



UTHUKELA

**UMKHANDLU WESIFUNDA
DISTRIKSMUNISIPALITEIT
DISTRICT MUNICIPALITY**

uThukela District Municipality
Annual Financial Statements
for the year ended 30 June 2010

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

General Information

Legal form of entity	District Municipality
Mayor	Clr SM Sithole
Deputy Mayor	Clr SA Mvelase
	Clr NM Hadebe (Speaker)
Councillors	Mr S Bandu
	Mr MJ Ntshaba
	Ms BC Buthelezi
	Mr DS Nhlangothi
	Mr RM Mlaba
	Ms TY Nqubuka
	Ms ST Ntshalinthali
	Dr FA Khan
	Mr MN Mlotshawa
	Mr JMH Wood
	Mr SN Zwane
	Mr ZJ Dlaedwa
	Mr PJ Hurter
	Mr DS Ndaba
	Ms SG Mabaso
	Mr TA Sigubudu
	Mr MG Hlubi
	Mr MC Mchunu
	Mr BA Mnculwane
	Mr TP Mazibuko
	Mr CJS Nunes
	Mr TM Cele
	Mr EN Lushaba
	Ms SP Hadebe
	Ms MD Mazibuko
	Mr BH Sithole
Grading of local authority	4
Accounting Officer	Mr SSB Nkehli
Chief Finance Officer (CFO)	Mr JN Madondo
Registered office	76 Murchison Street Ladysmith 3370
Business address	76 Murchison Street Ladysmith 3370
Postal address	Po Box 116 Ladysmith 3370
Bankers	ABSA - Ladysmith
Auditors	Auditor General (SA)
Attorneys	Ramkhelawan INC

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Index

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

Index	Page
Audit Committee Report	4
Report of the Auditor General	5
Accounting Officer's Report	6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Accounting Policies	11 - 19
Notes to the Annual Financial Statements	20 - 44

The following supplementary information does not form part of the annual financial statements and is unaudited:

Appendixes:

Appendix A: Schedule of External loans	45
Appendix B: Analysis of Property, Plant and Equipment	47
Appendix C: Segmental analysis of Property, Plant and Equipment	49
Appendix D: Segmental Statement of Financial Performance	51
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	53
Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)	55
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	57

Abbreviations

IMFO	Institute of Municipal Finance Officers
ME's	Municipal Entities
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
PSL	Past Service Liability
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Index

MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2010.

Audit committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 55 (1)(b) of the PFMA and Treasury Regulations 27.1.7 and 27.1.10(b) and (c).

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the PFMA and the King II Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements both any qualification and/or the emphasis of matter, and the management letter of the Auditor-General, it was noted that no significant or material non compliance with prescribed policies and procedures have been reported. Accordingly, we can report that the system of internal control for the period under review was efficient and effective.

Evaluation of annual financial statements

The Audit Committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General's management letter and management's response thereto;
- reviewed changes in accounting policies and practices; and
- reviewed significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the Auditor-General's conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

Chairperson of the Audit Committee

Date: _____



Report of the Auditor General

To the Provincial Legislature of uThukela District Municipality

Report on the Financial Statements

I have audited the accompanying annual financial statements of the uThukela District Municipality which comprise the statement of financial position as at 30 June 2010, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 6 to 44.

Basis of accounting

The Entity's policy is to prepare annual financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note xx] [note xx to the financial statements].

Auditor General (SA)

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2010.

Financial year 2008/2009 saw various reforms facing Local Government in general and our municipality in particular among these were financial report reforms which was the conversion process of annual financial statements from IMFO Statement to GRAP/GAMAP Standards, (refer to 40 of the notes to financial statements) for standards adopted, in compiling the same.

It is always difficult to match communities' expectations (needs) to available financial resources, this has been aggravated by the country's recession, which saw an increase in consumers' debtors' book and provisions thereof, thus impacting negatively on our financial position. This confirms that as the municipality we were immune from the global economic melt down.

Despite all odds, we remain committed as the municipality to render quality and sustainable service to our communities. To achieve this goal, we are striving within available means to stretch each rand as far as possible.

Lastly, I would like to thank my council and staff for support during this challenging financial year.

SSB Nkehi

MUNICIPAL MANAGER

The annual financial statements set out on pages 6 to 44, which have been prepared on the going concern basis, were approved by the accounting officer on 31 May 2010 and were signed on its behalf by:

Accounting Officer

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	6	3 931 983	5 403 392
Trade and other receivables from exchange transactions	4	1 989 061	1 488 226
Other receivables from non-exchange transactions	5	548 057	15 445 896
Prepayments	7	1 237 686	277 809
Consumer debtors	3	35 388 149	40 820 203
Cash and cash equivalents	2	913 798	3 203 769
		44 008 734	66 639 295
Non-Current Assets			
Property, plant and equipment	9	658 436 820	621 857 493
Intangible assets	10	52 708	54 542
		658 489 528	621 912 035
Total Assets		702 498 262	688 551 330
Liabilities			
Current Liabilities			
Other financial liabilities	16	2 753 652	3 323 970
Finance lease obligation	17	701 026	840 286
Operating lease liability	15	102 451	283 024
Trade and other payables from exchange transactions	11	122 566 324	124 516 264
VAT payable	8	12 552 364	8 557 837
Consumer deposits	12	6 289 187	6 040 518
Retirement benefit obligation	13	3 395 286	2 798 566
Unspent conditional grants and receipts	14	30 203 847	48 889 563
Bank overdraft	2	3 874 114	-
		182 438 251	195 250 028
Non-Current Liabilities			
Other financial liabilities	16	14 987 075	17 623 405
Finance lease obligation	17	1 023 376	1 728 800
		16 010 451	19 352 205
Total Liabilities		198 448 702	214 602 233
Net Assets		504 049 560	473 949 097
Net Assets			
Accumulated surplus		504 049 560	473 949 097

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

	Note(s)	2010	2009
Revenue			
Property rates	30	193 663	-
Service charges	18	99 957 682	93 159 574
Interest received (trading)		17 341 584	19 026 605
Fines		2 193	5 000
Government grants and subsidies	19	278 397 668	234 864 571
Other income		2 422 947	3 289 133
Total Revenue		398 315 737	350 344 883
Expenditure			
Employee related costs	20	87 081 187	77 399 780
Remuneration of councillors	21	3 918 862	3 585 924
Debt impairment	22	80 758 598	61 905 070
Collection costs		376 532	672 697
Repairs and maintenance		16 345 487	18 552 164
Finance costs	23	4 515 059	3 128 702
Bulk purchases	24	2 485 091	2 454 919
Impairment loss		-	5 258 717
Depreciation and amortisation	25	24 566 293	26 089 130
General Expenses	26	165 743 862	226 994 419
Total Expenditure		385 790 971	426 041 522
Gains/(loss) on disposal of assets		(218 104)	(78 262)
Surplus (deficit) for the year		12 306 662	(75 774 901)

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Changes in Net Assets

	Share capital / contributions from owners	Accumulated surplus	Total net assets
Balance at 01 July 2008	-	(81 634 826)	(81 634 826)
Changes in net assets			
Prior year adjustment	-	5 545 246	5 545 246
Change in Accounting policy	-	630 796 791	630 796 791
Correction of prior period error	-	(4 983 213)	(4 983 213)
Net income (expenses) recognised directly in net assets	-	631 358 824	631 358 824
Deficit for the year	-	(75 774 901)	(75 774 901)
Total recognised income and expenses for the year	-	555 583 923	555 583 923
Total changes	-	555 583 923	555 583 923
Restated balance at 01 July 2009 (refer to note 30)	-	491 278 288	491 278 288
Changes in net assets			
Prior year adjustments	-	464 610	464 610
Net income (expenses) recognised directly in net assets	-	464 610	464 610
Deficit for the year	-	12 306 662	12 306 662
Total recognised income and expenses for the year	-	12 771 272	12 771 272
Total changes	-	12 771 272	12 771 272
Balance at 30 June 2010	-	504 049 560	504 049 560

Note(s)

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Cash Flow Statement

	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		59 184 051	94 840 969
Grants		286 973 638	224 273 816
		<u>346 157 689</u>	<u>319 114 785</u>
Payments			
Employee costs		(91 000 049)	(80 985 704)
Suppliers		(191 393 444)	(183 769 577)
Finance costs		(4 489 275)	(2 741 947)
		<u>(286 882 768)</u>	<u>(267 497 228)</u>
Net cash flows from operating activities	27	<u>59 274 921</u>	<u>51 617 557</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(61 361 890)	(57 502 550)
Proceeds from sale of property, plant and equipment	9	-	353 120
		<u>(61 361 890)</u>	<u>(57 149 430)</u>
Cash flows from financing activities			
Repayment of Long term loans		(3 206 648)	(3 027 471)
Finance lease payments		(870 468)	504 145
		<u>(4 077 116)</u>	<u>(2 523 326)</u>
Net increase/(decrease) in cash and cash equivalents		(6 164 085)	(8 055 199)
Cash and cash equivalents at the beginning of the year		3 203 769	11 258 968
Cash and cash equivalents at the end of the year	2	<u>(2 960 316)</u>	<u>3 203 769</u>

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective 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 No. 56 of 2003).

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

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

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

The accounting policies are applied consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.1 Property, plant and equipment

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.

Initial recognition

Property, plant and equipment are tangible non current assets (including infrastructure assets) that are held for use in the supply of services, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 operating in the manner intended by the municipality. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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.

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

Subsequent measurement - cost model

Subsequent to initial recognition, item of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Average useful life
------	---------------------

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.1 Property, plant and equipment (continued)

Buildings	
• Dams	80
Plant and equipment	
• Graders	5
• Tractors	5
• Mechanical horses	5
• Compressors	2
• Lawnmowers	5
• Laboratory equipment	5
• Radio equipment	5
• Telecommunication equipment	5
• Irrigation systems	10
• Lathes & Milling equipment	5
• Tippers	5
• Tools	5
• General	5
Water:	
• Meters	10
• Supply/reticulation	20
• Reservoirs and tanks	30
• Water pumps	5
• Mains	30
• Rights	30
• Boreholes	15
Sewerage:	
• Sewers	30
• Outfall sewers	40
• Purification works	30
• Sewerage pumps	5
• Sludge machines	15
Office equipment	
• Computer equipment	3
• Office machines	3-5
• Air conditioners	3
• Furniture and fittings	7
• Emergency equipment	5
• Security equipment	5
Other Assets	
• Office building	30
• Motor vehicles	5
• Truck/bakkies	5

The residual value, and the useful life of each asset and depreciation method is reviewed at the end of each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Incomplete Construction work

Incomplete construction work is stated at cost. Depreciation only commences when the asset is brought into use.

Derecognition

Item of property, plant and equipment is derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.2 Intangible assets

Initial Recognition

- An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.
- Intangible assets are initially recognised at cost.

An intangible asset is recognised when the cost or fair value of the asset can be measured reliably.

Subsequent measurement - Cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Item	Useful life
Water rights	30

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the statement of Financial Performance.

Derecognition

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

1.3 Financial instruments

Initial recognition and measurement

Financial instruments are initially recognised at fair value.

Subsequent measurement

Financial assets are categorised according to their nature as either financial assets at fair value through surplus or deficit, held-to-maturity, loans and receivables, or available for sale.

Financial liabilities are categorised as either at fair value through surplus or deficit or financial liabilities carried at amortised cost (other).

The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The municipality analyses the debtor's payments trends and assessed the probability of the debtor defaulting on their payments was considered and impaired.

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

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.3 Financial instruments (continued)

the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Trade payables are categorised as financial liabilities held at amortised cost.

Cash and cash equivalents

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

Cash and cash equivalents are categories as financial assets: loans and receivables.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost. Finance charges on bank overdraft are expensed as incurred.

Bank overdraft are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.4 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.

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 - 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.

1.5 Inventories

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.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.5 Inventories (continued)

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.

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 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, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.6 Presentation of currency

These annual financial statements are presented in South African Rand.

1.7 Going concern assumption

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

1.8 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

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.

Provisions are not recognised for future operating Surplus.

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.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.9 Provisions and contingencies (continued)

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 terminating their services;
 - 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.

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 agreement.

After their initial recognition contingent liabilities recognised in business 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.

Contingent assets and contingent liabilities are not recognised. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

1.10 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.11 Revenue from exchange transactions

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;
- 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.

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.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.11 Revenue from exchange transactions (continued)

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 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 the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
 - to the extent that it is probable that they will result in revenue; and
 - they are capable of being reliably measured.

Interest, royalties and service fees

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.

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

1.12 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue rates, including collection charges and penalty interest, is recognised when:

Revenue rates, including collection charges and penalty interest, is recognised when:

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

Fines

Revenue from the issuing of fines 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.

Government grants

Government grants are recognised as revenue when:

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

To the extent that the conditions, criteria or obligations have not been met, a liability shall be recognised in the Statement of

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

Financial Position.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

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

1.13 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.

1.14 Fruitless and wasteful expenditure

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

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

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act no. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management policy.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

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.

1.16 Employee benefits

Short-term employee benefits

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

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

Defined contribution plans

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.16 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to retirees. According to the rules of the medical aid funds, with which the Municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for 40% of the medical aid membership fee, and the Council for the remaining 60%. The medical aid contribution are charged to the Statement of Financial Performance as they fall due.

The additional cost effect of the post retirement obligations is immaterial and the cost thereof are charged to the Statement of Financial Performance as they fall due. The Municipality's net obligation in respect of post retirement plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their in current and prior periods whereby that benefit is discounted to determine its present value.

The actuarial valuation is performed by an independent qualified actuary on a annual basis using the projected unit credit method. When the calculation results in a benefit to the Municipality, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. The actuarial gain is transacted in full in the Statement of Financial Performance and not calculated and accounted for according to the "corridor" method.

1.17 Budget information

Municipalities 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 municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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 annual financial statements.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	7 612	7 700
Bank balances	-	2 347 870
Short-term deposits	906 186	848 199
Bank overdraft	(3 874 114)	-
	(2 960 316)	3 203 769
Current assets	913 798	3 203 769
Current liabilities	(3 874 114)	-
	(2 960 316)	3 203 769

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 (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
ABSA Bank (Ladysmith) Account no - 4048800058	157 254	1 744 383	1 056 865	157 254	1 493 934	1 056 865
ABSA Bank (Ladysmith) Account no - 4062520058	88 072	603 487	1 028 677	88 072	603 487	1 028 677
Cash on Hand	7 612	7 700	7 700	7 612	7 700	7 700
FNB (Ladysmith) Account no - 62252306280	493 840	-	-	493 840	-	-
FNB (Ladysmith) Account no- 62253072385	(4 613 280)	-	-	(4 613 280)	-	-
Total	(3 866 502)	2 355 570	2 093 242	(3 866 502)	2 105 121	2 093 242

3. Consumer debtors

Gross balances

Rates	155 079	-
Water	281 376 194	208 198 841
	281 531 273	208 198 841

Less: Provision for debt impairment

Rates	(155 079)	-
Water	(245 988 045)	(167 378 638)
	(246 143 124)	(167 378 638)

Net balance

Water	35 388 149	40 820 203
-------	------------	------------

Water and sanitation

Current (0 -30 days)	5 745 575	14 439 673
31 - 60 days	2 295 467	7 598 533
61 - 90 days	1 945 662	10 229 555
91 - 120 days	1 513 500	8 552 442

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
3. Consumer debtors (continued)		
121 - 365 days	1 256 099	-
> 365 days	22 631 846	-
	35 388 149	40 820 203
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	10 385 335	13 239 439
31 - 60 days	7 736 587	7 016 370
61 - 90 days	7 302 565	12 482 322
91 - 120 days	6 827 778	16 978 276
121 - 365 days	6 965 626	150 877 974
> 365 days	236 101 388	1 189 847
	275 319 279	201 784 228
Less: Provision for debt impairment	(243 068 305)	(152 067 921)
	32 250 974	49 716 307
Industrial/ commercial		
Current (0 -30 days)	591 480	815 027
31 - 60 days	259 654	159 455
61 - 90 days	341 374	345 750
91 - 120 days	227 511	180 697
121 - 365 days	152 808	2 108 750
> 365 days	2 909 446	-
	4 482 273	3 609 679
Less: Provision for debt impairment	(3 074 820)	(2 108 750)
	1 407 453	1 500 929
National and provincial government		
Current (0 -30 days)	12 821	385 207
31 - 60 days	12 215	422 707
61 - 90 days	10 922	401 483
91 - 120 days	9 601	393 469
121 - 365 days	10 331	1 202 068
> 365 days	401 229	-
	457 119	2 804 934
Less: Provision for debt impairment	-	(1 202 068)
	457 119	1 602 866
Total		
Current (0 -30 days)	10 989 636	14 439 673
31 - 60 days	8 008 456	7 598 532
61 - 90 days	7 654 861	13 229 555
91 - 120 days	7 064 891	17 552 442
121 - 365 days	7 128 765	155 378 639
> 365 days	240 684 664	-
	281 531 273	208 198 841
Less: Provision for debt impairment	(246 143 124)	(167 378 638)
	35 388 149	40 820 203
Less: Provision for debt impairment		
Current (0 -30 days)	(5 244 061)	-
31 - 60 days	(5 712 989)	-

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
3. Consumer debtors (continued)		
61 - 90 days	(5 709 198)	(3 000 000)
91 - 120 days	(5 551 391)	(9 000 000)
121 - 365 days	(5 872 666)	(155 378 638)
> 365 days	(218 052 819)	-
	(246 143 124)	(167 378 638)

Reconciliation of debt impairment provision

Balance at beginning of the year	167 378 638	106 136 379
Contributions to provision	78 764 486	61 242 259
	246 143 124	167 378 638

Fair value of consumer debtors

Consumer debtors	35 388 149	40 820 203
------------------	------------	------------

The fair value of trade and other receivables approximate their carrying values.

Consumer debtors impaired

The amount of the provision was 246 143 124 as of 30 June 2010 (2009: 167 378 638).

4. Trade and other receivables from exchange transactions

Prepayments (if immaterial)	253 110	-
Deposits - Fuel & Electricity	1 197 179	1 184 579
Sundry debtors	538 772	303 647
	1 989 061	1 488 226

Fair value of other receivables from exchange transactions

Trade and other receivables from exchange transaction have been fair valued at cost.

Other receivables from exchange transactions

The amount of the provision was 10 450 164 as of 30 June 2010 (2009: 9 211 412).

5. Other receivables from non-exchange transactions

Sundry creditor	70 462	70 481
Stock suspense	29 044	29 044
Trust funds	166	166
Bank suspense	49 511	14 947 331
Retention claims	398 874	398 874
	548 057	15 445 896

Credit quality of other 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:

Fair value of other receivables from non-exchange transactions

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
<hr/>		
6. Inventories		
Consumable stores	5 799	6 823
Water	3 926 184	5 396 569
	3 931 983	5 403 392

Inventory is carried at the lower of cost or net realisable value.

7. Prepayments

Prepayments	1 237 686	277 809
-------------	-----------	---------

8. VAT payable

Vat payables	12 552 364	8 557 837
--------------	------------	-----------

Vat is payable on the receipts basis. Vat is paid over to SARS only once payment is received from debtor.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2010			2009		
	Cost	Acc depr	Carrying value	Cost	Acc depr	Carrying value
Land	1 037 872	-	1 037 872	1 037 872	-	1 037 872
Buildings	482 857	(226 150)	256 707	482 857	(210 894)	271 963
Infrastructure	803 874 754	(153 282 168)	650 592 586	743 633 536	(130 093 836)	613 539 700
Other assets	16 491 957	(12 312 665)	4 179 292	16 083 906	(11 910 192)	4 173 714
Finance lease assets	4 361 760	(1 991 397)	2 370 363	4 397 819	(1 563 575)	2 834 244
Total	826 249 200	(167 812 380)	658 436 820	765 635 990	(143 778 497)	621 857 493

Reconciliation of property, plant and equipment - 2010

	Opening Balance	Additions	Capital under construction	Disposals	Transfers	Depreciation	Total
Land	1 037 872	-	-	-	-	-	1 037 872
Buildings	271 963	-	-	-	-	(15 256)	256 707
Infrastructure	613 539 700	631 438	60 409 781	-	(800 000)	(23 188 333)	650 592 586
Other assets	4 173 714	320 671	-	(58 744)	587 059	(843 408)	4 179 292
Finance lease assets	2 834 244	-	-	(159 360)	212 941	(517 462)	2 370 363
	621 857 493	952 109	60 409 781	(218 104)	-	(24 564 459)	658 436 820

Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Capital under construction	Disposals	Transfers	Depreciation	Total
Land	1 037 872	-	-	-	-	-	1 037 872
Buildings	287 220	-	-	-	-	(15 257)	271 963
Infrastructure	581 726 259	2 055 746	53 488 719	-	-	(23 731 024)	613 539 700
Other assets	5 190 432	471 117	-	(155 945)	212 942	(1 544 832)	4 173 714
Finance lease assets	2 633 676	1 486 968	-	(275 437)	(212 942)	(798 021)	2 834 244
	590 875 459	4 013 831	53 488 719	(431 382)	-	(26 089 134)	621 857 493

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010 2009

9. Property, plant and equipment (continued)

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.

The uThukela District Municipality have opted to take advantage of Directive 4, issued by the Accounting Standard Board. The municipality have physically verified all assets, tagged movable assets, conducted conditional assessments and captured GPS coordinates of immovable assets.

10. Intangible assets

	2010			2009		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Water rights	55 000	(2 292)	52 708	55 000	(458)	54 542

Reconciliation of intangible assets - 2010

	Opening Balance	Amortisation	Total
Water rights	54 542	(1 834)	52 708

Reconciliation of intangible assets - 2009

	Opening Balance	Additions	Amortisation	Total
Water rights	-	55 000	(458)	54 542

11. Trade and other payables from exchange transactions

Trade payables	5 585 948	75 231 580
DWAF	13 198 528	8 503 483
Loan - Endumeni	8 000	8 000
Trust funds	2 834 273	2 639 912
Retentions	7 428 817	7 382 308
Other Creditors	68 087 283	18 930 861
DBSA - accrued interest	491 039	586 232
MIG Creditors	12 496 103	751 409
Provision for leave	12 436 333	10 482 479
	122 566 324	124 516 264

Fair value of trade and other payables

The fair value is determined by using the face value of the capital outstanding.

12. Consumer deposits

Water	6 289 187	6 040 518
-------	-----------	-----------

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010 2009

13. Retirement benefits

Defined benefit plan

Post retirement medical aid plan

The municipality has engaged Alexander Forbes Health (Pty) Ltd to conduct the 30 June 2010 actuarial valuation of the municipality's post retirement medical aid benefit. It is the policy of the municipality to provide retirement benefits to 21 employees. The results and assumption of the valuation is note below.

Movements for the year

Opening balance	2 798 566	13 449 950
Adjustment to prior year provision	-	(13 274 739)
Net expense recognised in the statement of financial performance	596 720	2 623 355
	3 395 286	2 798 566

Net expense recognised in the statement of financial performance

Current service cost	242 815	1 631 294
Interest cost	261 018	1 061 491
Actuarial (gains) losses	189 982	-
Expected employer benefit payments	(97 095)	(69 430)
Total (included in employee benefits expense) Note 28	596 720	2 623 355

Key assumptions used

Assumptions used on last valuation on 30 June 2010.

Expected Retirement age	65	65
Discount rates used	9.25 %	9.50 %
Health care cost inflation	7.75 %	8.00 %
Salary inflation	7.25 %	7.50 %

Other assumptions.

- discount rate is based on current bond yields of appropriate term gross of tax as required by IAS 19.
- Salary inflation is based on the underlying assumption that individual remuneration increases including merit and promotional increases would exceed CPI inflation by an average of 1.50% per annum over the long term.
- Health care cost inflation, it is assumed the current contribution table(s) of the medical scheme(s) would continue to apply in the future and with exceed CPI inflation by an average of 2.00% per annum.
- Assumed that 0% of current in-service members eligible for a retirement subsidy would discontinue medical scheme membership upon reaching retirement with uThukela DM.
- Assumed that 90% of current in-service members would be married at retirement, unless the member is older than the expected retirement age and marital status have been provided at the valuation date.
- Assumed mortality rates:

During employment	SA 85-90 (light) ultimate table
Post-employment	PA(90) ultimate table rated down 2 years plus 1% improvement per annum (from a base year of 2006).
- Assumed Withdrawal are set out below:

Age	Annual rate of Withdrawal
20	15%
25	10%
30	7%
35	4%
40	2%
45	0%

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
14. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
MIG Grants	15 139 506	20 929 157
KZN Projects	11 871 484	12 661 048
DWAF	2 702 188	13 738 027
Sport and Recreation	402 426	1 416 138
MSIG	88 243	145 193
	30 203 847	48 889 563
Movement during the year		
Balance at the beginning of the year	48 889 563	42 902 536
Additions during the year	124 651 072	94 717 887
Income recognition during the year	(143 336 788)	(88 730 860)
	30 203 847	48 889 563
See note 19 for reconciliation of grants.		
15. Operating lease (accrual)		
Opening balance	283 024	234 816
Transfer to Operating lease liability	(180 573)	48 208
Current liabilities	(102 451)	(283 024)
	-	-
The properties occupied by the municipality is leased from third party. These leases is operating lease as defined. The operating lease liability is the difference between actual payments made in terms of the lease agreement and the straight lining the lease payments.		
16. Other financial liabilities		
Held at amortised cost		
Loans - DBSA	17 740 727	20 947 375
Loans bear an interest rate between 10% and 15.25% per annum and are repayable over periods between five and twenty years. The loans compromises of 7 Loans approved by the Development Bank of South Africa amounting to R36 511 976.		
Non-current liabilities		
At amortised cost	14 987 075	17 623 405
Current liabilities		
At amortised cost	2 753 652	3 323 970
	17 740 727	20 947 375

The fair values is determined by using the face value of the capital outstanding as determined by the financial institutions..

Other financial liabilities at fair value through surplus or deficit

Financial liabilities at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
17. Finance lease obligation		
Minimum lease payments due		
- within one year	821 889	1 065 005
- in second to fifth year inclusive	1 126 060	1 980 615
	<u>1 947 949</u>	<u>3 045 620</u>
less: future finance charges	(223 547)	(476 534)
Present value of minimum lease payments	<u>1 724 402</u>	<u>2 569 086</u>
Present value of minimum lease payments due		
- within one year	701 026	840 286
- in second to fifth year inclusive	1 023 376	1 728 800
	<u>1 724 402</u>	<u>2 569 086</u>
Non-current liabilities	1 023 376	1 728 800
Current liabilities	701 026	840 286
	<u>1 724 402</u>	<u>2 569 086</u>

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

The average lease term was 3-5 years and the average effective borrowing rate was 10% (2009: 11%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

Refer to Appendix A for more detail on finance lease.

18. Service charges

Sale of water	83 453 175	78 137 267
Sewerage and sanitation charges	16 504 507	15 022 307
	<u>99 957 682</u>	<u>93 159 574</u>

19. Government grants and subsidies

Equitable shares	159 193 475	128 819 703
MIG Grant	98 112 055	84 504 727
Development Planning	-	16 122
DWAF	14 521 039	17 437 842
KZN Projects	4 465 437	2 137 192
Sport and recreation	1 313 715	735 868
MSIG	791 947	1 213 117
	<u>278 397 668</u>	<u>234 864 571</u>

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

MIG Grant

Balance unspent at beginning of year	20 929 157	3 485 102
Current-year receipts	117 183 000	85 371 000
Conditions met - transferred to revenue	(122 972 651)	(67 926 945)
	<u>15 139 506</u>	<u>20 929 157</u>

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010 2009

19. Government grants and subsidies (continued)

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

Projects is still on going and would be completed by the next financial.

KZN Projects

Balance unspent at beginning of year	12 661 048	11 692 821
Current-year receipts	3 675 872	2 985 075
Conditions met - transferred to revenue	(4 465 436)	(2 016 848)
	11 871 484	12 661 048

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

These are conditionals grants subjected to a MOA and the majority of these projects covers a multi fiscal year.

Dwaf

Balance unspent at beginning of year	13 738 027	26 454 169
Current-year receipts	2 757 200	3 500 000
Conditions met - transferred to revenue	(13 793 039)	(16 216 142)
	2 702 188	13 738 027

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

These are conditionals grants subjected to a MOA and the majority of these projects covers a multi fiscal year.

Sport and recreations

Balance unspent at beginning of year	1 416 138	621 167
Current-year receipts	300 000	1 500 000
Conditions met - transferred to revenue	(1 313 712)	(705 029)
	402 426	1 416 138

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

These are conditionals grants subjected to a MOA and the majority of these projects covers a multi fiscal year.

MSIG

Balance unspent at beginning of year	145 193	649 277
Current-year receipts	735 000	735 000
Conditions met - transferred to revenue	(791 950)	(1 239 084)
	88 243	145 193

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

These are conditionals grants subjected to a MOA and the majority of these projects covers a multi fiscal year.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
20. Employee related costs		
Basic	75 812 024	63 129 435
Medical aid - company contributions	2 290 911	1 902 689
UIF	524 863	449 019
WCA	763	-
SDL	697 227	616 523
Leave pay provision charge	1 616 767	2 675 510
Post-employment benefits - Pension - Defined contribution plan	596 720	2 511 689
Travel, motor car, accommodation, subsistence and other allowances	552 248	1 396 790
	82 091 523	72 681 655
Remuneration of municipal manager		
Annual Remuneration	861 149	782 357
Car Allowance	242 525	226 922
Contributions to UIF, Medical and Pension Funds	23 506	35 838
Travel and subsistence	23 554	-
	1 150 734	1 045 117
Remuneration of chief finance officer		
Annual Remuneration	615 020	576 391
Car Allowance	114 584	106 097
Contributions to UIF, Medical and Pension Funds	8 849	-
Entertainment	60 540	59 197
Housing subsidy	26 394	22 151
Travel and subsistence	14 379	-
	839 766	763 836
Manager: Technical Services		
Annual Remuneration	270 585	500 774
Car Allowance	115 660	221 218
Contributions to UIF, Medical and Pension Funds	12 773	-
Other	108 250	-
	507 268	721 992
Manager: Corporate Services		
Annual Remuneration	557 498	520 917
Car Allowance	154 663	144 726
Contributions to UIF, Medical and Pension Funds	61 389	50 790
Housing subsidy	5 941	5 559
Other	16 365	-
	795 856	721 992
Manager: Health Services		
Annual Remuneration	555 225	519 329
Car Allowance	209 094	195 660
Contributions to UIF, Medical and Pension Funds	8 520	-
Housing subsidy	7 484	7 003
Travel and subsistence	38 511	-
	818 834	721 992

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
20. Employee related costs (continued)		
Manager: Water Services		
Annual Remuneration	590 525	543 128
Car Allowance	194 118	181 665
Contributions to UIF, Medical and Pension Funds	18 494	18 403
Travel and subsistence	64 128	-
Other	9 941	-
	877 206	743 196
21. Remuneration of councillors		
Mayor	437 999	399 686
Deputy Mayor	481 022	448 506
Mayoral Committee Members	748 808	696 663
Speaker	478 486	447 136
Councillors	1 772 547	1 593 933
	3 918 862	3 585 924
In-kind benefits		
The Mayor certifies that the councillor's allowance were in line to the framework of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998).		
The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor have the use of a Council owned vehicles for official duties.		
The Mayor has three full-time bodyguards.		
An adjustment was made to the 08/09 councillors remuneration. This adjustment was the reallocation of the reimbursed travel allowances previously disclosed as Employee related cost - travel allowance.		
22. Debt impairment		
Contributions to debt impairment provision	80 757 905	61 874 987
Debts impaired	693	30 083
	80 758 598	61 905 070
23. Finance costs		
Non-current borrowings	2 315 907	2 566 428
Trade and other payables	57 586	-
Finance leases	25 784	386 755
Bank	2 115 782	175 519
	4 515 059	3 128 702
24. Bulk purchases		
Water	2 485 091	2 454 919
25. Depreciation and amortisation		
Property, plant and equipment	24 566 293	26 089 130

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
26. General expenses		
Advertising	211 014	569 546
Assessment rates & municipal charges	19 561	-
Auditors remuneration	1 329 738	835 999
Bank charges	465 875	498 151
Cleaning	301 761	366 403
Computer expenses	409 619	484 003
Consulting and professional fees	206 236	275 631
Consumables	26 437	7 877
Entertainment	446 417	713 632
Hire of plant and equipment	6 401 874	7 160 958
Insurance	1 300 801	1 238 100
Conferences and seminars	43 437	19 633
Lease rentals on operating lease	2 782 105	2 265 026
Magazines, books and periodicals	4 171	7 669
Motor vehicle expenses	168 429	136 171
Fuel and oil	2 856 426	3 400 004
Postage and courier	13 458	7 777
Printing and stationery	844 533	695 047
Promotions	1 024	856 577
Protective clothing	425 355	258 447
Security	433 159	254 595
Stock loss\Adjustment	71 481	22 413
Subscriptions and membership fees	825	1 053
Telephone and fax	2 591 388	2 724 346
Training	69 609	53 333
Assets expensed	563 056	1 445 262
Electricity	22 808 368	18 879 391
Water	537 819	270 593
Water tankering	26 218 330	28 410 496
Cost of sales	-	(460 601)
Audit committee	38 757	44 056
Government grant expenditure	57 224 410	113 601 169
Chemicals	12 238 895	11 248 384
Other expenses	24 689 494	30 703 278
	165 743 862	226 994 419
27. Cash generated from operations		
Surplus (deficit)	12 306 662	(75 774 901)
Adjustments for:		
Depreciation and amortisation	24 566 293	26 089 130
Gain on sale of assets and liabilities	218 104	78 262
Finance costs - Finance leases	25 784	386 755
Impairment deficit	-	5 258 717
Debt impairment	80 758 598	61 905 070
Movements in operating lease assets and accruals	(180 573)	48 208
Actuarial valuations - PRMA	596 720	(8 139 695)
Change in accounting policy	-	57 653 758
Prior year adjustments	17 793 801	-
Changes in working capital:		
Inventories	1 471 409	(174 074)
Trade and other receivables from exchange transactions	(500 835)	7 315 331
Other receivables from non-exchange transactions	14 897 839	(11 968 714)
Consumer debtors	(75 326 544)	(79 493 246)
Prepayments	(959 877)	(80 528)
Trade and other payables from exchange transactions	(1 949 940)	51 011 162
VAT	3 994 527	9 408 960

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
27. Cash generated from operations (continued)		
Unspent conditional grants and receipts	(18 685 716)	5 987 027
Consumer deposits	248 669	2 106 335
	59 274 921	51 617 557

28. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	148 976 266	122 454 013
• Investment property	-	1 360 600
	148 976 266	123 814 613

The source of funding for these projects is grants and subsidies funded from national and provincial government.

Operating leases – as lessee (expense)

Minimum lease payments due

- within one year	1 236 320	2 266 718
- in second to fifth year inclusive	317 591	3 976 852
	1 553 911	6 243 570

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of four years. No contingent rent is payable.

29. Contingencies

Claim Dispute - D. Kistadu	15 000	20 000
-----------------------------------	---------------	---------------

A fire hydrant manhole cover was removed from the road. The claimant damaged his motor cycle when he drove over the exposed fire hydrant. Both the Emnambithi Local Municipality and uThukela District Municipality have being summoned to identify which municipality is liable.

Claim dispute - L. Rugnath	-	91 158
-----------------------------------	----------	---------------

The municipality had disconnected the water supply to a school for non-payment. However the claimant maintained the account was paid in full. The claimant is suing the council for illegal disconnection. Municipality had settled this dispute and paid the plaintiff the amount claimed.

Claim dispute - Aon South African (Pty) Ltd	1 000 000	90 000
--	------------------	---------------

Aon lodged an appeal against the tender process and procurement of the appointment of Indwe Risk Services as the brokers for the Council's insurance portfolio.

Claim dispute - Telkom	15 000	43 000
-------------------------------	---------------	---------------

Telkom lodged a claim against Council for damages caused to telkom cables in Main Road C section Ezakheni during repairs done to burst water pipes.

Claim dispute - Telkom	15 000	20 000
-------------------------------	---------------	---------------

Telkom lodged a claim against Council for damages caused to telkom cables in Pandy Street, Ladysmith during repairs done to burst water pipes.

Claim dispute - M.E. Ndlovu	800 000	150 000
------------------------------------	----------------	----------------

A child had been injured whilst playing on a windmill in the Thawa area. The claimant is suing the Council for injuries

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010 2009

29. Contingencies (continued)

sustained. A settle of R150 000. agreed between the insurance company and the municipal lawyers, has been offered as settlement. The Council's insurers subsequently indicated that the matter must be decided in court and there should be no further negotiations. The matter is accordingly proceeded to Court.

AQUAMANZI 690 000 621 000

Municipality is being sued for work done.

J. Potgieter 5 000 7 000

Municipality is being sued for damage to a wall during a repair to a burst pipe.

J vd Merwe 4 000 000 4 000 000

uThukela District Municipality and Emnambithi Local Municipality is being sued for a reservoir that was constructed on the plaintiff's land.

Emnambithi/Ladysmith Municipality - 1 358 914

Emnambithi/Ladysmith Municipality is responsible for the refurbishment of roads. They have however billed uThukela DM for the refurbishment of roads in cases were uThukela DM had to dig up the road to replace burst water pipes. This matter is still under dispute and has to be resolved between the District and the Local Municipality.

30. Property Rates

Rates received

Property rates 193 663 -

Valuations

Commercial 25 000 000 -
Small holdings and farms 47 325 000 -
72 325 000 **-**

Valuations on land and buildings are performed every year. The last general valuation came into effect on 1 July 2009.

A general rate of 0,006 (Farming and natural reserves) and 0,023 (commercial) is applied to property valuations to determine assessment rates. Rebates of 30% is granted to commercial property owners.

Rates are levied on an annual basis with the final date for payment being 30 June 2010. Interest at prime plus 1% per annum is levied on rates outstanding two months after due date.

31. Related parties

Relationships

Close family member of key management

Mrs S Mkhize

Mrs S Mkhize, a municipal staff member, is married to the member of Nhloso Rural Development. The company was successful in being appointed to assist the municipality with some of its sanitation projects. Nhloso Rural Development was appointed in March 2006, as the preferred service provider during the municipality's tender process, prior to the members marriage to Mrs Mkhize.

Related party transactions

Fees paid to related parties

Nhloso Rural Development 15 668 000 35 992 000

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010

2009

32. Prior period errors

Property, Plant and Equipment were identified during the 09/10 asset verification. The cost and accumulated depreciation of asset was stated as at 1 July 2008.

Employees whom did not qualify for post retirement medical aid benefit was included in the calculation of the PRMA liability for the year ended June 2009. The 2009 liability had being restated to disclose to recalculated amount.

MIG expenditure incurred have not being accrued in the 08/09 financial year.

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

Statement of financial position

Property, plant and equipment	43 150	-
Trade and other receivables from exchange transactions	-	(90 417)
Retirement benefit obligation	(10 651 384)	-
Sundry Creditors - MIG	-	(6 645 287)
Opening Accumulated Surplus or Deficit	10 608 234	(4 739 960)

Statement of financial performance

Grant Expenditure (MIG)	-	11 475 664
-------------------------	---	------------

33. Risk management

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Credit risk

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.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The municipality is going to independently rate their customers. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

34. Going concern

We draw attention to the fact that at 30 June 2010, the municipality had accumulated Surplus of 504 049 560 and that the municipality's total assets exceed its liabilities by 504 049 560. This accumulated surplus is a result of a change in accounting standards (GRAP) and does not represent excess cash on hand.

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 municipality faces the going concern challenge, this saw the financial position of the municipality deteriorating over years. This condition poses a risks of the possibility that the municipality may fail to continue doing business in the

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010

2009

34. Going concern (continued)

foreseeable future as envisaged by the legislation

The above condition is emanating from the following issues

1. Demarcation process which left the municipality with huge debts with no accompanying income base.
2. High levels of poverty thus increased number of consumers who are not paying for services.
3. High unemployment rate
4. Dilapidated infrastructure transferred by local municipalities during the transfer period which was accompanied by no reserves or provisions.
5. Socio political issues which saw some sectors of our communities not paying for services
6. Draught and other factors associated with climate change (e.g. drying of water sources).
7. Developments by other spheres of Government (in particular Housing) which are not accompanied by funding to assist the municipality to enhance its infrastructure and this results in further financial strain on already overstretched financial resources.

The above culminates in cash flow difficulties and resultant consequences (e.g delay in payment of creditors), use of 14.37% of conditional grants for operating activities and a reduced financial strength of the municipality.

Management, council and other spheres of government have adopted the municipal turn- around strategy (MTAS) .

Over and above the strategy described above, the municipality is in serious discussion with the Development Bank of Southern Africa (DBSA) with an aim of implementing “ Integrated Revenue Management Strategy).

The integrated revenue management strategy addresses the following;

1. Data cleansing process
2. Exploration of the Private Public Partnerships
3. Exploring Prepaid meters as a preferred mode for metering
4. Sourcing of Loan funding to replace or refurbish the existing infrastructure.
5. Infrastructure development opportunities
6. Front loading of MIG to speedily address infrastructure needs.

35. Events after the reporting date

A reconciliation of the receipt book and deposit made by one the satelite office revealed that the cashier had not deposited, into the municipality's bank, all funds received from consumers. The municipality has established a Disiplinary Tribunal to investigate the matter and take further disiplinary action against the employee. The municipality has submitted a claim to their insurers. The insurer are awaiting the judgement by the disiplinary tribunal before taken any further actions.

36. Unauthorised expenditure

Bulk Purchases	-	2 454 919
Council - Repairs and maintenance	62 768	-
- Employee cost	228 374	-
Municipal Manager - Depreciation	91 186	-
Corporate services - Depreciation	178 958	-
- Employee cost	621 723	-
Satellite offices - Employees cost	139 852	-
- Depreciation	43 687	-
Finance - Employee cost	520 638	-
- Depreciation	148 618	-
- Bad debt provision	1 733 417	-
- General expenses	29 516	-
Technical - Regional - Depreciation	1 676	-
Technical - Planning - Depreciation	85 930	-
Health services - Employee cost	239 952	-
- Depreciation	49 789	-
Water and sanitation - Employee cost	3 234 058	-
- Depreciation	23 079 286	-
- Bad debt provision	93 883 667	-
- Loss on disposal of assets	218 104	-

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
--	------	------

36. Unauthorised expenditure (continued)

	124 591 199	2 454 919
--	--------------------	------------------

The unauthorised expenditure relates to raw water purchased from DWAF. The municipality is currently engage in discussions with DWAF to identify the settlement amount due by the municipality. The liability as at the end of June 2009, amounts to R 8 503 483 (included in Trade and other payables from exchange transaction).

Please refer to Appendix E(1).

37. Fruitless and wasteful expenditure

Eskom	49 112	61 516
KZN Joint municipal pension	553	6 434
Telkom	7 921	-
	57 586	67 950

Eskom accounts are paid in bulk on a monthly basis via EFT. The invoices have different due dates therefore penalty interest is raised on some for late payment. Management is currently negotiating with Eskom to have the same due dates for all invoices.

KZN joint municipal pension fund was paid late. Therefore penalty interest is raised on these late late payment.

Telkom was paid late therefore penalty interest was raised on these late late payment.

38. Water losses

Water losses - quantity (KL)	<u>25 586 373kl</u>	<u>26 606 000kl</u>
Water losses - cost (R)	<u>17 347 561</u>	<u>16 282 872</u>

The cost of water losses is calculated using the quantity (kl) times the cost incurred to purify water.

The above attributes to among other things, water loss during pipe bursts, unidentified leaks, thief of water meters, non-metered areas like Ezakheni and unidentified illegal connections.

39. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	12 306 662	-
Adjusted for:		
Gain on the sale of assets	218 104	-
Increases / decreases in provisions	119 041 900	-
Increase in revenue	(113 616 325)	-
Decrease in operating expenditure	(2 271 366)	-
Net surplus per approved budget	15 678 975	-

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	68 551	38 209
Amount paid - current year	(63 051)	(38 209)
Balance included in current liabilities	5 500	-

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

	2010	2009
40. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Audit fees		
Opening balance	511 932	565 121
Current year subscription / fee	1 000 000	836 000
Amount paid - current year	(722 496)	(324 068)
Amount paid - previous years	(511 932)	(565 121)
Balance included in current liabilities	277 504	511 932

PAYE and UIF

Opening balance	-	720 675
Current year subscription / fee	10 192 856	8 500 058
Amount paid - current year	(9 233 434)	(8 500 058)
Amount paid - previous years	-	(720 675)
Balance included in current liabilities	959 422	-

The balance represents PAYE and UIF deducted from the June 2010 payroll. These amounts were paid in July 2010.

Pension and Medical Aid Deductions

Current year subscription / fee	12 936 482	11 092 351
Amount paid - current year	(11 794 444)	(11 092 351)
Balance included in current liabilities	1 142 038	-

VAT

VAT payable	12 552 364	8 557 837
-------------	------------	-----------

VAT output payables and VAT input receivables are shown in note .

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

41. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E(1) for the comparison of actual operating expenditure versus budgeted expenditure.

42. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E(2) for the comparison of actual capital expenditure versus budgeted expenditure.

43. New standards and interpretations

43.1 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:

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

43. New standards and interpretations (continued)

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality has early adopted the interpretation for the first time in the 2010 annual financial statements.

The impact of the interpretation is set out in note Changes in Accounting Policy.

43.2 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 2010 or later periods but are not relevant to its operations:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity 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 will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

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 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

43. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2010.

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

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

2010

2009

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

44. Statement of comparative and actual information

2010

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	193 662	193 662		193 662	193 663		(1)	100 %	100 %
Service charges	62 162 523	88 111 214		88 111 214	99 957 682		(11 846 468)	113 %	161 %
Investment revenue	74 046	74 046		74 046	-		74 046	- %	- %
Transfers recognised - operational	171 288 789	183 841 299		183 841 299	278 397 668		(94 556 369)	151 %	163 %
Other own revenue	9 706 024	12 491 503		12 491 503	19 766 724		(7 275 221)	158 %	204 %
Total revenue (excluding capital transfers and contributions)	243 425 044	284 711 724		284 711 724	398 315 737		(113 604 013)	140 %	164 %
Employee costs	(82 881 750)	(84 953 522)	-	(84 953 522)	(87 081 187)	-	2 127 665	103 %	105 %
Remuneration of councillors	(4 176 174)	(4 212 046)	-	(4 212 046)	(3 918 862)	-	(293 184)	93 %	94 %
Debt impairment	(1 800 000)	(1 200 000)		(1 200 000)	(80 758 598)	-	79 558 598	6 730 %	4 487 %
Depreciation and asset impairment	(1 400 000)	(1 100 000)		(1 100 000)	(24 566 293)	-	23 466 293	2 233 %	1 755 %
Finance charges	(7 370 568)	(7 730 568)	-	(7 730 568)	(4 515 059)	-	(3 215 509)	58 %	61 %
Materials and bulk purchases	(3 000 000)	(3 212 046)	-	(3 212 046)	(2 485 091)	-	(726 955)	77 %	83 %
Transfers and grants	(2 000 000)	(1 500 000)	-	(1 500 000)	-	-	(1 500 000)	- %	- %
Other expenditure	(139 442 552)	(179 442 942)	-	(179 442 942)	(182 683 985)	-	3 241 043	102 %	131 %
Total expenditure	(242 071 044)	(283 351 124)	-	(283 351 124)	(386 009 075)	-	102 657 951	136 %	159 %
Surplus/(Deficit)	1 354 000	1 360 600		1 360 600	12 306 662		(10 946 062)	905 %	909 %

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	120 686 211	121 093 413		121 093 413	-		121 093 413	- %	- %
Surplus (Deficit) after capital transfers and contributions	122 040 211	122 454 013		122 454 013	12 306 662		110 147 351	10 %	10 %
Surplus/(Deficit) for the year	122 040 211	122 454 013		122 454 013	12 306 662		110 147 351	10 %	10 %

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources									
Sources of capital funds									
Transfers recognised - capital	120 686 211	121 093 413		121 093 413	-		121 093 413	- %	- %
Internally generated funds	1 354 000	1 360 600		1 360 600	-		1 360 600	- %	- %
Total sources of capital funds	122 040 211	122 454 013		122 454 013	-		122 454 013	- %	- %
Cash flows									
Net cash from (used) operating	-	-		-	59 274 921		(59 274 921)	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-		-	(61 361 890)		61 361 890	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-		-	(4 077 116)		4 077 116	DIV/0 %	DIV/0 %
Cash/cash equivalents at the year end	-	-		-	(6 164 085)		6 164 085	DIV/0 %	DIV/0 %

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Appendix A: Schedule of external loans

Appendix A

June 2010

Schedule of external loans as at 30 June 2010

Loan Number	Redeemable	Balance at 30 June 2009	Received during the period	Redeemed written off during the period	Balance at 30 June 2010	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
		Rand	Rand	Rand	Rand	Rand	Rand
Development Bank of South Africa							
DBSA @ 12.00%	10346/202	3 731 406	-	248 995	3 482 411	2 388 633	-
DBSA @ 10.00%	9631/101	6 920 056	-	891 630	6 028 426	-	-
DBSA @ 12.00%	9631/201	5 142 580	-	412 985	4 729 595	7 167 616	-
DBSA @ 15.25%	9631/401	787 363	-	37 315	750 048	525 741	-
DBSA @ 9.71%	9631/502	162 750	-	15 500	147 250	176 457	-
DBSA @ 9.81%	13674/101	2 005 140	-	174 360	1 830 780	1 406 136	-
DBSA @ 11.00%	2955/102	2 198 080	-	1 425 864	772 216	-	-
		20 947 375	-	3 206 649	17 740 726	11 664 583	-
Lease liability							
ABSA	72179418	19/09/2009	10 529	-	10 529	-	57 270
ABSA	72179426	19/09/2009	10 529	-	10 529	-	57 270
ABSA	72174950	19/09/2009	10 529	-	10 529	-	57 270
ABSA	72179434	19/09/2009	10 529	-	10 529	-	57 270
ABSA	72179442	19/09/2009	10 529	-	10 529	-	57 270
ABSA	70851968	14/06/2011	51 766	-	24 789	26 977	56 077
ABSA	70851984	14/06/2011	51 766	-	24 789	26 977	56 077
ABSA	70851992	14/06/2011	51 766	-	24 789	26 977	56 077
ABSA	70852000	14/06/2011	51 766	-	24 789	26 977	56 077
ABSA	70852018	14/06/2011	51 766	-	24 789	26 977	56 077
ABSA	70852026	14/06/2011	51 767	-	24 790	26 977	56 077
ABSA	70851976	14/06/2011	51 767	-	24 790	26 977	56 077
ABSA	76759320	14/03/2013	339 616	-	80 374	259 242	268 832
ABSA	77450721	06/08/2013	122 022	-	25 089	96 933	103 330
ABSA	77452767	06/08/2013	122 022	-	25 089	96 933	103 330
ABSA	77451310	06/08/2013	122 022	-	25 089	96 933	103 330
ABSA	77451426	06/08/2013	122 022	-	25 089	96 933	103 330
ABSA	77451604	06/08/2013	122 070	-	25 099	96 971	103 330
ABSA	77451787	06/08/2013	122 022	-	25 089	96 933	103 330
ABSA	77452481	06/08/2013	122 022	-	25 089	96 933	103 330
ABSA	77452961	06/08/2013	122 023	-	25 089	96 934	103 330
ABSA	77453070	06/08/2013	122 023	-	25 089	96 934	103 330
ABSA	77451205	06/08/2013	122 023	-	25 089	96 934	103 330
ABSA	77579341	06/09/2013	276 162	-	55 436	220 726	238 758
		2 251 058	-	612 880	1 638 178	2 219 779	-
Total external loans		23 198 433	-	3 819 529	19 378 904	13 884 362	-

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix B: Analysis of Property, plant and equipment

Appendix B

June 2010

Analysis of property, plant and equipment as at 30 June 2010

Cost/Revaluation	Accumulated depreciation
-------------------------	---------------------------------

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Assets Under Construction	Closing Balance	Opening Balance	Disposals	Transfers	Depreciation	Impairment loss	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Land and buildings														
Land (Separate for AFS purposes)	1 037 872	-	-	-	-	-	1 037 872	-	-	-	-	-	-	1 037 872
Buildings (Separate for AFS purposes)	482 857	-	-	-	-	-	482 857	(210 893)	-	-	(15 256)	-	(226 149)	256 708
	1 520 729	-	-	-	-	-	1 520 729	(210 893)	-	-	(15 256)	-	(226 149)	1 294 580
Infrastructure														
Water Mains & Purification	460 566 821	631 437	-	-	-	60 409 781	521 608 039	(85 598 008)	-	-	(15 658 252)	-	(101 256 260)	420 351 779
Sewerage Main & Purification	250 067 434	-	-	-	-	-	250 067 434	(36 574 217)	-	-	(6 662 852)	-	(43 237 069)	206 830 365
Reservoirs - Water	25 717 311	-	-	-	-	-	25 717 311	(3 296 347)	-	-	(285 071)	-	(3 581 418)	22 135 893
Water Meters	6 481 967	-	-	-	-	-	6 481 967	(4 625 264)	-	-	(582 155)	-	(5 207 419)	1 274 548
	742 833 533	631 437	-	-	-	60 409 781	803 874 751	(130 093 836)	-	-	(23 188 330)	-	(153 282 166)	650 592 585
Other assets														
Motor vehicles	6 008 998	161 916	(390 475)	-	-	-	5 780 439	(4 623 957)	345 147	-	(209 439)	-	(4 488 249)	1 292 190
Computer Equipment	2 706 379	152 200	(109 204)	-	-	-	2 749 375	(1 886 048)	95 788	-	(282 620)	-	(2 072 880)	676 495
Computer Software	154 078	-	-	-	-	-	154 078	(87 542)	-	-	-	-	(87 542)	66 536
Furniture & Fittings	2 664 554	-	-	-	-	-	2 664 554	(1 850 468)	-	-	(167 459)	-	(2 017 927)	646 627
Office Equipment	1 236 037	6 555	-	-	-	-	1 242 592	(1 087 326)	-	-	(29 667)	-	(1 116 993)	125 599
Emergency & fire equipment	911 343	-	-	-	-	-	911 343	(359 082)	-	-	-	-	(359 082)	552 261
Other assets	2 989 576	-	-	-	-	-	2 989 576	(2 015 769)	-	-	(154 223)	-	(2 169 992)	819 584
Office equipment - Leased	751 020	-	-	-	-	-	751 020	(507 586)	-	-	(135 184)	-	(642 770)	108 250
Motor vehicles - leased	3 859 741	-	(249 000)	-	-	-	3 610 741	(1 055 989)	89 640	-	(382 279)	-	(1 348 628)	2 262 113
	21 281 726	320 671	(748 679)	-	-	-	20 853 718	(13 473 767)	530 575	-	(1 360 871)	-	(14 304 063)	6 549 655
Intangible assets														
Water rights	55 000	-	-	-	-	-	55 000	(458)	-	-	(1 833)	-	(2 291)	52 709
	55 000	-	-	-	-	-	55 000	(458)	-	-	(1 833)	-	(2 291)	52 709
Total	765 690 988	952 108	(748 679)	-	-	60 409 781	826 304 198	(143 778 954)	530 575	-	(24 566 290)	-	(167 814 669)	658 489 529

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix C: Segmental analysis of Property, plant and equipment

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix D: Segmental Statement of Financial Performance

Appendix D

June 2010

Segmental Statement of Financial Performance for the year ended 30 June 2009 30 June 2010

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
185 298 051	155 994 809	29 303 242	Council	98 295 011	29 248 869	69 046 142
-	3 872 271	(3 872 271)	Municipal Manager	-	2 645 763	(2 645 763)
-	17 690 038	(17 690 038)	Corporate Services	-	17 323 426	(17 323 426)
-	867 427	(867 427)	Satellite Offices	-	960 321	(960 321)
-	8 304 635	(8 304 635)	Finance	-	10 466 750	(10 466 750)
-	1 072 140	(1 072 140)	Technical - Regional	-	182 357	(182 357)
-	1 201 015	(1 201 015)	Technical - Planning	6 571 098	9 225 095	(2 653 997)
-	5 946 162	(5 946 162)	Health	-	5 104 679	(5 104 679)
-	2 697 770	(2 697 770)	Project Management	109 504 003	53 054 403	56 449 600
164 968 570	228 395 252	(63 426 682)	Water and Sanitation	183 727 520	257 579 307	(73 851 787)
350 266 621	426 041 519	(75 774 898)		398 097 632	385 790 970	12 306 662

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

Appendix E(1)

June 2010

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2010

	Current year 2010 Act. Bal.	Current year 2010 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	193 663	193 662	1	-	
Service charges	99 957 682	87 996 214	11 961 468	13.6	Replaced faulty bulk meters and household meters. Consumer's billing was amended accordingly.
Interest received (trading)	17 341 584	12 386 300	4 955 284	40.0	Increase in outstanding debtors
Fines	2 193	-	2 193	-	First year the municipality has issued fines
Government grants & subsidies	278 397 667	302 790 125	(24 392 458)	(8.1)	
Other income	2 422 948	2 438 836	(15 888)	(0.7)	
	398 315 737	405 805 137	(7 489 400)	(1.8)	
Expenses					
Personnel	(87 081 186)	(84 953 522)	(2 127 664)	2.5	
Remuneration of councillors	(3 918 862)	(4 212 046)	293 184	(7.0)	
Depreciation	(24 566 293)	(1 100 000)	(23 466 293)	133.3	Due to the change in accounting policy
Finance costs	(4 515 059)	(7 730 568)	3 215 509	(41.6)	Budgeted for new vehicles to be finance by finance leases. The procurement of these vehicles have being reviewed and reallocated to the 10/11 year.
Debt impairment	(80 758 598)	(1 200 000)	(79 558 598)	629.9	Change in accounting policy due to the decrease in payments received from debtors
Collection costs	(376 532)	(750 000)	373 468	(49.8)	Due to the decrease in collection of outstanding debts
Repairs and maintenance - General	(16 345 487)	(28 840 500)	12 495 013	(43.3)	Some expenditure had being reallocated to the refurbishment grant
Bulk purchases	(2 485 091)	(3 212 046)	726 955	(22.6)	The municipality had budgeted for an increase in raw water purchases as they anticipated an increase in drought during the winter season.
General Expenses	(165 743 863)	(273 806 455)	108 062 592	(39.5)	Some projects, funded by government grants were not completed at year end and covers a multi-facet year.
	(385 790 971)	(405 805 137)	20 014 166	(4.9)	
Other revenue and costs					
Gain or loss on disposal of non current assets	(218 104)	-	(218 104)	-	During the asset verification process, redundant asset were identified to be wirtten off.
Net surplus/ (deficit) for the year	12 306 662	-	12 306 662	-	

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)

Appendix E(2)
June 2010

**Budget Analysis of Capital Expenditure as at 30 June
2010**

	Additions	Revised Budget	Variance	Variance	Explanation of significant variances from budget
	Rand	Rand	Rand	%	
Municipality					
Water Mains & Purification	61 041 218	95 619 924	34 578 706	36	Only completed projects have being capitalised. The reminder is work-in-progress at year end.
Office equipment	6 555	60 600	54 045	89	Planned acquisitions has being put on hold because of the relocation of the municipal offices
Computer Equipment	152 200	300 000	147 800	49	Planned acquisitions has being put on hold because of the relocation of the municipal offices
Motor Vehicles	161 916	-	(161 916)	100	Shortage of vehicles in the water services department necessitated the purchase of two LDVs.
	61 361 889	95 980 524	34 618 635	36	
Total	61 361 889	95 980 524	34 618 635	36	

uThukela District Municipality

Annual Financial Statements for the year ended 30 June 2010

Supplementary Information

Appendix F: Disclosure of Grants and subsidies in terms of the Municipal Finance Management Act

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
 June 2010

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance				
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun				Sep	Dec	Mar	Jun
MIG	National Treasury	36 000	39 000	-	44 183	4 143	26 594	19 220	43 353	-	-	-	-		Yes	
Regional Bulk Scheme	National Treasury	-	-	2 757	-	-	-	1 578	784	-	-	-	-		Yes	
Finance Management	National Treasury	-	750	-	-	-	-	-	677	-	-	-	-		Yes	
Newstand Sportfield	KZN Sport & Recreation	-	300	-	-	-	-	-	124	-	-	-	-		Yes	
DWAF Staff Subsidy	DWAF	238	238	238	-	238	238	238	-	-	-	-	-		Yes	
DWAF Operating Subsidy	DWAF	7	7	-	-	7	7	-	-	-	-	-	-		Yes	
Incentive Grant	Public Works	-	522	-	-	-	-	-	-	-	-	-	-		Yes	
Shared Services	KZN Cogta	-	-	400	-	-	-	-	400	-	-	-	-		Yes	
Extended Public Works Program	Public Works	-	-	1 706	-	-	-	-	-	-	-	-	-		Yes	
Staff Training	LGSETA	118	-	82	98	3	51	15	21	-	-	-	-		Yes	
Municipal Systems Improvement Grant	National Treasury	735	-	-	-	307	100	-	328	-	-	-	-		Yes	
		37 098	40 817	5 183	44 281	4 698	26 990	21 051	45 687	-	-	-	-			

Note: All amounts is shown in R'000. This excludes allocations from the Equitable Share.