

# uBuhlebezwe Municipality

(Registration number KZN 434)

Trading as UBUHLEBEZWE LOCAL MUNICIPALITY

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>24. Employee related costs</b>		
Employee cost : Salaries & wages	34,474,762	29,228,745
Medical aid - company contributions	1,996,776	1,613,236
UIF	297,342	253,873
Pension	5,437,234	4,559,767
Travel, motor car, accommodation, subsistence and other allowances	2,077,153	1,921,182
Overtime payments	1,177,992	1,176,295
13th Cheques	880,993	520,836
Housing benefits and allowances	23,864	13,369
Other employee related costs	2,413,641	1,904,553
	<b>48,779,757</b>	<b>41,191,856</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	941,526	874,937
Performance Bonuses	160,657	150,852
Contributions to UIF, Medical and Pension Funds	124,506	118,237
Travel, motor car, accommodation, subsistence and other allowances	146,113	154,104
	<b>1,372,802</b>	<b>1,298,130</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	720,225	712,095
Performance Bonuses	126,000	115,917
Contributions to UIF, Medical and Pension Funds	72,507	11,116
Travel, motor car, accommodation, subsistence and other allowances	194,222	197,305
	<b>1,112,954</b>	<b>1,036,433</b>
<b>Corporate and human resources (corporate services)</b>		
Annual Remuneration	752,623	699,364
Performance Bonuses	118,379	71,456
Contributions to UIF, Medical and Pension Funds	11,542	10,534
Travel, motor car, accommodation, subsistence and other allowances	120,390	121,080
	<b>1,002,934</b>	<b>902,434</b>
<b>Social Development</b>		
Annual Remuneration	675,476	606,958
Performance Bonuses	76,101	71,456
Contributions to UIF, Medical and Pension Funds	10,883	10,146
Travel, motor car, accommodation, subsistence and other allowances	193,797	191,085
	<b>956,257</b>	<b>879,645</b>
<b>Procurements and infrastructure (Technical Services)</b>		
Annual Remuneration	720,225	717,013
Performance Bonuses	126,000	111,154
Contributions to UIF, Medical and Pension Funds	72,507	10,916
Travel, motor car, accommodation, subsistence and other allowances	194,222	122,531
	<b>1,112,954</b>	<b>961,614</b>

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	2016	2015
Figures in Rand		
<b>25. Remuneration of councillors</b>		
Executive Mayor	789,547	752,000
Deputy Executive Mayor	636,171	604,832
Exco Members	2,944,655	903,284
Speaker	363,657	344,381
Councillors Skills Levy	63,398	59,999
Councillors Allowances	2,177,543	3,934,646
Cellular Allowance	493,876	495,615
Councillors Data Cards	85,200	85,500
	<b>7,554,047</b>	<b>7,180,257</b>
<b>26. Repairs and maintainance</b>		
Repairs and maintainance cost	2,930,058	2,339,133
Repairs and maintainance relates to general maintainance of cars, minor repairs to Infrastructure assets, community assets and buildings		
<b>27. Depreciation and amortisation</b>		
Property, plant and equipment	18,742,590	16,606,097
<b>28. Contribution to provision</b>		
Provision to leave	1,751,759	2,288,168
Provision for Bad debts	2,937,058	2,702,265
	<b>4,688,817</b>	<b>4,990,433</b>
<b>29. Contracted services</b>		
Consultancy Fees	903,423	489,123
Security	2,189,481	1,698,264
Insurance	404,049	306,273
Rental Hardware	641,691	424,658
Other Contractors	1,621,087	2,043,999
	<b>5,759,731</b>	<b>4,962,317</b>

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Figures in Rand	2016	2015
<b>30. General expenses</b>		
Mscosa Implementation	17,835	-
Advertising	658,516	362,692
Arts and culture	189,220	185,901
Arts promotion expenses	341,080	109,233
Auditors remuneration	1,302,043	1,228,209
Bank charges	133,356	111,634
Bursary - Staff	107,020	77,290
Bursary - Youth	467,207	268,557
Cleaning	151,415	122,406
Computer & IT expenses	1,061,637	829,146
Consumables	199,135	61,838
Disaster Management: Back to school	318,473	181,863
Electricity	365,373	367,969
Employment creation and assistant programme	1,268,302	1,212,379
Entertainment	45,886	107,548
Free Basic Services	1,343,561	1,514,324
Fuel and oil	1,176,446	1,199,124
Gender Development & community upliftment	360,292	195,786
Grant in aid	3,959	14,800
HIV/AIDS Awareness	101,968	317,997
Horticulture	188,543	19,180
IDP Budget review	50,273	200,287
Job Evaluation	-	10,000
LED Projects	1,011,974	2,427,541
Legal fees	1,278,290	836,115
Traffic Levies	9,293	7,814
Library outreach programme	20,015	14,368
Licence and permits	216,996	98,198
Moral regeneration	101,178	33,900
Other expenses	423,571	106,612
Pest control	8,104	8,596
Postage and courier	82,356	108,533
Printing and stationery	694,525	623,910
Public Participation	701,257	303,620
Refuse Expenses	555,818	897,721
SMME Capacity Building	-	31,343
Software expenses	81,185	326,336
Special Programmes	998,695	750,384
Sports and recreation	388,262	495,719
Strategic Planning	809,286	403,279
Subscriptions and membership fees	529,966	565,076
Team Building	78,248	116,613
Tourism development	20,440	17,091
Town Planning Initiative	524,478	481,000
Training	1,826,757	2,436,170
Travel - local ( S&T , Reimbursement travel)	1,760,175	1,488,398
Uniforms/ Protective Clothing	551,681	496,468
Valuation Roll	8,103	93,922
Ward Committees	185,178	671,625
Water	87,854	522,399
Youth Upliftment	198,322	422,774
	<b>23,003,547</b>	<b>23,483,688</b>



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Figures in Rand	2016	2015
<b>31. Cash generated from operations</b>		
Surplus	84,261,653	60,992,410
<b>Adjustments for:</b>		
Depreciation and amortisation	18,742,590	16,606,097
Transfer of assets	6,300,876	-
Interest Received	(6,872,906)	(5,445,943)
Provisions	4,688,817	(4,990,433)
Movements in retirement benefit assets and liabilities	209,000	228,000
<b>Changes in working capital:</b>		
Inventories	512,018	928,860
Trade receivables from exchange transactions	(2,669,232)	(2,326,817)
Other receivables from non-exchange transactions	908,889	(181,133)
Finance leases	(212,191)	(124,170)
Trade and other payables from exchange transactions	10,533,205	1,240,160
VAT	(5,501,046)	311,981
Unspent conditional grants and receipts	(4,404,057)	2,269,646
	<b>106,497,616</b>	<b>69,508,658</b>

## 32. Financial instruments disclosure

### Categories of financial instruments

#### 2016

#### Financial Assets

	Loans and receivables	Total
Trade and other receivables from exchange transactions	10,670,087	10,670,087
Other receivables from non-exchange transactions	537,309	537,309
Cash and cash equivalents	103,229,763	103,229,763
Inventories	3,159,123	3,159,123
VAT receivables	10,322,551	10,322,551
	<b>127,918,833</b>	<b>127,918,833</b>

#### Financial liabilities

	Financial liabilities	Total
Other financial liabilities	5,749,600	5,749,600
Trade and other payables from exchange transactions	24,727,566	24,727,566
Unspent conditional grants	9,765,228	9,765,228
Short term finance lease	62,932	62,932
	<b>40,305,326</b>	<b>40,305,326</b>

#### 2015

#### Financial assets

	Loans and receivables	Total
Trade and other receivables from exchange transactions	8,000,855	8,000,855
Other receivables from non-exchange transactions	1,446,198	1,446,198
Cash and cash equivalents	81,969,673	81,969,673
Inventories	3,671,140	3,671,140

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Figures in Rand	2016	2015
<b>Financial instruments disclosure (continued)</b>		
VAT Receivable	4,821,505	4,821,505
	<b>99,909,371</b>	<b>99,909,371</b>

### Financial liabilities

	Financial liabilities	Total
Finance lease liability	62,932	62,932
Other financial liabilities	5,540,000	5,540,000
Trade and other payables from exchange transactions	14,194,361	14,194,361
Unspent Conditional Grant	14,169,285	14,169,285
Short-term portion of finance lease	275,123	275,123
	<b>34,241,701</b>	<b>34,241,701</b>

### 33. Commitments

#### Authorised capital expenditure

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

• Infrastructure	19,750,039	7,533,965
• Community	2,161,182	1,180,521
• Other commitment	539,826	770,391
	<b>22,451,047</b>	<b>9,484,877</b>

##### Total capital commitments

Already contracted for but not provided for	22,451,047	9,484,877
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#### Authorised operational expenditure

##### This expenditure will be financed from :

• External loan	-	-
• Government Grants	21,911,221	8,714,488
• Own sources	539,826	770,391
	<b>22,451,047</b>	<b>9,484,879</b>

##### Total operational commitments

Already contracted for but not provided for	22,451,047	9,484,879
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### 34. Contingencies

#### Contingent liabilities

- Litigation is in the process against the municipality relating to an ill-informed resolution taken by council to condone the sale of a council owned property way below market value. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as likely, and the case should be resolved within the next year. Expected contingent liability of R 42 000 is expected for valuation fee.

#### Contingent assets

Pending litigation to declare the Municipality as the rightful owner of a leased property. An asset estimated at R11million may be transferred to the municipality

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## Notes to the Financial Statements

Figures in Rand

2016

2015

### 35. Award to to close family members of person in service of the state

An award to an amount of R 25 500 was made to Mrs N.T Nzimande who is a wife of councilor B.P Nzimande.

### 36. Related parties

There were no related party transactions in the current financial Year.

### 37. Key source of estimation, uncertainty and judgments

#### Key Sources of Estimate, uncertainty and judgement

The following areas involve a significant degree of estimation and uncertainty

- Useful live and residual values of property, plant and equipment
- Recoverable amount of property plant and equipment
- Present value of defined benefit obligations
- Provision for doubtful debts
- Determining to collectable amount traffic fines issued

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## Notes to the Financial Statements

Figures in Rand	2016	2015
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### 38. Prior period errors

1. Write off of incorrectly classified Investment property for 2014/15
2. Correction of overstated depreciation on finance leases for 2014/15.
3. Correction of overstated finance lease liability for 2014/15
4. Correction of overstated post employment benefits for 2014/15
5. Correction of overstated Grants Revenue
6. Correction of misallocated Hallhire deposits
7. Correction of Accruals overstated in 2014/15
8. Correction of classification of land as work in progress 2014/15
9. Correction of fence not capitalised in 2014/15

The correction of the errors results in adjustments as follows:



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## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>38. Prior period errors (continued)</b>		
<b>1. Statement of financial position</b>		
Investment property cost	-	300,000
Accumulated Depreciation on Investment property	270,000	-
<b>1. Statement of financial performance</b>		
Depreciation on investment property	30,000	-
<b>2. Statement of financial position</b>		
Accumulated depreciation on finance leases	27,758	-
<b>2. Statement of financial performance</b>		
Depreciation on finance leases	-	27,758
<b>3. Statement of financial position</b>		
Finance lease liability	6,692	-
<b>3. Statement of financial performance</b>		
Accumulated depreciation on finance leases	-	6,692
<b>4. Statement of Financial Position</b>		
Post employment benefits: Long service awards	-	4,000
Post employment benefits : Medical Benefits	-	56,000
<b>4. Statement of Financial Performance</b>		
Contribution to post employment benefit expense	60,000	-
<b>5. Statement of Financial Position</b>		
Government grants and subsidies	-	1,384,219
<b>5. Statement of Financial Performance</b>		
Accumulated Surplus	1,384,219	-
<b>6. Statement of Financial Position</b>		
Hall Hire Deposits	-	1,500
<b>6. Statement of Financial Performance</b>		
Accumulated Surplus	1,500	-
<b>7. Statement of Financial Position</b>		
Trade Payables	124,521	-
<b>7. Statement of Financial Performance</b>		
Accumulated Surplus	-	124,521
<b>8. Statement of Financial Position</b>		
Investment Property	7,516,845	-
Property, plant and equipment	-	7,516,845
<b>9. Statement of Financial Position</b>		
Community Assets	69,852	-
Work in progress	-	69,852
<b>10. Statement of Financial Performance</b>		
Depreciation/Accumulated Surplus	403,708	-
<b>10. Statement of Financial Position</b>		
Accumulated Depreciation	-	403,708

## 39. Risk management

### Financial risk management

Due to the largely non-trading nature of the activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.

The municipality's finance function monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk, liquidity risk, market risk relating to interest rate risk.



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Figures in Rand	2016	2015
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### 39. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to recover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Unspent Grants are cash backed. Cash flow forecasts are prepared and adequately utilised borrowing facilities are monitored. The table below analyses the municipality's financial liabilities into amounts due within the 12 months after the financial year end. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<u>2016</u>	<u>2015</u>
Trade and other payable	24,727,566	14,194,361
Other lease obligations	<u>62,932</u>	<u>338,055</u>
	<u>24,790,498</u>	<u>14,532,416</u>

#### Credit risk

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

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit risk exposure in respect of the relevant financial instruments is as follows:

Financial instrument	<u>2016</u>	<u>2015</u>
VAT Receivables	10,322,551	4,821,505
Cash & cash equivalents	103,229,763	81,969,673
Trade receivables	10,670,087	8,000,855
Other receivables from non-exchange	537,309	1,446,198
Maximum Credit Exposure	124,759,710	96,238,231

#### 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.

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

Bank Balances and Cash	<u>103,229,763</u>	<u>81,969,673</u>
Maximum Interest Exposure	<u>103,229,763</u>	<u>81,969,673</u>

##### Price risk

Due to legislative restrictions, the municipality does not trade these investments.

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Figures in Rand	2016	2015
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### 40. Events after the reporting date

Events after the 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. In the current financial year there were no events identified after the reporting date

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). If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

### 41. Unauthorised expenditure

There is no unauthorised expenditure as at 30 June 2016.

### 42. Fruitless and wasteful expenditure

There was no fruitless expenditure incurred as at 30 June 2016

### 43. Irregular expenditure & Deviations

Opening balance	4,156,107	229,916
Add: Irregular Expenditure - current year	128,551	4,156,107
Less: Amounts written off	(4,152,320)	(229,916)
	<b>132,338</b>	<b>4,156,107</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	-	-
An amount of R 128551 is also included as irregular expenditure due to an award made to a supplier whose accreditation for the required specified unit standard had expired.	128,551	-
Prior years	3,787	4,156,107
	<b>132,338</b>	<b>4,156,107</b>



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Figures in Rand		2016	2015
<b>43. Irregular expenditure &amp; Deviations (continued)</b>			
<b>Deviations – current year</b>			
	<b>Reasons for deviation</b>		
Repairs to Christmas lights	Emergency - Christmas light not functioning and had to be repaired.		193,800
Supply of Disabled Toilets	Emergency - Toilets needed for disabled person at an event		6,999
Repairs to grader	Impractical - Striping of the vehicle was required in order to determine the fault and therefore be able to quote.		202,153
Repairs to Mayoral vehicle	Impractical - Striping of the vehicle was required in order to determine the fault and therefore be able to quote.		50,047
Repairs to refuse truck	Impractical - Striping of the vehicle was required in order to determine the fault and therefore be able to quote.		42,605
Performer for prayer day	UBuhlebezwe Municipality was hosting an annual prayer day and Thobekile was Mkhwanazi was approached and the price negotiated at R30 000. One local artist was also approached and compensated with R 2500. Three pastors paid R500 each.		34,000
Salga game accommodation	Due to the demand for accommodation during SALGA games and the nature of the transaction, the municipality was forced to deviate from the normal SCM process and immediately send someone to look for accommodation. In order to secure accommodation immediate payment was done at the available place.		117,000
Repairs to TLB	Impractical - Striping of the vehicle was required in order to determine the fault and therefore be able to quote.		52,278
Security services	Emergency - Security services were required urgently for the safety of the Mayor. New armed security services was appointed without following the SCM Processes		84,930
Installation of surveillance cameras	Impractical - The SCM process for appointing a service provider to install security cameras was started, but during the process it was noted that the process is exposing the municipality to risk as it was opened to everyone. To minimise the risk the advert was withdrawn and the service provider that had previously installed the cameras within the municipality was appointed.		48,161
Replacement of 32 channel and 2KVA System & UPS System	Emergency - Digital video recorder and ups system were damaged when the backup generator kicked in following a power cut. This prompted a deviation from the SCM process, due to the fact that the installation of surveillance cameras should always be in working condition. KDM Electrical was the original supplier, hence they were identified as the service provider to conduct the required service.		17,442
Supply and Installation of IP Camera system	Emergency - Security surveillance cameras were not installed at the Accounting Officers Office and the Guard house ( gate entrance ). These services were required urgently as a safety precaution measure for employees and to safeguard municipal property.		62,187
			<b>911,602</b>



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<b>44. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	500,000	500,000
Amount paid - current year	(500,000)	(500,000)
	-	-
<b>Audit fees</b>		
Current year subscription / fee	1,302,043	1,228,209
Amount paid - current year	(1,302,043)	(1,228,209)
	-	-
<b>PAYE, UIF &amp; Skills</b>		
Current year subscription / fee	8,872,919	6,012,080
Amount paid - current year	(8,872,919)	(6,012,080)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	7,926,717	5,747,536
Amount paid - current year	(7,926,717)	(5,747,536)
	-	-
<b>VAT</b>		
VAT receivable	10,322,551	9,563,641
VAT payable	-	-
	<b>10,322,551</b>	<b>9,563,641</b>

### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at June 30, 2016: