditors balance was incorrectly stated due to certain invoices not being recorded and incorrect opening balances being carried forward. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

Increase in payables from exchange transactions	(13 992 930)
Decrease in VAT payable	1 450 175
Increase in opening accumulated surplus / (deficit)	(957 797)
	<u>(13 500 552)</u>

##### Statement of financial performance:

Increase in general expenses	1 930 773
Increase in employee related costs	70 000
Increase in finance costs	1 796 590
Increase in bulk purchases	9 670 648
Increase in service charges	(416 780)
Increase in repairs and maintenance	449 321
	<u>13 500 552</u>

#### 43.3. Prior period error - Overstatement of payables from exchange transactions

During the period under review it was noted bonus provision was not adjusted and leave provision was incorrectly calculated. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

##### Statement of financial position

Decrease in payables from exchange transactions	95 740
	<u>95 740</u>

##### Statement of financial performance

Decrease in employee related costs	(95 740)
	<u>(95 740)</u>

#### 43.4. Prior period error - Overstatement of receivables from non-exchange transactions

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### 43. Prior period errors (continued)

During the period under review it was noted that fuel expenses were recorded against the suspenses account and not recorded as expenditure. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

#### Statement of financial position

Decrease in receivable for non-exchange transactions	(856 185)
Decrease in opening accumulated surplus / (deficit)	268 891
	<u>(587 294)</u>

#### Statement of financial performance

Increase in general expenses	<u>587 294</u>
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### 43.5. Prior period error - Overstatement of receivables from non-exchange and understatement of other receivables

During the period under review it was noted receivables from non-exchange transactions and other receivables were misstated as suspense accounts were not properly cleared and therefore incorrect opening balances carried forward. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

#### Statement of financial position

Decrease in receivable for non-exchange transactions	(416 546)
Increase in other receivables	845 005
Decrease in other receivables	(255 473)
Increase in opening accumulated surplus/(deficit)	(428 627)
	<u>(255 641)</u>

#### Statement of financial performance

Decrease in other income	169
Increase in employee related costs	255 472
	<u>255 641</u>

### 43.6. Prior period error - Overstatement of payables from exchange transactions

During the period under review it was noted deposits that have been refunded to the customers were not correctly recorded to the deposits received. The comparative statements for 2016/17 financial year have been restated. The effect of the correction of the error(s) is summarised below:

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### 43. Prior period errors (continued)

#### Statement of financial position

Decrease in payables for exchange transactions

74 146

Increase in opening accumulated surplus/(deficit)

(74 146)

-

### 43.7. Prior period error - Misstatement of cash and cash equivalents

During the period under review it was noted that the cash and cash equivalents was overstated due to expenses paid from float and petty not being expensed. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

#### Statement of financial position

Decrease in cash and cash equivalents

(3 350)

#### Statement of financial performance

Increase in general expenses

3 350

### 43.8. Prior period error - Overstatement of receivables from non-exchange transactions

During the period under review it was noted that receivables from non-exchange transactions were overstated as the rates revenue and debtors were overstated in the 2015/2016 year. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

#### Statement of financial position

Decrease in receivables from non-exchange

(3 840 256)

Decrease in accumulated surplus/deficit

206 944

(3 633 312)

#### Statement of financial performance

Decrease in property rates

3 633 312

### 43.9. Prior period error - Understatement of receivables from exchange transactions

During the period under review it was noted that receivables from exchange transactions were overstated as as incorrect balances from the previous year were carried forawrd. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:

#### Statement of financial position

Increase in receivables from exchange transactions

355 822

Decrease in opening accumulated surplus/(deficit)

(355 822)

-

### 43.10. Prior period error - Understatement of payables from exchange transactions

During the period under review it was noted that payables from exchange transactions were understated due to payroll creditor not being properly raised, SARS interest & penalties not recorded and incorrect year end adjustments being recorded. The effect of the correction of the error(s) is summarised below:

#### Statement of financial position

Increase in payables from exchange transactions

(1 570 630)

Decrease in opening accumulated surplus/(deficit)

881 614

(689 016)

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Figures in Rand	2017	2016
<b>43. Prior period errors (continued)</b>		
<b>Statement of financial performance</b>		
Increase in employee related costs		245 109
Decrease in general expenses		(17 351)
Decrease in other income		25 667
Increase in finance costs		435 591
		<u>689 016</u>
<b>43.11. Prior period error - Understatement of payables from exchange transactions</b>		
During the period under review it was noted that payables from exchange transactions were understated due to payroll creditor not being properly raised and incorrect year end adjustments being recorded. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in payables from exchange transactions		<u>(73 412)</u>
<b>Statement of financial performance</b>		
Increase in employee related costs		73 349
Increase in general expenses		173
Increase in other income		(110)
		<u>73 412</u>
<b>43.12. Prior period error - Overstatement of work in progress</b>		
During the period under review it was noted that the prior year's capital work in progress assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Decrease in work in progress		(19 940 842)
Decrease in opening accumulated surplus/(deficit)		19 940 842
		<u>-</u>
<b>43.13. Prior period error - Investment property misstated on the FAR</b>		
During the period under review it was noted that the prior year's investment property register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in investment properties		6 228 650
Increase in opening accumulated surplus / (deficit)		(6 204 067)
		<u>24 583</u>
<b>Statement of financial performance</b>		
Decrease in depreciation and amortisation		<u>(24 583)</u>
<b>43.14. Prior period error - Community assets misstated on the FAR</b>		
During the period under review it was noted that the prior year's community assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		

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Figures in Rand	2017	2016
<b>43. Prior period errors (continued)</b>		
Increase in community assets		150 896 641
Increase in opening accumulated surplus/(deficit)		(160 670 552)
		<u>(9 773 911)</u>
<b>Statement of financial performance</b>		
Increase in depreciation and amortisation		<u>9 773 911</u>
<b>43.15. Prior period error - Land and buildings misstated on the FAR</b>		
During the period under review it was noted that the prior year's land and buildings assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in land and buildings		23 550 710
Increase in opening accumulated surplus / (deficit)		(25 361 587)
		<u>(1 810 877)</u>
<b>Statement of financial performance</b>		
Increase in depreciation and amortisation		<u>1 810 877</u>
<b>43.16. Prior period error - Intangible assets (servitudes) not recognised in the FAR</b>		
During the period under review it was noted that the prior year's intangible assets register was misstated as servitudes were not recognised at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in intangible assets (servitudes)		2 242 145
Increase in opening accumulated surplus / (deficit)		(2 242 145)
		<u>-</u>
<b>43.17. Prior period error - Capital restoration costs misstated in the FAR</b>		
During the period under review it was noted that the prior year's landfill site register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Decrease in infrastructure assets (capital restoration costs)		(97 484)
Decrease in opening accumulated surplus / (deficit)		375 706
		<u>278 222</u>
<b>Statement of financial performance</b>		
Decrease in depreciation and amortisation		<u>(278 222)</u>
<b>43.18. Prior period error - Intangible assets (computer software) misstated in the FAR</b>		
During the period under review it was noted that the intangible assets register (computer software) was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in intangible assets (computer software)		15 733

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<b>43. Prior period errors (continued)</b>		
Increase in opening accumulated surplus / (deficit)		(30 425)
		<b>(14 692)</b>
<b>Statement of financial performance</b>		
Increase in depreciation and amortisation		14 692
<b>43.19 Prior period error - other assets misstated in the FAR</b>		
During the period under review it was noted that the movable assets register was misstated at 30 June 2016. The comparative figures statements for 2015/2016 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Decrease in other assets		(2 406 450)
Decrease in opening accumulated surplus / (deficit)		2 052 002
		<b>(354 448)</b>
<b>Statement of financial performance</b>		
Increase in depreciation and amortisation		354 448
<b>43.20. Prior period error - Misstatement of consumer deposits</b>		
During the period under review it was noted that consumer deposits were overstated during the 2014/2015 year. The comparative figures statements for 2015/2016 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Decrease in consumer deposits		52 114
Increase in opening accumulated surplus / (deficit)		(52 114)
		-
<b>43.21 Prior period error - Misstatement of VAT payable</b>		
During the period under review it was noted that VAT payable was understate during the 2014/2015 year. The comparative figures statements for 2015/2016 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in VAT payable		(1 163 142)
Increase in opening accumulated surplus / (deficit)		994 995
		<b>(168 147)</b>
<b>Statement of financial position</b>		
Increase in finance costs		168 147
<b>43.22. period error - Infrastructure assets misstated on the FAR</b>		
During the period under review it was noted that the prior year's infrastructure assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in infrastructure assets		392 875 922
Increase in opening accumulated surplus / (deficit)		(416 903 632)



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<b>43. Prior period errors (continued)</b>		
		<b>(24 027 710)</b>
<b>Statement of financial performance</b>		
Increase in depreciation and amortisation		24 027 710
<b>43.23. Prior period error - Understatement of cash and cash equivalents</b>		
During the period under review it was noted that cash and cash equivalents were understated due to cancelled cheques not being reversed. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in cash and cash equivalents		344 929
Increase in opening accumulated surplus / (deficit)		(293 501)
		<b>51 428</b>
<b>Statement of financial performance</b>		
Decrease in general expenses		(51 428)
<b>43.24. Prior period error - Leased assets misstated in the FAR</b>		
During the period under review it was noted that the leased assets register was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in leased assets		336 363
Increase in opening accumulated surplus / (deficit)		(560 401)
		<b>(224 038)</b>
<b>Statement of financial performance</b>		
Increase in depreciation and amortisation		224 038
<b>43.25. Prior period error - Impairment of receivables</b>		
During the period under review it was noted that impairment of receivables charge for the year was not posted to the statement of financial performance at 30 June 2016. The comparative statements for 2015/16 financial year has been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Increase in receivable from non exchange transactions		2 605 402
Decrease in receivables from exchange transactions		(1 613 463)
		<b>991 939</b>
<b>Statement of financial performance</b>		
Decrease in impairment		(991 939)
<b>43.26. Prior period error - Misstatement of unspent conditional grants and receipts</b>		
During the period under review it was noted that the unspent conditional government grants and receipts was misstated at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial performance</b>		

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Figures in Rand	2017	2016
<b>43. Prior period errors (continued)</b>		
Increase in unspent conditional grants and receipts		(938 200)
Decrease in opening accumulated surplus / deficit		338 200
Decrease in payables from exchange transactions		600 000
		<u>-</u>
<b>43.27. Prior period error - Loss of control of biological assets</b>		
During the period under review it was noted that the prior year's biological assets were misstated due to the loss of control over the assets by the municipality. The comparative statements for the 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Decrease in biological assets		(167 800)
Decrease in opening accumulated surplus / (deficit)		167 800
		<u>-</u>
<b>43.28. Prior period error - Suspense accounts not cleared and / or supported</b>		
During the period under review it was noted that various suspense accounts were not cleared at 30 June 2016. These accounts could not be supported as were written off. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error (s) is summarised below:		
<b>Statement of financial position</b>		
Increase in payables from exchange transactions		(93 005)
Decrease in receivables from exchange transactions		(1 272 025)
Decrease in accumulated surplus / (deficit)		1 364 624
		<u>(406)</u>
<b>Statement of financial performance</b>		
Increase in general expenses		406
		<u>406</u>
<b>43.29. Understatement of receivables from non-exchange transactions</b>		
During the period under review it was noted that traffic fines receivable and revenue were not recorded at 30 June 2016. These accounts could not be supported as were written off. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error (s) is summarised below:		
<b>Statement of financial position</b>		
Increase in receivable from non-exchange transactions		8 558 909
Decrease in payables from exchange transactions		188 023
		<u>8 746 932</u>
<b>Statement of financial performance</b>		
Increase in general expenses		67 393
Increase in contracted services		2 176 935
Increase in fines, penalties and forfeits		(10 991 260)
		<u>(8 746 932)</u>
<b>43.30. Prior period error - Understatement of impairment traffic fines</b>		
During the period under review it was noted that impairment of traffic fines receivable was not recorded at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		

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Figures in Rand	2017	2016
<b>43. Prior period errors (continued)</b>		
<b>Statement of financial position</b>		
Decrease in receivables from non-exchange transactions		<u>(27 730 443)</u>
<b>Statement of financial performance</b>		
Increase in impairment loss		<u>27 730 443</u>
<b>43.31. Prior period error - Overstatement of unspent conditional grants and receipts</b>		
During the period under review it was noted that unspent conditional grants and receipts were overstated due to funds withheld from the Equitable share allocation not being recorded against the unspent grant at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Decrease in unspent conditional grants and receipts		908 613
Decrease in accumulated surplus / deficit		8 492 486
		<u><b>9 401 099</b></u>
<b>Statement of financial performance</b>		
Increase in non-exchange revenue grants and subsidies		(7 555 099)
Increase in service charges		(1 846 000)
		<u><b>(9 401 099)</b></u>
<b>43.32. Prior period error - Overstatement of provisions</b>		
During the period under review it was noted that provisions were overstated due to interest on the landfill sites not correctly recorded at 30 June 2016. The comparative statements for 2015/16 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
<b>Statement of financial position</b>		
Decrease in provisions		<u>10 013</u>
<b>Statement of financial performance</b>		
Decrease in finance costs		<u>(10 013)</u>

## 44. Comparative figures

Certain comparative figures have been reclassified.

During the year under review it was noted that the prior account balances and totals were misstated due to a missmapping of various general ledger accounts. the error has since been rectified in the current year.

The effects of the reclassification are as follows:

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Figures in Rand

### 44. Comparative figures (continued)

#### Statement of financial position - extract

	Comparative figures adjustments	Reclassificati on	After reclassificatio n
Other receivables from exchange transactions	1 058 036	(955 166)	102 870
Receivable from non-exchange transactions	15 539 802	(8 424 266)	7 115 536
Receivables from exchange transactions	241 120	9 914 819	10 155 939
Other receivables - current	845 005	(845 005)	-
Property, plant and equipment	668 376 174	97 484	668 473 658
Other receivables - non-current	97 484	(97 484)	-
Provisions - current	(3 090 530)	111 299	(2 979 231)
Payables from exchange transactions	(38 620 433)	(1 916 257)	(40 536 690)
VAT payable	(1 955 148)	1 335	(1 953 813)
Employee benefit obligation - current	-	(111 299)	(111 299)
Cash and cash equivalents	(2 819 956)	2 224 540	(595 416)
<b>Total</b>	<b>639 671 554</b>	<b>-</b>	<b>639 671 554</b>

#### Statement of financial performance - extract

	Comparative figures previously reported	Reclassificati on	After reclassificatio n
Service charges	19 329 860	(1 773 148)	17 556 712
Agency services	3 692	(3 692)	-
Third party payments	67	(67)	-
Other income	258 558	9 441	267 999
Government grants and subsidies	31 530 540	(5 682)	31 524 858
Employee related costs	(29 999 934)	(982 092)	(30 982 026)
Remuneration of councillors	(2 747 656)	(31 240)	(2 778 896)
Finance costs	(4 206 290)	14 184	(4 192 106)
Lease rentals on operating lease	(164 248)	164 248	-
Repairs and maintenance	(1 808 155)	39 291	(1 768 864)
Contracted services	(2 176 935)	(2 213 473)	(4 390 408)
General expenses	(14 277 699)	4 782 230	(9 495 469)
<b>Total</b>	<b>(4 258 200)</b>	<b>-</b>	<b>(4 258 200)</b>

### 45. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

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### 45. Risk management (continued)

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

<b>At 30 June 2017</b>	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	193 699	-	-	-
Employee benefit obligation	582 000	-	-	-
Payables from exchange transactions	60 086 368	-	-	-
Unspent conditional grants and receipts	9 039 594	-	-	-
	<b>69 901 661</b>	-	-	-

  

<b>At 30 June 2016</b>	Less than 1 year	Between 1 and 2 year	Between 2 and 5 years	Overs 5 years
Consumer deposits	189 460	-	-	-
Employee benefit obligation	111 299	-	-	-
Payables from exchange transactions	40 536 690	-	-	-
Unspent conditional grants	10 006 568	-	-	-
	<b>50 844 017</b>	-	-	-

### Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours 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.

All rates and services are payable within 30 days from invoice date. Refer to note 10 and 11 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 10 and 11 for balances included in receivables that were re-negotiated for the period under review.

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

### Market risk

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

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### 45. Risk management (continued)

#### Foreign exchange risk

The municipality does not hedge foreign exchange fluctuations.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

#### Price risk

The municipality is not exposed to price risk

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

### 46. Going concern

We draw attention to the fact that at 30 June 2017, a material uncertainty exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

- 1) The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.
- 2) Unspent conditional grants and receipts are not fully cash backed as required.
- 3) The municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously.
- 4) The consumer debtors days outstanding decreased to 1,121 days from (2016: 1,345 days).
- 5) Electricity distribution losses (technical and non-technical) have increased to 67% (2016: 20%) and the water distribution losses has increased to 16% from (2016: 15%).
- 6) The municipality's current liabilities exceeds its current assets by R58 214 997 (2016: R36 199 547) which indicates a current ration which is below the required norm of 1.5 - 2.
- 7) The municipality incurred a net deficit for the year under review of R65 901 476 (2016: R70 880 174), the major contributors to this change is increases in bulk purchases, impairments, finance costs and contracted services.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business/

The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

### 47. Events after the reporting date

There was no significant events after the reporting date:

### 48. Unauthorised expenditure

Opening balance as restated	168 095 797	123 160 997
Prior year expenditure incurred and now disclosed	-	44 934 800
Current year expenditure incurred	101 699 554	-
	<b>269 795 351</b>	<b>168 095 797</b>

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### 48. Unauthorised expenditure (continued)

#### Details of unauthorised expenditure - current year

Overspending of budgeted votes	<b>Disciplinary steps taken/criminal proceedings</b> Awaiting council decision	101 699 554
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#### Details of unauthorised expenditure - prior year

Overspending of budgeted votes	<b>Disciplinary steps taken/criminal proceedings</b> Awaiting council decision	44 934 800
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### 49. Fruitless and wasteful expenditure

Opening balance	5 481 347	2 292 765
Current year	5 349 811	3 188 582
	<b>10 831 158</b>	<b>5 481 347</b>

#### Details of fruitless and wasteful expenditure – current year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Interest on overdue accounts	Awaiting council decision	4 741 123
Fines and penalties	Awaiting council decision	352 179
VAT paid to non-vendor	Awaiting council decision	256 509
		<b>5 349 811</b>

#### Details of fruitless and wasteful expenditure – prior year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Interest on overdue accounts	Awaiting council decision	2 584 843
Fines and penalties	Awaiting council decision	603 739
		<b>3 188 582</b>

### 50. Irregular expenditure

Opening balance	43 359 680	42 540 639
Add: Irregular Expenditure - current year	8 598 425	819 041
	<b>51 958 105</b>	<b>43 359 680</b>

#### Analysis of expenditure awaiting condonation per age classification

Current year	8 598 425	819 041
Prior years	43 359 680	42 540 639
	<b>51 958 105</b>	<b>43 359 680</b>

#### Details of irregular expenditure – current year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Various contravention of procurement precripts	Awaiting council decision	8 598 425

#### Details of irregular expenditure - prior year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Various contravention of procurement precripts	Awaiting council decision	819 041

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

#### Contributions to organised local government

Opening balance	760 000	250 000
Current year subscription / fee	505 578	510 000
	<b>1 265 578</b>	<b>760 000</b>

#### Distribution losses

##### Electricity distribution losses

kWh purchased	13 350 415	12 099 476
Less: kWh sold	(4 385 697)	(9 731 267)
<b>kWh Losses</b>	<b>8 964 718</b>	<b>2 368 209</b>

% losses	67%	20%
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Average cost per unit	1,32	0,55
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Loss on Rand value	11 816 650	1 298 489
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##### Water distribution losses (Kilo litres)

Kilo litres purchased	499 156	839 642
Less: Kilo litres sold	(421 028)	(711 925)
	<b>78 128</b>	<b>127 717</b>

% losses	16%	15%
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Average cost per kilo litre	2,48	2,26
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Loss in Rand value	193 757	288 640
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#### Audit fees

Opening balance	3 220 369	1 400 000
Current year subscription / fee	2 900 251	2 286 548
Amount paid - current year	-	(466 179)
Grants in aid	(2 027 434)	-
Amount paid - previous years	(990 496)	-
	<b>3 102 690</b>	<b>3 220 369</b>



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### 51. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### PAYE, UIF and SDL

Opening balance	1 363 928	-
Current year subscription / fee	2 815 019	3 515 090
Amount paid - current year	(1 218 482)	(2 151 162)
Amount paid - previous years	(1 363 928)	-
	<b>1 596 537</b>	<b>1 363 928</b>

#### Pension and Medical Aid Deductions

Current year subscription / fee	5 279 836	5 256 028
Amount paid - current year	(3 731 337)	(5 256 028)
	<b>1 548 499</b>	<b>-</b>

#### VAT

VAT payable	611 371	1 953 813
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2017:

##### 30 June 2017

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor SC Jordaan	803	893	1 696
Councillor KJ Gigard	2 078	10 696	12 774
Councillor CC Jantjies	995	15 408	16 403
Councillor CC Jantjies	872	6 663	7 535
Councillor BJ Bruwer	2 074	1 111	3 185
Councillor KV De Bruin	1 022	2 096	3 118
Councillor JZ Lolwana	1 742	24 572	26 314
Councillor MA Gongotha	1 328	11 798	13 126
Councillor KJ Arens	(5 149)	10 093	4 944
	<b>5 765</b>	<b>83 330</b>	<b>89 095</b>

##### 30 June 2016

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor KJ Rigard	1 515	4 807	6 322
Councillor CC Jantjies	899	10 293	11 192
Councillor CC Jantjies	820	3 225	4 045
Councillor KJ Arens	(3 969)	3 876	(93)
	<b>(735)</b>	<b>22 201</b>	<b>21 466</b>

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Annual Financial Statements for the year ended 30 June 2017

## Notes to the Annual Financial Statements

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### 51. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

### 52. Deviation from supply chain management regulations

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

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

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations.

### 53. Decommissioning, restoration and environmental rehabilitation funds

The municipality is a contributor to the following fund(s): Fund 1 and Fund 2.

### 54. Budget differences

#### Material differences between budget and actual amounts

All variances greater than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2017.

x1: Variance below 10%, therefore insignificant.

x2: Rental of facilities - increased MTN rentals and hall utilisation.

x3: Interest received (trading) - economic climate has impacted on debtors payments percentages and therefore interest levied higher than expected.

x4: Licence and permits income is difficult to predict as it is based on the frequency of unpredictable events.

x5: Other income is difficult to predict as it is based on the frequency of unpredictable events.

x6: Due to funds being utilised quicker than expected due to financial constraints.

x7: Implementation of the new valuation roll which was effective 1 July 2015.

x8 Variance below 10%, therefore insignificant.

x9: Donation income is difficult to predict as it is based on the frequency of unpredictable events.

x10: Traffic fine income is difficult to predict as it is based on the frequency of unpredictable events

x11: Due to less wages and overtime paid than expected.

x12: Variance below 10%, therefore insignificant.

x13: Due to the adoption of the amended FAR with significant changes to the value, useful lives and condition of all assets.

x14: Economic climate has impacted on debtors payments percentages and therefore resulting in long outstanding debtors.

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### 54. Budget differences (continued)

x15: Actuarial and landfill site interest and creditors not provided for in the budgeted figure.

x16: General increase in the level of unexpected repairs.

x17: General increase in electricity and water tariffs above the expected increase.

x18: Due to increase in use of consultants for specialist services.

x19: Cost cutting measures applied.

x20: Losses on disposal of asset are difficult to predict as there is no certainty on which assets will be sold.

x21: Actuarial gains and losses not budgeted for.