



*Ugu District Municipality*

**ANNUAL FINANCIAL STATEMENTS**

**30 JUNE 2011**



*Ugu District Municipality*

**ANNUAL FINANCIAL STATEMENTS**

**30 JUNE 2011**

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**INDEX**

NO	CONTENTS	PAGE
1	General Information and Approval of Annual Financial Statements	2 - 4
2	Members of Council	5 - 6
3	Foreword	7
4	Audit Report	8
5	Report of the Chief Financial Officer	9 -17
6	Statement of Financial Position	18
7	Statement of Financial Performance	19
8	Statement of Changes in Net Assets	20
9	Cash Flow Statement	21
10	Accounting Policies	22 - 60
11	Notes to the Annual Financial Statements	61 - 137
	Appendixes:	
12	A Schedule of External Loans	138 - 139
13	B Analysis of Property, Plant and Equipment	140 - 142
14	C Segmental Analysis of Property, Plant and Equipment	143
15	D Segmental Statement of Financial Performance	144
16	E (1) Actual versus Budget (Revenue and Expenditure)	145
17	E (2) Actual versus Budget (Acquisition of Property, Plant and Equipment)	146
18	F Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	147

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**INDEX**

NO	CONTENTS	PAGE
1	General Information and Approval of Annual Financial Statements	2 - 4
2	Members of Council	5 - 6
3	Foreword	7
4	Audit Report	8
5	Report of the Chief Financial Officer	9 -17
6	Statement of Financial Position	18
7	Statement of Financial Performance	19
8	Statement of Changes in Net Assets	20
9	Cash Flow Statement	21
10	Accounting Policies	22 - 60
11	Notes to the Annual Financial Statements	61 - 137
	Appendixes:	
12	A Schedule of External Loans	138 - 139
13	B Analysis of Property, Plant and Equipment	140 - 142
14	C Segmental Analysis of Property, Plant and Equipment	143
15	D Segmental Statement of Financial Performance	144
16	E (1) Actual versus Budget (Revenue and Expenditure)	145
17	E (2) Actual versus Budget (Acquisition of Property, Plant and Equipment)	146
18	F Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	147

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**GENERAL INFORMATION**

<b>MAYOR</b>	Councillor N H Gumede
<b>DEPUTY MAYOR</b>	Councillor M A Chiliza
<b>SPEAKER</b>	Councillor S B Cele
<b>MEMBERS OF THE EXECUTIVE COMMITTEE</b>	
Mayor	Deputy Mayor
Speaker (Ex officio)	
Councillors: S Mahomed	I M Mavundla
J S Mbutuma	S G Nyawuza
N F Shusha	
<b>GRADING OF THE LOCAL AUTHORITY</b>	Grade 5
<b>AUDITORS</b>	Auditor-General
<b>PRIMARY BANKER</b>	Absa Bank Ltd
<b>REGISTERED OFFICE</b>	
Aqua House	PO Box 33
28 Connor Street	Port Shepstone
Port Shepstone	4240
Telephone: (039) 688-5700	Facsimile: (039) 682-4820
E-Mail: info@ugu.org.za	Website: www.ugu.gov.za
<b>MUNICIPAL MANAGER</b>	L Mahlaka
<b>CHIEF FINANCIAL OFFICER</b>	V H Hukum

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**GENERAL INFORMATION (continued)**

**OTHER MANAGERS:**

<b>Deputy Municipal Manager</b>	M B Mnyandu
<b>General Manager: Operations</b>	O T Mnyayiza
<b>General Manager: Infrastructure &amp; Economic Development</b>	Z Mbonane
<b>Senior Manager: Strategy &amp; Shared Services</b>	M J Ngesi Dr
<b>Senior Manager: Mayoralty &amp; Communications</b>	Vacant
<b>Manager: Internal Audit</b>	A Gonzalves
<b>Manager: Development Planning</b>	N P Sibisi
<b>Manager: Legal Services</b>	P Sughudav
<b>Manager: HIV &amp; Special Projects</b>	M B Mnguni
<b>Manager: Youth Development</b>	S Z Khuzwayo
<b>Manager: Sport Development</b>	Vacant
<b>Manager: Special Programmes</b>	H D Ngcobo
<b>Manager: Grants &amp; Expenditure</b>	T N Vezi
<b>Manager: Equity &amp; Accounts</b>	S J van Rooyen
<b>Manager: Budget Office</b>	S P Mbili
<b>Manager: Supply Chain Management</b>	J I Langa
<b>General Manager: Corporate Services</b>	P P Ntebe
<b>Manager: Secretariat, ICT &amp; Auxiliary Services</b>	F W M M Mbili
<b>Manager: Human Resources</b>	V O Mazibuko
<b>Senior Manager: Ugu Sports &amp; Leisure Centre</b>	P S Watson
<b>Manager: Local Economic Development &amp; Tourism</b>	S V Hlongwane
<b>Manager: Project Management Unit Projects</b>	C M Mqoboli
<b>Manager: Project Management Unit Finance</b>	C T Wilcocks
<b>Manager: Market</b>	B T Khwela
<b>Manager: Disaster Management</b>	Vacant
<b>Manager: Environmental Services</b>	N A Nkqeto

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**GENERAL INFORMATION (continued)**

**OTHER MANAGERS (continued):**

<b>General Manager: Water Services</b>	M N Pawandiwa
<b>Senior Manager: Water Services Authority</b>	J van der Walt Dr
<b>Senior Manager: Water Services Operations</b>	Vacant
<b>Area Manager: North</b>	L T Mwelase
<b>Manager: Water Services Income</b>	N Mvumbi
<b>Manager: Control Centre</b>	L H Cele
<b>Manager: Mechanical &amp; Electrical</b>	Vacant
<b>Manager: Administration – Water Services</b>	D I MacIntosh
<b>Manager: Water Conservation &amp; Demand Management</b>	P S Jokweni
<b>Manager: Project Management Unit Projects</b>	C M Mqoboli
<b>Manager: Fleet</b>	P B Mzele
<b>Manager: Speaker’s Office</b>	L F Mzotho
<b>Manager: Customer Relations</b>	Z J Ntlangula

**APPROVAL OF FINANCIAL STATEMENTS:**

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 9 to 137, in terms of Section 126(1) of the Municipal Finance Management Act (Act No 56 of 2003), and which I have signed on behalf of the municipality.

These Annual Financial Statements will be presented to the Council for information during September 2011.

---

**L. MAHLAKA**  
**MUNICIPAL MANAGER**  
30 August 2011

---

**VED H. HUKUM**  
**CHIEF FINANCIAL OFFICER**  
30 August 2011

**COUNTER SIGNED**

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**GENERAL INFORMATION**

<b>MAYOR</b>	Councillor N H Gumede
<b>DEPUTY MAYOR</b>	Councillor M A Chiliza
<b>SPEAKER</b>	Councillor S B Cele
<b>MEMBERS OF THE EXECUTIVE COMMITTEE</b>	
Mayor	Deputy Mayor
Speaker (Ex officio)	
Councillors: S Mahomed	I M Mavundla
J S Mbutuma	S G Nyawuza
N F Shusha	
<b>GRADING OF THE LOCAL AUTHORITY</b>	Grade 5
<b>AUDITORS</b>	Auditor-General
<b>PRIMARY BANKER</b>	Absa Bank Ltd
<b>REGISTERED OFFICE</b>	
Aqua House	PO Box 33
28 Connor Street	Port Shepstone
Port Shepstone	4240
Telephone: (039) 688-5700	Facsimile: (039) 682-4820
E-Mail: info@ugu.org.za	Website: www.ugu.gov.za
<b>MUNICIPAL MANAGER</b>	L Mahlaka
<b>CHIEF FINANCIAL OFFICER</b>	V H Hukum



**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**GENERAL INFORMATION (continued)**

**OTHER MANAGERS:**

<b>Deputy Municipal Manager</b>	M B Mnyandu
<b>General Manager: Operations</b>	O T Mnyayiza
<b>General Manager: Infrastructure &amp; Economic Development</b>	Z Mbonane
<b>Senior Manager: Strategy &amp; Shared Services</b>	M J Ngesi Dr
<b>Senior Manager: Mayoralty &amp; Communications</b>	Vacant
<b>Manager: Internal Audit</b>	A Gonzalves
<b>Manager: Development Planning</b>	N P Sibisi
<b>Manager: Legal Services</b>	P Sughudav
<b>Manager: HIV &amp; Special Projects</b>	M B Mnguni
<b>Manager: Youth Development</b>	S Z Khuzwayo
<b>Manager: Sport Development</b>	Vacant
<b>Manager: Special Programmes</b>	H D Ngcobo
<b>Manager: Grants &amp; Expenditure</b>	T N Vezi
<b>Manager: Equity &amp; Accounts</b>	S J van Rooyen
<b>Manager: Budget Office</b>	S P Mbili
<b>Manager: Supply Chain Management</b>	J I Langa
<b>General Manager: Corporate Services</b>	P P Ntebe
<b>Manager: Secretariat, ICT &amp; Auxiliary Services</b>	F W M M Mbili
<b>Manager: Human Resources</b>	V O Mazibuko
<b>Senior Manager: Ugu Sports &amp; Leisure Centre</b>	P S Watson
<b>Manager: Local Economic Development &amp; Tourism</b>	S V Hlongwane
<b>Manager: Project Management Unit Projects</b>	C M Mqoboli
<b>Manager: Project Management Unit Finance</b>	C T Wilcocks
<b>Manager: Market</b>	B T Khwela
<b>Manager: Disaster Management</b>	Vacant
<b>Manager: Environmental Services</b>	N A Nkqeto

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**GENERAL INFORMATION (continued)**

**OTHER MANAGERS (continued):**

<b>General Manager: Water Services</b>	M N Pawandiwa
<b>Senior Manager: Water Services Authority</b>	J van der Walt Dr
<b>Senior Manager: Water Services Operations</b>	Vacant
<b>Area Manager: North</b>	L T Mwelase
<b>Manager: Water Services Income</b>	N Mvumbi
<b>Manager: Control Centre</b>	L H Cele
<b>Manager: Mechanical &amp; Electrical</b>	Vacant
<b>Manager: Administration – Water Services</b>	D I MacIntosh
<b>Manager: Water Conservation &amp; Demand Management</b>	P S Jokweni
<b>Manager: Project Management Unit Projects</b>	C M Mqoboli
<b>Manager: Fleet</b>	P B Mzele
<b>Manager: Speaker’s Office</b>	L F Mzotho
<b>Manager: Customer Relations</b>	Z J Ntlangula

**APPROVAL OF FINANCIAL STATEMENTS:**

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 9 to 137, in terms of Section 126(1) of the Municipal Finance Management Act (Act No 56 of 2003), and which I have signed on behalf of the municipality.

These Annual Financial Statements will be presented to the Council for information during September 2011.

---

**L. MAHLAKA**  
**MUNICIPAL MANAGER**  
30 August 2011

---

**VED H. HUKUM**  
**CHIEF FINANCIAL OFFICER**  
30 August 2011

**COUNTER SIGNED**

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**MEMBERS OF COUNCIL**

COUNCILLORS		PROPORTIONAL COUNCILLORS	
N F Shusha	ANC	S B Cele	ANC
T M Cele	ANC	N H Gumede	ANC
N Y Dlamini	ANC	M A Chiliza	ANC
M B Gavu	ANC	S M Mahomed	ANC
S T Gumede	ANC	I M Mavundla	ANC
J P Janse van Vuuren	ANC	E M Bux	ANC
S A Khawula	ANC	M G Sonwabo	ANC
N A Madlala	ANC	T N Dzingwa	ANC
K B M Mbele	ANC	M A Manyoni	ANC
N P Mpanza	ANC	N N Boyce	ANC
L N Myende	ANC	D Snashall	DA
Y Nair	ANC	S G Nyawuza Dr	IFP
D H Njoko	ANC	J S Mbutuma	NFP
M P L Zungu	ANC	N F Maphumulo	NFP
G D Henderson	DA		
J M Dlela	IFP		
B E Machi	IFP		
M P Mteshane	IFP		
Z A Mhlongo	NFP		
F B Shezi	NFP		
S M Zuma	NFP		

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2011**

**MEMBERS OF COUNCIL (continued)**

**CERTIFICATION OF REMUNERATION OF COUNCILLORS**

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

---

**L. MAHLAKA**  
**MUNICIPAL MANAGER**  
30 August 2011

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**MEMBERS OF COUNCIL**

COUNCILLORS		PROPORTIONAL COUNCILLORS	
N F Shusha	ANC	S B Cele	ANC
T M Cele	ANC	N H Gumede	ANC
N Y Dlamini	ANC	M A Chiliza	ANC
M B Gavu	ANC	S M Mahomed	ANC
S T Gumede	ANC	I M Mavundla	ANC
J P Janse van Vuuren	ANC	E M Bux	ANC
S A Khawula	ANC	M G Sonwabo	ANC
N A Madlala	ANC	T N Dzingwa	ANC
K B M Mbele	ANC	M A Manyoni	ANC
N P Mpanza	ANC	N N Boyce	ANC
L N Myende	ANC	D Snashall	DA
Y Nair	ANC	S G Nyawuza Dr	IFP
D H Njoko	ANC	J S Mbutuma	NFP
M P L Zungu	ANC	N F Maphumulo	NFP
G D Henderson	DA		
J M Dlela	IFP		
B E Machi	IFP		
M P Mteshane	IFP		
Z A Mhlongo	NFP		
F B Shezi	NFP		
S M Zuma	NFP		

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**MEMBERS OF COUNCIL (continued)**

**CERTIFICATION OF REMUNERATION OF COUNCILLORS**

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

---

**L. MAHLAKA**  
**MUNICIPAL MANAGER**  
30 August 2011

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2011**

**FOREWORD**

On behalf of Ugu District Municipality, let me present this financial report for the 2010/11 financial year.

The period under review has been very challenging. However, we have continued to work hard in ensuring acceptable levels of good governance and quality service delivery.

We want to reflect that the state of our organisational finance is improving progressively. We are committed to being always counted amongst the leading district municipalities in the country in financial management and general service delivery.

The KZN MEC for Finance, Ms Ina Cronje, and the entire government continue to direct and encourage all of us working in government using public funds to comprehensively reduce unnecessary expenditure in the manner we do business. The Auditor-General also made a significant finding during the audit of 2009/10, that the municipality has current liabilities that are exceeding current assets. This meant that we needed to implement corrective plans to improve our liquidity ratio. The municipality is presently implementing a comprehensive plan to attain acceptable liquidity ratio.

We have taken a decision to scale down our activities on our non-core functions in favour of a sharper focus on our core-function, Water and Sanitation Services. We are determined to do this with the help of all the stakeholders, internally and externally. As usual, we are determined and confident of a win to all the challenges we face.

On behalf of the political leadership of the municipality, I wish to convey words of thankfulness to the hands that remained positive and honest to our financial management.

---

**COUNCILLOR N.H. GUMEDE**  
**MAYOR**

30 August 2011

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2011**

**FOREWORD**

On behalf of Ugu District Municipality, let me present this financial report for the 2010/11 financial year.

The period under review has been very challenging. However, we have continued to work hard in ensuring acceptable levels of good governance and quality service delivery.

We want to reflect that the state of our organisational finance is improving progressively. We are committed to being always counted amongst the leading district municipalities in the country in financial management and general service delivery.

The KZN MEC for Finance, Ms Ina Cronje, and the entire government continue to direct and encourage all of us working in government using public funds to comprehensively reduce unnecessary expenditure in the manner we do business. The Auditor-General also made a significant finding during the audit of 2009/10, that the municipality has current liabilities that are exceeding current assets. This meant that we needed to implement corrective plans to improve our liquidity ratio. The municipality is presently implementing a comprehensive plan to attain acceptable liquidity ratio.

We have taken a decision to scale down our activities on our non-core functions in favour of a sharper focus on our core-function, Water and Sanitation Services. We are determined to do this with the help of all the stakeholders, internally and externally. As usual, we are determined and confident of a win to all the challenges we face.

On behalf of the political leadership of the municipality, I wish to convey words of thankfulness to the hands that remained positive and honest to our financial management.

---

**COUNCILLOR N.H. GUMEDE**  
**MAYOR**

30 August 2011



**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2011**

**AUDIT REPORT**

The 2010/11 Audit Report was not available when the Annual Financial Statements were approved and will be attached hereto as Annexure "A" when received after the completion of the statutory audit.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**1. BASIS OF PRESENTATION**

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

These Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Principles (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

*1.1 Changes in Accounting Policy and Comparability*

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

For the years ended 30 June 2010 and 30 June 2011 the municipality has adopted the accounting framework as set out in paragraph 1 above. The details of any resulting changes in Accounting Policy and comparative restatements are set out in the relevant Notes to the Annual Financial Statements.

The municipality changes an Accounting Policy only if the change:

- (a) Is required by a Standard of GRAP; or
- (b) Results in the Annual Financial Statements providing reliable and more relevant information about the effects of transactions, other events or conditions, on the municipality's financial position, financial performance or cash flow.

*1.2 Critical Judgements, Estimations and Assumptions*

In the application of the municipality's Accounting Policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

*1.2 Critical Judgements, Estimations and Assumptions (continued)*

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

**1.2.1 Revenue Recognition**

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 (*Revenue from Exchange Transactions*) and GAMAP 9 (*Revenue*) as far as Revenue from Non-exchange Transactions is concerned (see Basis of Preparation above), and, in particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

**1.2.2 Financial Assets and Liabilities**

The classification of Financial Assets and Liabilities, into categories, is based on judgement by management. Accounting Policy 7.1 on *Financial Assets Classification* and Accounting Policy 7.2 on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of Financial Assets and Liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of Financial Instruments as set out in IAS 32 (*Financial Instruments – Presentation*) and IAS 39 (*Financial Instruments – Recognition and Measurement*).

**1.2.3 Impairment of Financial Assets**

Accounting Policy 7.4 on *Impairment of Financial Assets* describes the process followed to determine the value with which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39 (*Financial Instruments - Recognition and Measurement*) and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

1.2 *Critical Judgements, Estimations and Assumptions (continued)*

**1.2.3 Impairment of Financial Assets (continued)**

◆ Impairment of Trade Receivables:

The calculation in respect of the impairment of Debtors is based on an assessment of the extent to which Debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This is performed per service-identifiable categories across all classes of debtors.

**1.2.4 Useful lives of Property, Plant and Equipment, Investment Property and Intangible Assets**

As described in Accounting Policies 3.3, 4.2 and 5.2, the municipality depreciates / amortises its Property, Plant and Equipment, Investment Property and Intangible Assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

**1.2.5 Impairment: Write-down of Property, Plant & Equipment and Inventories**

Accounting Policy 3.9 on *PPE – Impairment of Assets*, Accounting Policy 4.2 on *Intangible Assets – Subsequent Measurement, Amortisation and Impairment* and Accounting Policy 8.2 on *Inventory – Subsequent Measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to impairment testing of PPE, impairment testing of Intangible Assets and write-down of Inventories to the lowest of Cost and Net Realisable Values (NRV).

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (*Property, Plant and Equipment*), GRAP 12 (*Inventory*) and GRAP 102 (*Intangible Assets*). In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the NRV for Inventories involves significant judgment by management.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

**1.2.6 Defined Benefit Plan Liabilities**

As described in Accounting Policy 12.2, *Employee Benefits – Post-employment Benefits*, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of IAS 19.

**1.2.7 Provisions and Contingent Liabilities**

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

*1.3 Presentation Currency*

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

*1.4 Going Concern Assumption*

The Annual Financial Statements have been prepared on a *Going Concern Basis*.

*1.5 Offsetting*

Assets, Liabilities, Revenues and Expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

*1.6 Standards, Amendments to Standards and Interpretations issued but not yet Effective*

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

- ◆ GRAP 18 Segment Reporting - issued March 2005
- ◆ GRAP 21 Impairment of Non-cash-generating Assets - issued March 2009
- ◆ GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
- ◆ GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
- ◆ GRAP 25 Employee Benefits - issued December 2009
- ◆ GRAP 26 Impairment of Cash-generating Assets - issued March 2009
- ◆ GRAP 103 Heritage Assets - issued July 2008
- ◆ GRAP 104 Financial Instruments - October 2009

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

*1.6 Standards, Amendments to Standards and Interpretations Issued but not yet Effective (continued)*

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance, who announced that the application of GRAP 21, GRAP 23, GRAP 24, GRAP 26 and GRAP 103 will be effective for the period starting after 1 April 2012. All other standards as listed above will only be effective when a date is announced by the Minister of Finance. This date is not currently available.

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

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

The Municipality applied the principles established in the following Standards of GRAP that have been issued but not yet effective, in developing appropriate Accounting Policies dealing with the following transactions, but have not early adopted these Standards:

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

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**2. ACCUMULATED SURPLUS**

Included in the Accumulated Surplus of the municipality are the following Reserves that are maintained in terms of specific requirements:

*2.1 Capital Replacement Reserve (CRR)*

In order to finance the provision of Infrastructure and other items of Property, Plant and Equipment from internal sources, amounts are transferred from the Accumulated Surplus/(Deficit) to the CRR in terms of delegated powers.

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

- ◆ The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the Investment Policy of the municipality.
- ◆ The CRR may only be utilised for the purpose of purchasing items of Property, Plant and Equipment and may not be used for the maintenance of these items.
- ◆ Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the Accumulated Surplus/(Deficit) is credited by a corresponding amount.
- ◆ If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance and is then transferred, via the Statement of Changes in Net Assets, to the CRR, provided that it is cash backed. Profit on the sale of land is not transferred to the CRR as it is regarded as revenue.

*2.2 Capitalisation Reserve*

On the implementation of GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of Property, Plant and Equipment were transferred to a Capitalisation Reserve rather than the Accumulated Surplus/(Deficit) in terms of a directive (Circular No 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of Property, Plant and Equipment are offset by transfers from this Reserve to the Accumulated Surplus/(Deficit).

The balance on the Capitalisation Reserve equals the carrying value of the items of Property, Plant and Equipment financed from the former legislated funds. When items of Property, Plant and Equipment are depreciated, a transfer is made from the Capitalisation Reserve to the Accumulated Surplus/(Deficit).

When an item of Property, Plant and Equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the Accumulated Surplus/(Deficit).

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**2. ACCUMULATED SURPLUS (continued)**

*2.3 Donations and Public Contributions Reserve*

When items of Property, Plant and Equipment are financed from public contributions and donations, a transfer is made from the Accumulated Surplus/(Deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (Circular No 18) issued by National Treasury. When such items of Property, Plant and Equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the Accumulated Surplus/(Deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of Property, Plant and Equipment financed from donations and public contributions.

When an item of Property, Plant and Equipment financed from donations and public contributions is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the Accumulated Surplus/(Deficit).

**3. PROPERTY, PLANT AND EQUIPMENT**

*3.1 Initial Recognition*

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

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

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

When significant components of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.



**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

*3.1 Initial Recognition (continued)*

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

The cost of an item of Property, Plant and Equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

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

*3.2 Subsequent Measurement*

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

Subsequently all Property Plant and Equipment are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

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

*3.3 Depreciation*

Depreciation on assets other than land is calculated on cost, using the *Straight-line Method*, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

**UGU DISTRICT MUNICIPALITY  
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

*3.3 Depreciation (continued)*

Depreciation only commences when the asset is available for use, unless stated otherwise. The depreciation rates are based on the following estimated useful lives:

<b>Asset Class</b>	<b>Years</b>	<b>Asset Class</b>	<b>Years</b>
<b>Buildings</b>		<b>Other</b>	
Improvements	25 - 30	Specialist Vehicles	10 - 15
		Other Vehicles	5 - 15
<b>Infrastructure</b>		Office Equipment	3 - 15
Roads and Paving	10 - 100	Furniture and Fittings	5 - 15
Electricity	15 - 60	Watercraft	15 - 20
Water	15 - 100	Bins and Containers	5 - 15
Sewerage	15 - 60	Specialised Plant and Equipment	10 - 15
<b>Community</b>		Other Plant and Equipment	2 - 15
Community Facilities	25 - 30		
Recreational Facilities	15 - 30		
Security	15 - 25		

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

*3.4 Land*

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

*3.5 Incomplete Construction Work*

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

*3.6 Finance Leases*

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

*3.7 Heritage Assets*

Heritage Assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

Subsequent to measurement, Heritage Assets are carried at cost less impairment losses.

*3.8 Infrastructure Assets*

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

*3.9 De-recognition of Property, Plant and Equipment*

The carrying amount of an item of Property, Plant and Equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the de-recognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the proceeds from disposals and are included in the Statement of Financial Performance as a gain or loss on disposal of Property, Plant and Equipment.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**4. INTANGIBLE ASSETS**

*4.1 Initial Recognition*

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

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

- ◆ It is technically feasible to complete the Intangible Asset so that it will be available for use;
- ◆ Management intends to complete the Intangible Asset and use or sell it;
- ◆ There is an ability to use or sell the Intangible Asset;
- ◆ It can be demonstrated how the Intangible Asset will generate probable future economic benefits;
- ◆ Adequate technical, financial and other resources to complete the development and to use or sell the Intangible Asset are available; and
- ◆ The expenditure attributable to the Intangible Asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as Intangible Assets and amortised from the point at which the asset is ready for use on a *Straight-line Basis* over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with IPSAS 21 / IAS 36.

Intangible Assets are initially recognised at cost. The cost of an Intangible Asset is the purchase price and other costs attributable to bring the Intangible Asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an Intangible Asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible Assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an Intangible Asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an Intangible Asset is acquired in exchange for non-monetary assets 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.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**4. INTANGIBLE ASSETS (continued)**

*4.2 Subsequent Measurement, Amortisation and Impairment*

After initial recognition, Intangible Assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an Intangible Asset at a later date.

In terms of GRAP 102, Intangible Assets are distinguished between internally generated Intangible Assets and other Intangible Assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a *Straight-line Basis* over the Intangible Assets' useful lives, which are estimated to be between 3 to 5 years. The residual value of Intangible Assets with finite useful lives is zero, unless an active market exists. Where Intangible Assets are deemed to have indefinite useful lives, such Intangible Assets are not amortised. However, such Intangible Assets are subject to an annual impairment test.

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

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

*4.3 Derecognition*

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**5. INVESTMENT PROPERTY**

*5.1 Initial Recognition*

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

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

The cost of self-constructed Investment Property is the cost at date of completion.

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

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**5. INVESTMENT PROPERTY (continued)**

*5.1 Initial Recognition (continued)*

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

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

*5.2 Subsequent Measurement*

Investment Property is measured using the *Cost Model* and is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the *Straight-line Method* over the useful life of the property, which is estimated at 20 - 30 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The gain or loss arising on the disposal of an Investment Property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

*5.3 De-recognition*

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**6. IMPAIRMENT OF ASSETS**

*6.1 Impairment of Cash Generating Assets*

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

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

The recoverable service amount of a cash generating asset is the higher of its fair value less costs to sell and its value in use. The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

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

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

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

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

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

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

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



**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

*6.2 Impairment of Non-cash Generating Assets*

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

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

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

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

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

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

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

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

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

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

## **7. FINANCIAL INSTRUMENTS**

The municipality has various types of Financial Instruments and these can be broadly categorised as either *Financial Assets* or *Financial Liabilities* or *Residual Interests* in accordance with the substance of the contractual agreement.

### **Initial Recognition**

Financial Assets and Financial Liabilities are recognised on the municipality's Statement of Financial Position when it becomes party to the contractual provisions of the instrument.

The municipality does not offset a Financial Asset and a Financial Liability unless a legally enforceable right to set off the recognised amounts currently exist and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **Fair Value Methods and Assumptions**

The fair values of Financial Instruments are determined as follows:

- ◆ The fair values of quoted investments are based on current bid prices.
- ◆ If the market for a Financial Asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### **The Effective Interest Rate Method**

The Effective Interest Method is a method of calculating the amortised cost of a Financial Asset or a Financial Liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the Financial Instrument or, when appropriate, a shorter period to the net carrying amount of the Financial Asset or Financial Liability.

### **Amortised Cost**

Amortised Cost is the amount at which the Financial Asset or Financial Liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation, using the *Effective Interest Rate Method* of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

**UGU DISTRICT MUNICIPALITY  
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**7. FINANCIAL INSTRUMENTS (continued)**

*7.1 Financial Assets – Classification*

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

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

- ◆ **Financial Assets at Amortised Cost** are non-derivative Financial Assets with fixed or determinable payments that are not quoted in an active market. They are included in Current Assets, except for maturities greater than 12 months, which are classified as Non-current Assets. Financial Assets at Amortised Cost are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. After initial recognition, Financial Assets are measured at amortised cost, using the *Effective Interest Rate Method* less a provision for impairment.
- ◆ **Financial Assets at Fair Value** are financial assets that meet either of the following conditions:
  - (i) Derivatives;
  - (ii) Combined instruments that are designated at fair value;
  - (iii) Instruments held for trading;
  - (iv) Non-derivative Financial Instruments with fixed or determinable payments that are designated at fair value at initial recognition; or
  - (v) Financial Instruments that do not meet the definition of Financial Instruments at Amortised Cost or Financial Instruments at Cost.
- ◆ **Financial Assets at Cost** are investments in residual Interest that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The municipality may have the following types of Financial Assets as reflected on the face of the Statement of Financial Position or in the Notes thereto:

<b>Type of Financial Asset</b>	<b>Classification in terms of GRAP 104</b>
Listed Investments (Shares)	Financial Assets at Amortised Cost
Unlisted Investments (Stock)	Financial Assets at Amortised Cost
Investments in Fixed Deposits	Financial Assets at Amortised Cost
Finance Lease Receivables	Financial Assets at Amortised Cost
Long-term Receivables	Financial Assets at Amortised Cost
Trade Receivables from Exchange Transactions	Financial Assets at Amortised Cost
Trade Receivables from Non-exchange Transactions	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Notice Deposits	Financial Assets at Amortised Cost
Bank, Cash and Cash Equivalents – Call Deposits	Financial Assets at Fair Value
Bank, Cash and Cash Equivalents	Financial Assets at Fair Value

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**7. FINANCIAL INSTRUMENTS (continued)**

*7.1 Financial Assets (continued)*

Cash includes cash-on-hand (including petty cash) and cash with banks (including call deposits). Cash Equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, which are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash Flow Statement, Cash and Cash Equivalents comprise cash-on-hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises Cash and Cash Equivalents as Financial Assets at Fair Value.

*7.2 Financial Liabilities – Classification*

A Financial Liability is a contractual obligation to deliver cash or another Financial Assets to another entity.

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

- (i) Financial Liabilities measured at Fair Value;
- (ii) Financial Liabilities measured at Amortised Cost; or
- (iii) Financial Liabilities measured at Cost.

The municipality may have the following types of Financial Liabilities as reflected on the face of the Statement of Financial Position or in the Notes thereto:

<b>Type of Financial Asset</b>	<b>Classification in terms of GRAP 104</b>
Long-term Liabilities, including Finance Leases	Financial Liabilities at Amortised Cost
Creditors	Financial Liabilities at Amortised Cost
Short-term Loans	Financial Liabilities at Amortised Cost
Current portion of Long-term Liabilities	Financial Liabilities at Amortised Cost
Consumer Deposits	Financial Liabilities at Fair Value
Bank Overdraft	Financial Liabilities at Fair Value

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

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**7. FINANCIAL INSTRUMENTS (continued)**

*7.3 Initial and Subsequent Measurement*

**7.3.1 Financial Assets:**

**Financial Assets measured at Amortised Cost**

*Financial Assets at Amortised Cost* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the Financial Asset. Subsequently, these assets are measured at amortised cost using the *Effective Interest Method* less any impairment, with interest recognised on an *Effective Yield Basis*.

*Trade and Other Receivables* (excluding Value Added Taxation, Prepayments and Operating Lease receivables), Loans to Municipal Entities and Loans that have fixed and determinable payments that are not quoted in an active market are classified as *Financial Assets at Amortised Cost*.

**Financial Assets measured at Fair Value**

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

**7.3.2 Financial Liabilities:**

**Financial Liabilities measured at Fair Value**

*Financial Liabilities at Fair Value* are stated at fair value, with any resulted gain or loss recognised in the Statement of Financial Performance.

**Financial Liabilities held at Amortised Cost**

Any other Financial Liabilities are classified as *Other Financial Liabilities* (All Payables, Loans and Borrowings are classified as Other Liabilities) and are initially measured at fair value, net of transaction costs. Trade and Other Payables, Interest-bearing Debt including Finance Lease Liabilities, Non-interest-bearing Debt and Bank Borrowings are subsequently measured at amortised cost using the *Effective Interest Rate Method*. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate.

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

Prepayments are carried at cost less any accumulated impairment losses.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**7. FINANCIAL INSTRUMENTS (continued)**

*7.4 Impairment of Financial Assets*

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

**7.4.1 Financial Assets at Amortised Cost**

Accounts Receivables encompass Long-term Debtors, Trade Receivables from Exchange Transactions (Consumer Debtors) and Trade Receivables from non-exchange Transactions (Other Debtors).

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

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the municipality first assesses whether objective evidence of impairment exists individually for Financial Assets that are individually significant, and individually or collectively for Financial Assets that are not individually significant. If the municipality determines that no objective evidence of impairment exists for an individually assessed Financial Asset, whether significant or not, it includes the asset in a group of Financial Assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**7. FINANCIAL INSTRUMENTS (continued)**

*7.4 Impairment of Financial Assets (continued)*

**7.4.1 Financial Assets at Amortised Cost (continued)**

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

**7.4.2 Financial Assets at Cost**

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

*7.5 De-recognition of Financial Assets*

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

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

*7.6 Derecognition of Financial Liabilities*

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

The municipality recognises the difference between the carrying amount of the Financial Liability (or part of a Financial Liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**8. INVENTORIES**

*8.1 Initial Recognition*

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

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

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

*8.2 Subsequent Measurement*

**8.2.1 Consumable Stores, Raw Materials, Work-in-Progress and Finished Goods:**

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

**8.2.2 Water Inventory:**

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

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

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



**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**8. INVENTORIES (continued)**

*8.2 Subsequent Measurement (continued)*

**8.2.3 Unsold Properties:**

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

**8.2.4 Other Arrangements:**

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

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

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

*9.1 Initial Recognition*

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**9. NON-CURRENT ASSETS HELD-FOR-SALE (continued)**

*9.2 Subsequent Measurement*

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

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

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

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

**10. REVENUE RECOGNITION**

*10.1 General*

Revenue is derived from a variety of sources which include rates levied, grants from other spheres of government and revenue from trading activities and other services provided.

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

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

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**10. REVENUE RECOGNITION (continued)**

*10.1 General (continued)*

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

*10.2 Revenue from Exchange Transactions*

**10.2.1 Service Charges**

Service Charges are levied in terms of approved tariffs.

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

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

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**10. REVENUE RECOGNITION (continued)**

*10.2 Revenue from Exchange Transactions (continued)*

**10.2.2 Finance Income**

Interest earned on investments is recognised in the Statement of Financial Performance on the *Time-proportionate Basis* that takes into account the effective yield on the investment.

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

- ◆ Interest earned on Unspent Conditional Grants is allocated directly to the Creditor: Unspent Conditional Grants, if the grant conditions indicate that interest is payable to the funder.

**10.2.3 Rentals Received**

Revenue from the rental of facilities and equipment is recognised on a *Straight-line Basis* over the term of the lease agreement.

**10.2.4 Dividends**

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

**10.2.5 Royalties**

Royalties are recognised on an *Accrual Basis* in accordance with the substance of the relevant agreement. Royalties determined on a time basis, are recognised on a *Straight-line Basis* over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

**10.2.6 Tariff of Charges**

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**10. REVENUE RECOGNITION (continued)**

*10.2 Revenue from Exchange Transactions (continued)*

**10.2.7 Revenue from Agency Services**

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

**10.2.8 Sale of Goods**

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

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

*10.3 Revenue from Non-exchange Transactions*

**10.3.1 Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with the management's best estimate of the probable inflows from spot fines and summonses that will be received based on past experience of amounts collected.

**10.3.2 Public Contributions**

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**10. REVENUE RECOGNITION (continued)**

*10.3 Revenue from Non-exchange Transactions (continued)*

**10.3.2 Public Contributions (continued)**

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

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

**10.3.3 Government Grants and Receipts**

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

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

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

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

**10.3.4 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**11. PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

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

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**12. EMPLOYEE BENEFITS**

*12.1 Short-term Employee Benefits*

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

The municipality has opted to treat its provision for leave pay as an accrual.

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

*12.2 Post-employment Benefits*

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

**12.2.1 Defined Contribution Plans**

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

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



**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**12. EMPLOYEE BENEFITS (continued)**

*12.2 Post-employment Benefits (continued)*

**12.2.2 Defined Benefit Plans**

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

**Post-retirement Health Care Benefits:**

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee. Not all Medical Aid Funds, with which the Municipality is associated, provide for continued membership.

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

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

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

**Long-service Allowance:**

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. *The Projected Unit Credit Method* is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of Financial Performance.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**12. EMPLOYEE BENEFITS (continued)**

*12.2 Post-employment Benefits (continued)*

**12.2.2 Defined Benefit Plans (continued)**

**Provincially-administered Defined Benefit Plans:**

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the *Projected Unit Credit Method* basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities

**Defined Benefit Pension Plans:**

The municipality has an obligation to provide Post-retirement Pension Benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

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

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

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**13. LEASES**

*13.1 Classification*

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

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

*13.2 The Municipality as Lessee*

**13.2.1 Finance Leases**

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

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated Accounting Policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the *Effective Interest Rate Method*. Lease finance costs are expensed when incurred. The Accounting Policies relating to de-recognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

**13.2.2 Operating Leases**

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a *Straight-line Basis* over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**13. LEASES (continued)**

*13.3 The Municipality as Lessor*

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

Operating lease rental revenue is recognised on a *Straight-line Basis* over the term of the relevant lease.

**14. BORROWING COSTS**

The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised retrospectively as an expense in the Statement of Financial Performance for the financial year ending 30 June 2011 in accordance with the requirements of GRAP 5 and ASB Directive 3.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established – the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use have been completed.

Where the construction of the qualifying asset is completed in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**15. GRANTS-IN-AID**

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

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

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

**16. UNAUTHORISED EXPENDITURE**

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

**17. IRREGULAR EXPENDITURE**

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

**18. FRUITLESS AND WASTEFUL EXPENDITURE**

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

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**19. VALUE ADDED TAX**

The Municipality accounts for Value Added Tax on the *Payments Basis* in accordance with section 15(2)(a) of the Value-Added Tax Act (Act No 89 of 1991).

**20. FOREIGN CURRENCIES**

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

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

Changes in Accounting Policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical.

Changes in Accounting Estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impractical to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practical.

**22. RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

**UGU DISTRICT MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

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

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

**24. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

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

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

Contingent Assets and Contingent Liabilities are not recognised. Contingencies are disclosed in Notes to the Annual Financial Statements.

**25. COMMITMENTS**

Commitments are future expenditure to which the municipality committed and that will result in the outflow of resources. Commitments are not recognised in the Statement of Financial Position as a liability or as expenditure in the Statement of Financial Performance, but are included in the disclosure Notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

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

**UGU DISTRICT MUNICIPALITY  
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011 (continued)**

**26. EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as Non-adjusting Events after the Reporting Date have been disclosed in Notes to the Annual Financial Statements.

**27. COMPARATIVE INFORMATION**

*27.1 Current year comparatives:*

In accordance with GRAP 1 Budgeted Amounts have been provided and forms part of the Annual Financial Statements.

*27.2 Prior year comparatives:*

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



**UGU DISTRICT MUNICIPALITY**  
**Parameters to be completed for Current Year**

<b>Name of Authority</b>	UGU DISTRICT MUNICIPALITY
<b>Financial Year-end</b>	30 JUNE 2011
<b>End of Next Year</b>	30 June 2012
<b>End of Current Year</b>	30 June 2011
<b>End of Previous Year</b>	30 June 2010
<b>End of Base Year</b>	30 June 2009
<b>Current Year</b>	2011
<b>Previous Year</b>	2010
<b>Base Year</b>	2009
<b>Next Financial Year</b>	2011/12
<b>Current Financial Year</b>	2010/11
<b>Previous Financial Year</b>	2009/10
<b>Comparative Financial Year</b>	2010/11 / 2009/10
<b>Start of Current Year</b>	01 July 2010
<b>Start of Previous Year</b>	01 July 2009

**UGU DISTRICT MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

**REPORT OF THE CHIEF FINANCIAL OFFICER**

**1. INTRODUCTION**

I herewith present the financial position of Ugu District Municipality at 30 June 2011 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2010/11 financial period is set out in Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2011 indicates an increase in Net Assets, and a decrease in Non-current Liabilities and in Current Liabilities.

The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of the surplus generated for the year. The decrease in Non-current Liabilities is primarily as a result of the redemption of Long-term Loans. The decrease in Current Liabilities is primarily as a result of the redemption of Short-term Portion of Long-term Loans and spending of Conditional Grants.

**2. KEY FINANCIAL INDICATORS**

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

**Financial Statement Ratios:**

INDICATOR	2011	2010
Surplus before Appropriations	92,355,818	181,041,207
Surplus at the end of the Year	960,081,298	867,725,481
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	29.18%	26.15%
Remuneration of Councillors	0.82%	0.87%
Depreciation	6.80%	6.00%
Impairment Losses	3.68%	2.44%
Repairs and Maintenance	2.84%	4.32%
Interest Paid	2.81%	1.25%
Bulk Purchases	4.20%	3.45%
Contracted Services	2.18%	2.24%
Grants and Subsidies Paid	20.24%	28.98%
General Expenses	27.26%	24.29%
Current Ratio:		
Creditors Days	73	60
Debtors Days	168	131

### 3. OPERATING RESULTS

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

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

The overall operating results for the year ended 30 June 2011 are as follows:

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Percentage Variance %	Budgeted 2010/11 R	Variance actual/ budgeted %
<b>Revenue:</b>					
Opening surplus	247,134,295	302,981,822	-18.43%	-	-
Operating revenue for the year	850,642,115	925,880,632	-8.13%	768,323,610	10.71%
Appropriations for the year	(91,276,278)	(241,448,885)	-62.20%	-	-
	1,006,500,132	987,413,569	1.93%	768,323,610	31.00%
<b>Expenditure:</b>					
Operating expenditure for the year	758,286,297	744,839,425	1.81%	768,323,610	-1.31%
Sundry transfers	-	(4,560,151)	-100.00%	-	-
Closing surplus	248,213,835	247,134,295	0.44%	(0)	-
	1,006,500,132	987,413,569	1.93%	768,323,610	31.00%

#### 3.1 General Services:

This entails the management of infrastructure and other grants, which are used primarily for infrastructure development, local economic development and tourism marketing and development.

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Percentage Variance %	Budgeted 2010/11 R	Variance actual/ budgeted %
Revenue	218,541,748	187,892,528	16.31%	235,393,707	-7.16%
Expenditure	196,355,851	182,758,899	7.44%	228,076,056	-13.91%
Surplus	22,185,897	5,133,629	332.17%	7,317,651	-
Surplus as % of total revenue	10.15%	2.73%		3.11%	

#### Variance from 2009/10 actual:

The 16,31% increase on last year's actual revenue is primarily as a result of Conditional Grants being released in revenue. The 7,44% increase on last year's actual expenditure is primarily as a result of the increased depreciation on refurbished infrastructure.

#### Variance from 2010/11 budget:

The 7,16% decrease on the reporting year's budget is primarily as a result of internal recoveries being lower than anticipated due to curtailment of expenditure. The 13,91% decrease on the reporting year's budget is primarily as a result of curtailment of expenditure due to cash flow constraints.

### 3.2 Economic Services:

This entails essentially the construction, operation and maintenance of sanitation schemes within the area of jurisdiction of the municipality.

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Percentage Variance %	Budgeted 2010/11 R	Variance actual/ budgeted %
Revenue	98,460,982	72,069,796	36.62%	77,735,279	26.66%
Expenditure	72,027,467	61,702,993	16.73%	75,934,683	-5.15%
Surplus / (deficit)	26,433,515	10,366,803	154.98%	1,800,596	-
Surplus / (deficit) as % of total revenue	26.85%	14.38%		2.32%	

*Variance from 2009/10 actual:*

The 36,62% increase on last year's actual revenue is primarily as a result of public contributions being released into income to finance capital expenditure. The 16,73% increase on last year's actual expenditure is as a result of increased cost of reticulation and purification of waste water.

*Variance from 2010/11 budget:*

The 26,66% increase on the reporting year's budget is primarily as a result of public contributions being released into income to finance capital expenditure. The 5,15% decrease on the reporting year's budget is primarily as a result of curtailment of expenditure due to cash flow constraints.

### 3.3 Trading Services:

This entails the construction, operation and maintenance of all water schemes located within the area of jurisdiction of the municipality.

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Percentage Variance %	Budgeted 2010/11 R	Variance actual/ budgeted %
Revenue	533,639,385	665,918,307	-19.86%	455,194,624	17.23%
Expenditure	489,902,980	500,377,533	-2.09%	464,312,871	5.51%
Surplus / (deficit)	43,736,406	165,540,775	-73.58%	(9,118,247)	-
Surplus / (deficit) as % of total revenue	8.20%	24.86%		-2.00%	

*Variance from 2009/10 actual:*

The 19,86% decrease on last year's actual revenue is primarily as a result of less water being consumed. The 2,09% decrease on last year's actual expenditure is primarily due to lower grant expenditure.

*Variance from 2010/11 budget:*

The 17,23% increase on the reporting year's budget is primarily as a result of grants spent on capital programmes not included in the revenue budget. The 5,51% increase on the reporting year's budget is primarily as a result of depreciation and impairment charges under budgeted for.

#### 4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Property, Plant and Equipment during the year amounted to R202 671 797 (2009/10: R379 010 816). Full details of Property, Plant and Equipment are disclosed in Note 11 and appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of R202 671 797 was financed as follows:

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Percentage Variance %	Budgeted 2010/11 R	Variance actual/ budgeted %
Capital Replacement Reserve	22,597,545	35,116,897	-35.65%	37,835,600	-40.27%
External Loans	61,180,921	76,804,804	-20.34%	60,305,000	1.45%
Finance Leases	-	5,632,503	-100.00%	-	0.00%
Grants and Subsidies	102,874,892	261,456,613	-60.65%	207,662,081	-50.46%
Public Contributions	16,018,439	-	0.00%	-	0.00%
	202,671,797	379,010,816	-46.53%	305,802,681	-33.72%

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2011	2010
Capital Replacement Reserve	11.15%	9.27%
External Loans	30.19%	20.26%
Finance Leases	0.00%	1.49%
Grants and Subsidies	50.76%	68.98%
Public Contributions	7.90%	0.00%
	100.00%	100.00%

Property, Plant and Equipment is funded to a great extent from grants and subsidies as the municipality does not have the financial resources to finance infrastructure capital expenditure from its own funds.

## 5. RECONCILIATION OF BUDGET TO ACTUAL

### 5.1 Operating Budget:

DETAILS	2011	2010
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	(0)	0
Revenue variances	82,318,505	269,484,768
Expenditure variances:		
Employee Related Costs	(164,895)	16,431,373
Remuneration of Councillors	7,516	(1,788,066)
Collection Costs	35,000	-
Depreciation	(5,577,467)	8,541,843
Impairment losses	(20,520,418)	(14,877,847)
Repairs and Maintenance	13,948,461	(1,814,717)
Interest Paid	(5,948,126)	3,984,675
Bulk Purchases	2,198,285	(4,134,581)
Contracted Services	4,866,134	959,313
Grants and Subsidies Paid	(24,095,230)	(125,908,792)
General Expenses	45,288,052	30,191,813
Loss on Disposal of Property, Plant and Equipment	-	(28,574)
Actual surplus before appropriations	92,355,818	181,041,207

DETAILS	2011	2010
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	(0)	0
Executive and Council	(8,718,274)	(5,153,263)
Finance and Administration	14,767,829	9,247,284
Planning and Development	8,088,750	11,314,439
Public Safety	379,480	(5,639,718)
Environmental Protection	680,505	(682,843)
Waste Water Management	24,632,920	9,678,342
Water	52,854,652	162,529,997
Other	(330,044)	(253,032)
Actual surplus before appropriations	92,355,818	181,041,207

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

## 5.2 Capital Budget:

DETAILS	Actual 2010/11 R	Actual 2009/10 R	Variance actual 2010/11 / 2009/10 R	Budgeted 2010/11 R	Variance actual/ budgeted R
Executive and Council	75,334	2,067,721	(1,992,388)	2,000,000	(1,924,666)
Finance and Administration	4,250,412	5,776,543	(1,526,131)	950,000	3,300,412
Planning and Development	18,251	-	18,251	-	18,251
Public Safety	18,251	-	18,251	3,000,000	(2,981,749)
Sport and Recreation	3,435,134	23,108,133	(19,673,000)	23,631,863	(20,196,729)
Waste Water Management	41,214,472	8,822,271	32,392,201	59,788,700	(18,574,228)
Water	153,273,172	190,755,291	(37,482,119)	216,432,118	(63,158,946)
Other	386,770	2,502,646	(2,115,876)	-	386,770
	202,671,797	233,032,606	(30,360,809)	305,802,681	(103,130,884)

Details of the results per segmental classification of capital expenditure are included in Appendix "C", together with an explanation of significant variances of more than 5% from budget, are included in Appendix "E (2)".

## 6. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2011 amounted to R960 081 298 (30 June 2010: R867 725 481) and is made up as follows:

Capital Replacement Reserve	175,736
Capitalisation Reserve	38,945,147
Donations and Public Contributions Reserve	21,837,394
Government Grants Reserve	650,909,187
Accumulated Surplus	248,213,835
	<u>960,081,298</u>

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

The Capitalisation Reserve and Donations and Public Contributions Reserve are utilised to offset the cost of depreciation of assets over the lifespan of such assets. Amounts equal to the cost of assets acquired from Public Contributions are transferred to the reserve annually.

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

Refer to Note 2 for more detail.

## 7. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June 2011 was R215 732 038 (30 June 2010: R221 274 202).

Loans to the amount of R8 199 317 (2009/10: R148 666 873) was taken up during the financial year to enable the municipality to finance part of its capital requirements for the year.

Refer to Note 3 and Appendix "A" for more detail.

## 8. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2011 was R22 123 367 (30 June 2010: R21 537 738).

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

Refer to Note 4 for more detail.

## 9. NON-CURRENT PROVISIONS

Non-current Provisions amounted R7 892 532 as at 30 June 2011 (30 June 2010: R5 979 226) and is made up as follows:

Provision for Long-term Service	<u>7,892,532</u>
	<u><u>7,892,532</u></u>

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

Refer to Note 5 for more detail.

## 10. CURRENT LIABILITIES

Current Liabilities amounted R323 352 930 as at 30 June 2011 (30 June 2010: R365 751 367) and is made up as follows:

Consumer Deposits	Note 6	18,266,771
Provisions	Note 7	2,911,578
Creditors	Note 8	150,689,126
Unspent Conditional Grants and Receipts	Note 9	138,622,619
Current Portion of Long-term Liabilities	Note 3	<u>12,862,836</u>
		<u><u>323,352,930</u></u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). Given the cash flow constraints, every endeavour will be made to meet its obligations.

Refer to the indicated Notes for more detail.

## 11. PROPERTY, PLANT AND EQUIPMENT

The carrying value of Property, Plant and Equipment was R1 385 747 362 as at 30 June 2011 (30 June 2010: R1 240 220

Refer to Note 11 and Appendices "B, C and E (2)" for more detail.

## 12. INTANGIBLE ASSETS

The carrying value of Intangible Assets were R13 695 098 as at 30 June 2011 (30 June 2010: R12 155 890).

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

Refer to Note 12 for more detail.



### 13. NON-CURRENT INVESTMENTS

The municipality held Investments to the value of R100 as at 30 June 2011 (30 June 2010: R100).

Refer to Note 14 for more detail.

### 14. LONG-TERM RECEIVABLES

Long-term Receivables of R26 248 at 30 June 2011 (30 June 2010: R28 789) is made up as follows:

Officials: Relocation Loans	24,982
Officials: Sundry Loans	14,693
	<u>39,675</u>
Less: Short-term portion included in Current Assets	13,427
	<u><u>26,248</u></u>

Refer to Note 15 for more detail.

### 15. CURRENT ASSETS

Current Assets amounted R129 713 358 as at 30 June 2011 (30 June 2010: R229 862 615) and is made up as follows:

Inventory	Note 16	7,217,725
Non-current Assets Held-for-Sale	Note 17	1,054,544
Trade Receivables from Exchange Transactions	Note 18	39,952,893
Trade Receivables from Non-exchange Transactions	Note 19	8,068,029
VAT Receivable	Note 20	31,384,019
Bank, Cash and Cash Equivalents	Note 21	42,022,720
Current Portion of Long-term Debtors	Note 15	13,427
		<u><u>129,713,358</u></u>

The Short-term Investment Deposits are ring-fenced for the purposes of the Capital Replacement Reserve, Unspent Conditional Grants and the repayment of the Current Portion of Long-term Liabilities and no funds are available for own purposes.

Refer to the indicated Notes for more detail.

### 16. INTER-GOVERNMENTAL GRANTS

The municipality plays an important role in the upliftment of the poor and sustaining and improving of infrastructure for all its citizens for which it uses grants received from government and other organisations, and has a big responsibility as custodian of these funds.

Refer to Notes 9 and 23, and Appendix "F" for more detail.

### 17. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 57.

## **18. EXPRESSION OF APPRECIATION**

Whilst this has been a very testing year, I am grateful to the Mayor, Deputy Mayor, Speaker, members of the Executive Committee, Councillors, the Audit Committee, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff who assisted with the collation of year-end information, for without their assistance these Annual Financial Statements would not have been possible.

---

**CHIEF FINANCIAL OFFICER**

30 August 2011

**UGU DISTRICT MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011**

Budget			Actual	
2010	2011		2011	2010
R	R		R	R
<b>765,747,980</b>	<b>837,141,879</b>	<b>NET ASSETS</b>	<b>960,081,298</b>	<b>867,725,481</b>
765,747,980	837,141,879	Accumulated Surplus	960,081,298	867,725,481
<b>765,747,980</b>	<b>837,141,879</b>	<b>Total Net Assets</b>	<b>960,081,298</b>	<b>867,725,481</b>
		<b>LIABILITIES</b>		
<b>156,473,200</b>	<b>140,410,740</b>	<b>Non-Current Liabilities</b>	<b>245,747,937</b>	<b>248,791,167</b>
127,555,000	109,470,000	Long-term Liabilities	215,732,038	221,274,202
23,784,000	25,796,740	Retirement Benefit Liabilities	22,123,367	21,537,738
5,134,200	5,144,000	Non-current Provisions	7,892,532	5,979,226
<b>230,801,660</b>	<b>242,748,594</b>	<b>Current Liabilities</b>	<b>323,352,930</b>	<b>365,751,367</b>
18,348,232	19,265,644	Consumer Deposits	18,266,771	17,765,540
1,953,407	2,051,077	Provisions	2,911,578	2,158,779
106,471,000	111,794,550	Creditors	150,689,126	122,952,896
95,892,000	100,686,600	Unspent Conditional Grants and Receipts	138,622,619	188,580,895
-	-	Operating Lease Payables	-	3,954
-	-	Bank Overdraft	-	4,465
8,137,021	8,950,723	Current Portion of Long-term Liabilities	12,862,836	34,284,837
<b>387,274,860</b>	<b>383,159,334</b>	<b>Total Liabilities</b>	<b>569,100,867</b>	<b>614,542,534</b>
		<b>ASSETS</b>		
<b>857,308,488</b>	<b>913,962,968</b>	<b>Non-Current Assets</b>	<b>1,399,468,807</b>	<b>1,252,405,399</b>
835,857,387	892,128,146	Property, Plant and Equipment	1,385,747,362	1,240,220,620
7,595,725	7,975,511	Intangible Assets	13,695,098	12,155,890
13,776,686	13,776,686	Non-current Investments	100	100
78,690	82,625	Long-term Receivables	26,248	28,789
<b>295,714,352</b>	<b>306,338,245</b>	<b>Current Assets</b>	<b>129,713,358</b>	<b>229,862,615</b>
7,887,616	8,281,997	Inventory	7,217,725	7,546,988
-	-	Non-current Assets Held-for-Sale	1,054,544	1,001,039
56,215,109	61,910,000	Trade Receivables from Exchange Transactions	39,952,893	45,275,748
99,105,196	99,105,196	Trade Receivables from Non-exchange Transactions	8,068,029	3,816,921
-	-	VAT Receivable	31,384,019	19,474,078
132,498,891	137,033,136	Bank, Cash and Cash Equivalents	42,022,720	152,736,683
7,540	7,917	Current Portion of Long-term Receivables	13,427	11,158
<b>1,153,022,840</b>	<b>1,220,301,213</b>	<b>Total Assets</b>	<b>1,529,182,165</b>	<b>1,482,268,014</b>
<b>765,747,980</b>	<b>837,141,879</b>	<b>Total Assets and Liabilities</b>	<b>960,081,298</b>	<b>867,725,481</b>

**UGU DISTRICT MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011**

Budget			Actual	
2010	2011		2011	2010
R	R	Note	R	R
<b>REVENUE</b>				
<b>Revenue from Non-exchange Transactions</b>				
220,921,750	261,193,078	Government Grants and Subsidies Received	23 450,363,859	526,279,024
-	-	Public Contributions and Donations	24 19,186,143	1,509,328
<b>Revenue from Exchange Transactions</b>				
283,129,254	348,386,248	Service Charges	25 240,280,488	246,729,458
176,938	993,972	Rental of Facilities and Equipment	26 955,738	792,249
18,374,716	7,983,000	Interest Earned - External Investments	27 6,161,362	4,262,583
1,164,701	1,199,899	Interest Earned - Outstanding Debtors	27 17,071,412	38,474,536
132,628,506	148,567,414	Other Revenue	28 115,798,262	107,833,455
-	-	Gains on Disposal of Property, Plant and Equipment	824,851	-
<b>656,395,864</b>	<b>768,323,610</b>	<b>Total Revenue</b>	<b>850,642,115</b>	<b>925,880,632</b>
<b>EXPENDITURE</b>				
211,197,244	221,115,268	Employee Related Costs	29 221,280,163	194,765,871
4,678,475	6,199,346	Remuneration of Councillors	30 6,191,830	6,466,540
-	35,000	Collection Costs	-	-
53,260,019	45,971,823	Depreciation and Amortisation	31 51,549,290	44,718,176
3,300,000	7,380,000	Impairment Losses	32 27,900,418	18,177,847
30,398,674	35,488,343	Repairs and Maintenance	21,539,882	32,213,391
13,284,748	15,396,622	Finance Costs	33 21,344,748	9,300,073
21,537,500	34,037,640	Bulk Purchases	34 31,839,355	25,672,081
17,672,000	21,367,800	Contracted Services	35 16,501,666	16,712,687
89,960,150	129,358,509	Grants and Subsidies Paid	36 153,453,739	215,868,942
211,107,055	251,973,259	General Expenses	37 206,685,207	180,915,243
-	-	Loss on Disposal of Property, Plant and Equipment	-	28,574
<b>656,395,864</b>	<b>768,323,610</b>	<b>Total Expenditure</b>	<b>758,286,297</b>	<b>744,839,425</b>
<b>0</b>	<b>(0)</b>	<b>SURPLUS FOR THE YEAR</b>	<b>92,355,818</b>	<b>181,041,207</b>

Refer to Appendix E(1) for explanation of variances

**UGU DISTRICT MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2011**

Description	Revaluation Reserve	Total for Accumulated Surplus/(Deficit) Account	Total
	R	R	R
<b>2010</b>			
Balance at 30 June 2009	-	682,124,123	682,124,123
Change in Accounting Policy (Note 39)	-	-	-
Correction of Error (Note 40)		4,560,151	4,560,151
<b>Restated Balance</b>	-	<b>686,684,274</b>	<b>686,684,274</b>
Surplus for the year		181,041,207	181,041,207
Property, Plant and Equipment purchased		-	-
Donations / Grants utilised to obtain PPE		-	-
Interest received		-	-
Asset disposals		-	-
Offsetting of Depreciation		-	-
<b>Balance at 30 June 2010</b>	-	<b>867,725,481</b>	<b>867,725,481</b>
<b>2011</b>			
Change in Accounting Policy (Note 39)		-	-
Correction of Error (Note 40)		-	-
<b>Restated Balance</b>	-	<b>867,725,481</b>	<b>867,725,481</b>
Surplus for the year		92,355,818	92,355,818
Transfer to CRR		-	-
Property, Plant and Equipment purchased		-	-
Donations / Grants utilised to obtain PPE		-	-
Interest received		-	-
Asset disposals		-	-
Offsetting of Depreciation		-	-
<b>Balance at 30 June 2011</b>	-	<b>960,081,298</b>	<b>960,081,298</b>

Details on the movement of the Reserves are set out in Note 2.

**UGU DISTRICT MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011**

Budget			Actual	
2010 R	2011 R		2011 R	2010 R
		<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
765,749,581	881,230,044	Cash receipts from Ratepayers, Government and Other	773,855,168	832,650,275
(485,783,530)	(489,735,000)	Cash paid to Suppliers and Employees	(654,619,093)	(676,868,415)
<b>279,966,051</b>	<b>391,495,044</b>	<b>Cash generated from / (utilised in) Operations</b>	<b>119,236,075</b>	<b>155,781,860</b>
18,374,716	18,898,266	Interest received	23,232,774	42,737,119
(13,284,748)	(18,896,621)	Interest paid	(21,344,748)	(9,300,073)
<b>285,056,019</b>	<b>391,496,689</b>	<b>NET CASH FLOWS FROM / (USED IN) OPERATING ACTIVITIES</b>	<b>121,124,101</b>	<b>189,218,907</b>
		<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(266,621,414)	(380,667,850)	Purchase of Property, Plant and Equipment	(202,671,797)	(379,010,816)
-	-	Purchase of Intangible Assets	(3,167,704)	(7,484,828)
-	-	Proceeds on Disposal of Property, Plant and Equipment	969,795	-
-	(59,999,620)	Decrease / (Increase) in Non-current Investments	-	15,676,074
-	4,000	Decrease / (Increase) in Long-term Receivables	272	46,282
<b>(266,621,414)</b>	<b>(440,663,470)</b>	<b>NET CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>	<b>(204,869,433)</b>	<b>(370,773,288)</b>
		<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
42,950,000	18,085,000	New Loans raised	8,199,317	148,666,873
-	(1,362,642)	Loans repaid	(35,163,482)	(10,481,864)
<b>42,950,000</b>	<b>16,722,358</b>	<b>NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>	<b>(26,964,165)</b>	<b>138,185,009</b>
<b>61,384,605</b>	<b>(32,444,423)</b>	<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(110,709,498)</b>	<b>(43,369,373)</b>
196,101,591	155,086,000	Cash and Cash Equivalents at the beginning of the year	152,732,218	196,101,591
257,486,196	122,641,577	Cash and Cash Equivalents at the end of the year	42,022,720	152,732,218

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>1. GENERAL INFORMATION</b>		
<p>Ugu District Municipality is a local government institution in Port Shepstone, Kwa-Zulu Natal. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).</p>		
<b>2. ACCUMULATED SURPLUS</b>		
<b>The Accumulated Surplus consists of the following Reserves:</b>		
Capital Replacement Reserve (CRR)	175,736	450,040
Capitalisation Reserve	38,945,147	42,045,163
Donations and Public Contributions Reserve	21,837,394	2,687,161
Government Grants Reserve	650,909,187	575,408,823
Accumulated Surplus / (Deficit) due to the results of Operations	248,213,835	247,134,295
<b>Total Accumulated Surplus</b>	<b>960,081,298</b>	<b>867,725,481</b>
<p><i>Accumulated Surplus</i> has been restated to correctly disclose the liability in respect of Creditors of the municipality. Refer to Note 40.2 on "Correction of Error" for details of the restatement.</p>		
<p>The <b>Capital Replacement Reserve</b> is a reserve to finance future capital expenditure and is invested in Financial Instrument Investments.</p>		
<p>The <b>Capitalisation Reserve</b> equals the carrying value of the items of property, plant and equipment from the former legislated funds. The Capitalisation Reserve ensures community wealth and is not backed by cash.</p>		
<p>The <b>Donations and Public Contributions Reserve</b> equals the carrying value of the items of property, plant and equipment financed from public contributions and donations. The Donations and Public Contributions Reserve ensures community wealth and is not backed by cash.</p>		
<p>The <b>Government Grants Reserve</b> equals the carrying value of the items of property, plant and equipment financed from government grants. The Government Grants Reserve ensures community wealth and is not backed by cash.</p>		
<p>Refer to Statement of Changes in Net Assets for more detail, and the movement on Accumulated Surplus.</p>		
<b>3. LONG-TERM LIABILITIES</b>		
Local Registered Stock	-	20,300,000
Annuity Loans	225,674,215	226,116,260
Finance Lease Liabilities	2,920,659	9,142,779
Sub-total	228,594,874	255,559,040
Less: Current Portion transferred to Current Liabilities	12,862,836	34,284,837
Local Registered Stock	-	20,300,000
Annuity Loans	10,462,124	7,018,972
Finance Lease Liabilities	2,400,712	6,965,865
<b>Total Long-term Liabilities</b>	<b>215,732,038</b>	<b>221,274,202</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
R  
**2010**  
R

**3.1 Summary of Arrangements**

Local Registered Stock is repaid over a period of 0 years (2010: 1 years) and at interest rates varying from 15,60% to 16,80% (2010: 15,60% to 16,80%) per annum. Local Registered Stock is not secured.

Annuity Loans are repaid over periods varying from 1 to 18 (2010: 1 to 19) years and at interest rates varying from 2,65% to 11,00% (2010: 2,65% to 11,00%) per annum. Annuity Loans are not secured.

Finance Lease Liabilities relates to Vehicles with lease term periods of 2 (2010: 3) years. The effective interest rate on Finance Leases is 11,41% (2010: between 11,41% to 12,50%). Capitalised Lease Liabilities are secured over the items of vehicles leased.

R0 (2010: R17 838 885) has been invested specifically in a ring-fenced account for the repayment of Long-term Liabilities. See Notes 14 and 45 for more detail.

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

**3.2 Obligations under Finance Lease Liabilities**

**The Municipality as Lessee:**

Finance Leases relate to Property, Plant and Equipment with lease terms of not more than 3 years (2010: 3 years). The effective interest rate on Finance Leases is 11,41% (2010: between 11,41% and 12,50%).

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

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

The obligations under Finance Leases are as follows:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2011 R	2010 R	2011 R	2010 R
<b>Amounts payable under finance leases:</b>				
Within one year	2,599,032	6,306,028	2,599,032	6,306,028
In the second to third years, inclusive	536,624	3,744,482	536,624	3,744,482
	3,135,655	10,050,510	3,135,655	10,050,510
Less: Future Finance Obligations	214,996	907,730	214,996	907,730
<b>Present Value of Minimum Lease Obligations</b>	<b>2,920,659</b>	<b>9,142,779</b>	<b>2,920,659</b>	<b>9,142,779</b>
Less: Amounts due for settlement within 12 months (Current Portion)			(2,400,712)	(6,965,865)
<b>Finance Lease Obligations due for settlement after 12 months (Non-current Portion)</b>			<b>519,948</b>	<b>2,176,914</b>

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

- Vehicles

Included in these classes are the following significant leases:

(i) Vehicles	R 519,948	R 2,176,914
- Instalments are payable monthly in arrears		
- Average period outstanding	11 months	11 months
- Average effective interest rate, based on prime	11.41%	11.57%
- Average monthly instalment	R 7,958	R 83,321

**3.3 Breach of Loan Agreement**

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



**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>4. RETIREMENT BENEFIT LIABILITIES</b>		
<b>4.1 Post-retirement Health Care Benefits Liability</b>		
Balance at beginning of Year	21,537,738	20,565,203
Contributions to Provision	1,339,696	1,604,539
Balance at end of Year	22,877,435	22,169,742
Transfer to Current Provisions	(754,068)	(632,004)
<b>Total Post-retirement Health Care Benefits Liability</b>	<b>22,123,367</b>	<b>21,537,738</b>

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2011 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The members of the Post-employment Medical Aid Benefit Plan are made up as follows:

In-service Members (Employees)	427	426
Continuation Members (Retirees, widowers and orphans)	44	39
<b>Total Members</b>	<b>471</b>	<b>465</b>

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

In-service Members	10,495,579	11,804,839
Continuation Members	12,381,856	8,817,789
<b>Total Liability</b>	<b>22,877,435</b>	<b>20,622,628</b>

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The Current-service Cost for the year ending 30 June 2011 is estimated to be R1 264 965, whereas the cost for the ensuing year is estimated to be R1 277 147 (2010: R1 318 923 and R1 264 965 respectively).

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

Discount rate	8.63%	9.14%
Health Care Cost Inflation Rate	7.27%	7.18%
Net Effective Discount Rate	1.27%	1.82%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>Movements in the present value of the Defined Benefit Obligation were as follows:</b>		
Balance at the beginning of the year	20,622,628	20,526,171
Current service costs	1,264,965	1,318,923
Interest cost	1,855,981	1,832,730
Benefits paid	(632,004)	(690,754)
Actuarial losses / (gains)	(234,135)	(2,364,443)
<b>Present Value of Fund Obligation at the end of the Year</b>	<b>22,877,435</b>	<b>20,622,628</b>
Actuarial losses / (gains) unrecognised	-	1,547,114
<b>Total Recognised Benefit Liability</b>	<b>22,877,435</b>	<b>22,169,742</b>
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>		
Present value of fund obligations	22,877,435	20,622,628
Unfunded Accrued Liability	22,877,435	20,622,628
Unrecognised actuarial gains / (losses)	-	1,547,114
<b>Total Benefit Liability</b>	<b>22,877,435</b>	<b>22,169,742</b>
<b>The amounts recognised in the Statement of Financial Performance are as follows:</b>		
Current service cost	1,264,965	1,318,923
Interest cost	1,855,981	1,832,730
Actuarial losses / (gains)	(1,781,249)	(1,547,114)
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 29)</b>	<b>1,339,696</b>	<b>1,604,539</b>

**The history of experienced adjustments is as follows:**

	2011 R	2010 R	2009 R	2008 R	2007 R
Present Value of Defined Benefit Obligation	22,877,435	20,622,628	20,526,171	17,761,372	17,369,028
<b>Deficit</b>	<b>22,877,435</b>	<b>20,622,628</b>	<b>20,526,171</b>	<b>17,761,372</b>	<b>17,369,028</b>
Experienced adjustments on Plan Liabilities	1,949,195	(214,812)	885,881	(1,367,240)	-

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2006 reporting period.

	2011 R	2010 R
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
<b>Increase:</b>		
Effect on the aggregate of the current service cost and the interest cost	620,000	623,300
Effect on the defined benefit obligation	3,760,143	3,506,752
<b>Decrease:</b>		
Effect on the aggregate of the current service cost and the interest cost	(488,900)	(490,100)
Effect on the defined benefit obligation	(3,030,410)	(2,823,706)

The municipality expects to make a contribution of R3,221 million (2010: R3,121 million) to the Defined Benefit Plans during the next financial year.

Refer to Note 50, "Multi-employer Retirement Benefit Information", for more information regarding the municipality's other retirement funds that are Provincially and Nationally administered.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	<b>2011</b>	<b>2010</b>
	<b>R</b>	<b>R</b>
<b>5. NON-CURRENT PROVISIONS</b>		
Provision for Long-term Service	7,892,532	5,979,226
<b>Total Non-current Provisions</b>	<b>7,892,532</b>	<b>5,979,226</b>

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

**Long-term Service**

Balance at beginning of year	5,979,226	4,874,279
Contributions to provision	3,387,240	1,995,837
	9,366,466	6,870,116
Transfer to current provisions	(1,473,934)	(890,890)
<b>Balance at end of year</b>	<b>7,892,532</b>	<b>5,979,226</b>

**5.1 Long-service Awards**

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2011 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year-end, 952 (2010: 879) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2011 is estimated to be R1 255 246, whereas the cost for the ensuing year is estimated to be R1 498 752 (2010: R818 999 and R1 255 246 respectively).

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

Discount rate	7.89%	9.04%
Salary Cost Inflation Rate	6.29%	6.38%
Net Effective Discount Rate	1.51%	2.50%
Expected Retirement Age - Females	63	63
Expected Retirement Age - Males	63	63

**Movements in the present value of the Defined Benefit Obligation were as follows:**

Balance at the beginning of the year	6,870,116	5,356,719
Current service costs	1,255,246	818,999
Interest cost	581,565	471,724
Benefits paid	(890,890)	(482,440)
Actuarial losses / (gains) recognised	1,550,429	705,114
<b>Present Value of Fund Obligation at the end of the Year</b>	<b>9,366,466</b>	<b>6,870,116</b>
Actuarial losses / (gains) unrecognised	-	-
<b>Total Recognised Benefit Liability</b>	<b>9,366,466</b>	<b>6,870,116</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	<b>2011</b>	<b>2010</b>
	<b>R</b>	<b>R</b>
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>		
Present value of fund obligations	9,366,466	6,870,116
Unfunded Accrued Liability	9,366,466	6,870,116
Actuarial gains / (losses) not recognised	-	-
<b>Total Benefit Liability</b>	<b>9,366,466</b>	<b>6,870,116</b>

<b>The amounts recognised in the Statement of Financial Performance are as follows:</b>		
Current service cost	1,255,246	818,999
Interest cost	581,565	471,724
Actuarial losses / (gains)	1,550,429	705,114
<b>Total Post-retirement Benefit included in Employee Related Costs (Note 29)</b>	<b>3,387,240</b>	<b>1,995,838</b>

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
The history of experienced adjustments is as follows:					
Present Value of Defined Benefit Obligation	9,366,466	6,870,116	5,356,719	3,606,304	3,956,728
<b>Deficit</b>	<b>9,366,466</b>	<b>6,870,116</b>	<b>5,356,719</b>	<b>3,606,304</b>	<b>3,956,728</b>
Experienced adjustments on Plan Liabilities	870,061	755,438	492,099	663,002	-

In accordance with the transitional provisions for the amendments to IAS 19 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2006 reporting period.

	<b>2011</b>	<b>2010</b>
	<b>R</b>	<b>R</b>
The effect of a 1% movement in the assumed rate of health care cost inflation is as follows:		
<b>Increase:</b>		
Effect on the aggregate of the current service cost and the interest cost	113,719	97,481
Effect on the defined benefit obligation	687,644	463,123
<b>Decrease:</b>		
Effect on the aggregate of the current service cost and the interest cost	(101,102)	(86,300)
Effect on the defined benefit obligation	(614,794)	(416,646)

The municipality expects to make a contribution of R2 181 034 (2010: R1 836 811) to the defined benefit plans during the next financial year.

## 6. CONSUMER DEPOSITS

Water	18,266,771	17,765,540
<b>Total Consumer Deposits</b>	<b>18,266,771</b>	<b>17,765,540</b>
<b>Guarantees held in lieu of Water Deposits</b>	<b>553,580</b>	<b>553,580</b>

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

No interest is paid on Consumer Deposits held.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	<b>2011</b>	<b>2010</b>
	<b>R</b>	<b>R</b>
<b>7. PROVISIONS</b>		
Performance Bonus	683,576	635,885
Current Portion of Post-retirement Medical Aid Benefits Liability (See Note 4 above)	754,068	632,004
Current Portion of Non-Current Provisions (See Note 5 above):	1,473,934	890,890
Long-term Service	1,473,934	890,890
<b>Total Provisions</b>	<b>2,911,578</b>	<b>2,158,779</b>

**Performance Bonuses** accrue to senior managers on an annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

The movement in current provisions are reconciled as follows:

**Current Provisions:**

**Performance Bonus**

Balance at beginning of year	635,885	780,214
Contributions to provision	47,691	198,430
Expenditure incurred	-	(342,759)
<b>Balance at end of year</b>	<b>683,576</b>	<b>635,885</b>

**Current Portion of Non-Current Provisions:**

	<b>Long-term Service</b>	<b>Post-retirement</b>
	<b>R</b>	<b>R</b>
<b>30 June 2011</b>		
Balance at beginning of year	890,890	632,004
Transfer from non-current	1,473,934	754,068
Expenditure incurred	(890,890)	(632,004)
<b>Balance at end of year</b>	<b>1,473,934</b>	<b>754,068</b>
<b>30 June 2010</b>		
Balance at beginning of year	482,440	690,754
Transfer from non-current	890,890	632,004
Expenditure incurred	(482,440)	(690,754)
<b>Balance at end of year</b>	<b>890,890</b>	<b>632,004</b>

**8. CREDITORS**

Trade Creditors	61,952,793	28,528,521
Payments received in Advance	2,853,255	3,173,485
Retentions	1,375,275	11,802,594
Staff Bonuses	7,843,118	7,220,811
Staff Leave	8,426,016	8,035,498
Projects	33,794,957	49,795,096
Other Creditors	34,443,712	14,396,892
<b>Total Creditors</b>	<b>150,689,126</b>	<b>122,952,896</b>

*Creditors* have been restated to correctly classify the liability in respect of Creditors of the municipality. Refer to Note 40.2 on "Correction of Error" for details of the restatement.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
R  
**2010**  
R

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

The average credit period on purchases is 73days, as opposed to 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with.

The municipality did default on payment of its Creditors. However, no terms for payment have been re-negotiated by the municipality.

**9. UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

**9.1 Conditional Grants from Government**

	<b>92,380,032</b>	<b>135,505,930</b>
National Government Grants	31,426,249	89,942,319
Provincial Government Grants	58,877,910	44,058,166
Other Spheres of Government	2,075,873	1,505,446

**9.2 Other Conditional Receipts**

	<b>46,242,587</b>	<b>53,074,964</b>
Developers' Contributions	42,773,163	52,948,239
Public Contributions	3,469,424	126,725
<b>Total Conditional Grants and Receipts</b>	<b>138,622,619</b>	<b>188,580,895</b>

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

See Note 23 for the reconciliation of Grants from Government and Note 24 for the reconciliation of Other Conditional Receipts. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

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

**10. OPERATING LEASE LIABILITIES / PAYABLES**

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

Balance at beginning of year	3,954	25,426
Operating Lease expenses recorded	1,153,751	1,225,145
Operating Lease payments effected	(1,157,705)	(1,246,617)
<b>Total Operating Lease Liabilities</b>	<b>-</b>	<b>3,954</b>

**10.1 Leasing Arrangements**

**The Municipality as Lessee:**

Operating Leases relate to Property, Plant and Equipment with lease terms not longer than 5 years, with an option to extend for a further period. All operating lease contracts contain market review clauses in the event that the municipality exercises its option to renew. The municipality does not have an option to purchase the leased asset at the expiry of the lease period.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**                      **2010**  
**R**

**10.2 Amounts payable under Operating Leases**

At the Reporting Date the municipality had outstanding commitments under Non-cancellable Operating Leases for Property, Plant and Equipment, which fall due as follows:

<b>Office Equipment:</b>	892,469	1,202,618
Within one year	574,374	1,037,522
In the second to third years, inclusive	318,095	165,096
Over three years	-	-
<b>Total Operating Lease Arrangements</b>	<b>892,469</b>	<b>1,202,618</b>

The following payments have been recognised as an expense in the Statement of Financial Performance:

Minimum lease payments	1,153,751	1,225,145
<b>Total Operating Lease Expenses</b>	<b>1,153,751</b>	<b>1,225,145</b>

The municipality has operating lease agreements for the following classes of assets, which are only significant collectively:  
 - Office Equipment

The following restrictions have been imposed on the municipality in terms of the lease agreements on Office Equipment:

- (i) The equipment shall remain the property of the rentor.
- (ii) The hirer shall not sell, sublet, cede, assign or delegate any of its rights or obligations on the equipment.
- (iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.
- (iv) The municipality is obliged to enter into a maintenance agreement with the lessor for the equipment rented.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**11. PROPERTY, PLANT AND EQUIPMENT**

30 June 2011

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infra-structure	Community	Other	Leased Infra-structure	Total
	R	R	R	R	R	R
<b>Carrying values at 01 July 2010</b>	<b>62,468,574</b>	<b>983,246,060</b>	<b>140,705,874</b>	<b>53,800,112</b>	-	<b>1,240,220,620</b>
Cost	68,677,298	1,831,487,224	142,302,670	108,906,383	-	2,151,373,576
- Completed Assets	54,831,687	1,462,785,086	23,859,990	105,854,416	-	1,647,331,179
- Under Construction	13,845,611	368,702,139	118,442,680	3,051,967	-	504,042,397
Correction of error (Note 40)	-	-	-	-	-	-
Accumulated Impairment Losses	-	(338,113)	-	-	-	(338,113)
Accumulated Depreciation:	(6,208,724)	(847,903,051)	(1,596,796)	(55,106,271)	-	(910,814,842)
- Cost	(6,208,724)	(847,903,051)	(1,596,796)	(55,106,271)	-	(910,814,842)
- Revaluation	-	-	-	-	-	-
Acquisitions	18,215,734	3,233,682	3,821,904	2,084,444	-	27,355,764
Borrowing Costs Capitalised	-	-	-	-	-	-
Capital under Construction - Additions:	-	175,316,032	-	-	-	175,316,032
- Cost	-	175,316,032	-	-	-	175,316,032
- Borrowing Costs Capitalised	-	-	-	-	-	-
Increases in Revaluation	-	-	-	-	-	-
Reversals of Impairment Losses	-	-	-	-	-	-
Depreciation:	(3,816,186)	(29,859,453)	(3,812,638)	(12,432,516)	-	(49,920,793)
- Based on Cost	(3,816,186)	(29,859,453)	(3,812,638)	(12,432,516)	-	(49,920,793)
- Based on Revaluation	-	-	-	-	-	-
Carrying value of Disposals:	-	-	-	(144,944)	-	(144,944)
- Cost	-	-	-	(904,594)	-	(904,594)
- Accumulated Impairment Losses	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	759,650	-	759,650
- Based on Cost	-	-	-	759,650	-	759,650
- Based on Revaluation	-	-	-	-	-	-
Carrying value of Transfers to Held-for-Sale:	-	5,018	-	(58,523)	-	(53,505)
- Cost	-	(2,977,694)	-	(1,034,064)	-	(4,011,758)
- Accumulated Impairment Losses	-	338,113	-	-	-	338,113
- Accumulated Depreciation	-	2,644,598	-	975,541	-	3,620,139
- Based on Cost	-	2,644,598	-	975,541	-	3,620,139
- Based on Revaluation	-	-	-	-	-	-
Impairment Losses	-	-	-	-	-	-
Capital under Construction - Completed	(12,381,396)	(89,034,461)	(115,724,503)	-	-	(217,140,360)
Other Movements:	12,381,396	82,008,648	115,724,503	-	-	210,114,547
- Cost	12,381,396	82,008,648	115,724,503	-	-	210,114,547
- Accumulated Impairment Losses	-	-	-	-	-	-
- Accumulated Depreciation	-	-	-	-	-	-
- Based on Cost	-	-	-	-	-	-
- Based on Revaluation	-	-	-	-	-	-
<b>Carrying values at 30 June 2011</b>	<b>76,868,123</b>	<b>1,124,915,526</b>	<b>140,715,140</b>	<b>43,248,573</b>	-	<b>1,385,747,362</b>
Cost	86,893,033	2,000,033,432	146,124,574	109,052,169	-	2,342,103,208
- Completed Assets	85,428,817	1,545,049,722	143,406,397	106,000,202	-	1,879,885,138
- Under Construction	1,464,215	454,983,710	2,718,177	3,051,967	-	462,218,070
Accumulated Impairment Losses	-	-	-	-	-	-
Accumulated Depreciation:	(10,024,910)	(875,117,906)	(5,409,434)	(65,803,595)	-	(956,355,846)
- Cost	(10,024,910)	(875,117,906)	(5,409,434)	(65,803,595)	-	(956,355,846)
- Revaluation	-	-	-	-	-	-





**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>11. PROPERTY, PLANT AND EQUIPMENT (Continued)</b>		
<b>11.1 Gross Carrying Amount of Property, Plant and Equipment that is fully depreciated and still in use</b>		
There are no Property, Plant and Equipment that is fully depreciated at year-end and still in use by the municipality.		
<b>11.2 Carrying Amount of Property, Plant and Equipment retired from active use and held for disposal</b>		
Other	1,054,544	1,001,039
<b>Carrying Amount of PPE retired from active use and held for disposal</b>	<b>1,054,544</b>	<b>1,001,039</b>
<b>11.3 Assets pledged as security</b>		
The municipality did not pledge any of its assets as security.		
The municipality's obligations under Finance Leases (see Note 3) are secured by the lessors' title to the leased assets. No other assets of the municipality have been pledged as security.		
<b>11.4 Impairment of Property, Plant and Equipment</b>		
The total amount of R0 (2010: R338 113) disclosed for impairment losses on property, plant and equipment does not include individually material amounts of impairment losses. However, cumulative impairment losses for the following significant account balances are included therein:		
Infrastructure: Sewerage	-	36,447
Infrastructure: Water	-	301,667
<b>Total Impairment of Property, Plant and Equipment</b>	<b>-</b>	<b>338,113</b>
Impairment losses on property, plant and equipment exist predominantly due to technological obsolescence of information technology equipment. The remainder of impaired items of property, plant and equipment have been physically damaged, stolen or have become redundant and idle.		
<b>11.5 Change in Estimate - Useful Life of Property, Plant and Equipment reviewed</b>		
A change in the estimated useful life of various assets of the municipality has resulted in the following decreases in depreciation for the mentioned departments for the financial year:		
Executive and Council	1,777,735	-
Finance and Administration	1,827,988	-
Planning and Development	2,918,814	-
Public Safety	2,794	-
Environmental Protection	814	-
Waste Management	251,485	-
Water	81,269	-
Other	97,078	-
<b>Total Change in Estimate for Useful Life of Property, Plant and Equipment</b>	<b>6,957,977</b>	<b>-</b>
<b>11.6 Land and Buildings carried at Fair Value</b>		
The municipality's Land and Buildings are accounted for according to the cost model and therefore no fair value has been determined.		

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>11.7 Compensation received for Losses</b>		
Compensation, included in Operating Surplus, was received from the municipality's insurers for Property, Plant and Equipment lost during the year:		
Compensation received from insurers	330,150	-
Carrying value of lost assets	(70,606)	-
<b>Surplus / (Deficit) on Compensation received for Lost PPE</b>	<b>259,544</b>	<b>-</b>

**12. INTANGIBLE ASSETS**

At Cost less Accumulated Amortisation and Accumulated Impairment Losses	<b>13,695,098</b>	<b>12,155,890</b>
---	-------------------	-------------------

The movement in Intangible Assets is reconciled as follows:

	Computer Software	Servitudes	Total
<b>Carrying values at 01 July 2010</b>	<b>9,777,918</b>	<b>2,377,972</b>	<b>12,155,890</b>
Cost	20,953,099	2,377,972	23,331,071
Accumulated Amortisation	(11,175,181)	-	(11,175,181)
Acquisitions:	3,012,435	155,269	3,167,704
Purchased	3,012,435	155,269	3,167,704
Internally Developed	-	-	-
Amortisation:	(1,628,497)	-	(1,628,497)
Purchased	(1,628,497)	-	(1,628,497)
Internally Developed	-	-	-
Transfers:	-	-	-
At Cost	(32,339)	-	(32,339)
At Accumulated Amortisation	32,339	-	32,339
<b>Carrying values at 30 June 2011</b>	<b>11,161,856</b>	<b>2,533,242</b>	<b>13,695,098</b>
Cost	23,933,195	2,533,242	26,466,437
Accumulated Amortisation	(12,771,339)	-	(12,771,339)
	<b>Computer Software</b>	<b>Servitudes</b>	<b>Total</b>
<b>Carrying values at 01 July 2009</b>	<b>5,486,805</b>	<b>2,108,638</b>	<b>7,595,443</b>
Cost	13,737,605	2,108,638	15,846,243
Accumulated Amortisation	(8,250,800)	-	(8,250,800)
Acquisitions:	7,215,494	269,334	7,484,828
Purchased	7,215,494	269,334	7,484,828
Internally Developed	-	-	-
Amortisation:	(2,924,381)	-	(2,924,381)
Purchased	(2,924,381)	-	(2,924,381)
Internally Developed	-	-	-
Transfers:	-	-	-
At Cost	-	-	-
At Accumulated Amortisation	-	-	-
<b>Carrying values at 30 June 2010</b>	<b>9,777,918</b>	<b>2,377,972</b>	<b>12,155,890</b>
Cost	20,953,099	2,377,972	23,331,071
Accumulated Amortisation	(11,175,181)	-	(11,175,181)

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**                      **2010**  
**R**

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance (see Note 31).

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

The following restrictions apply to Intangible Assets:

- Financial Software:
  - (i) The system is non-assignable, non-transferable, and the municipality has no exclusive rights to use the system.
  - (ii) The system may be used on only one database at any one time.
  - (iii) The municipality, as the licensee, shall not grant usage of, or distribute, the system in its original or modified form, to a third party for the third party's benefit.
  - (iv) The municipality has no intellectual property rights to the system.

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

**12.1 Significant Intangible Assets**

Significant Intangible Assets, that did not meet the recognition criteria for Intangible Assets as stipulated in IAS 38 and SIC 32, are the following:

- (i) Website Costs incurred during the last two financial years have been expensed and not recognised as Intangible Assets. The municipality cannot demonstrate how its website will generate probable future economic benefits.

**12.2 Intangible Assets with Indefinite Useful Lives**

The following classes of Intangible Assets are not amortised as they are regarded as having indefinite useful lives:

Carrying Value of Servitudes: Sewerage Distribution	1,486,723	1,504,422
Carrying Value of Servitudes: Water Reticulation	1,046,518	873,550
<b>Total Carrying Amount of Intangible Assets with Indefinite Useful Lives</b>	<b>2,533,242</b>	<b>2,377,972</b>

**Servitudes** are regarded as having Indefinite Useful Lives as they are registered permanently, the agreements not having a maturity date.

The useful lives of the Intangible Assets remain unchanged from the previous year and are as follows:

Computer Software	5 Years
-------------------	---------

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

**12.3 Impairment of Intangible Assets**

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

**13. INVESTMENT PROPERTY**

The municipality did not have any property to be classified as Investment Property in terms of its Accounting Policies and Asset Management Policy at year-end.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>14. NON-CURRENT INVESTMENTS</b>		
<b>Unlisted</b>		
Investment in Municipal Entities - at cost	100	100
	<b>100</b>	<b>100</b>
<b>Financial Instruments</b>		
Fixed Deposits	-	17,838,885
	-	17,838,885
<b>Total Investments</b>		
All Investments	100	17,838,985
Less: Short-term Portion transferred to Current Investments	-	(17,838,885)
	-	-
<b>Total Non-current Investments</b>	<b>100</b>	<b>100</b>
<b>Council's valuation of Unlisted Investments</b>		
Investment in Municipal Entities	100	100
	<b>100</b>	<b>100</b>

Unlisted Investments comprise the following:

- (i) Investments in Municipal Entities as described below.

Fixed Deposits are investments with a maturity period of more than 12 months and earn interest rates varying from 12,90 % to 13,39 % (2010: 12,90% to 13,39%) per annum.

Fixed Deposits of R0 (2010: R17 838 885) are ring-fenced for the purposes of repaying Long-term Liabilities as set out in Notes 3 and 45.

**14.1 Investment in Municipal Entities**

The municipality exercises control in the following company, located and commencing its operations on 1 July 2009 in the Ugu District Municipal area, where the value of the investment is considered to be R100, being the issued share capital:

*Ugu South Coast Tourism (Pty) Ltd:*

Issued Share Capital (R)	100	100
Percentage controlled by Council (%)	100.00%	100.00%
Current Liabilities	1,256,523	1,747,268
Non-Current Assets	654,997	704,138
Current Assets	5,428,879	4,710,684
Total Revenue	12,326,106	11,481,256
Total Expenditure	12,029,565	11,020,390
Grant allocated to Municipal Entity (R)	9,000,000	9,152,796
Management's valuation of the investment in the Municipal Entity (R)	100	100

All thirteen members serving on the board of directors of the Municipal Entity are nominated by the municipality's Executive Committee (13/13 = 100.00%).

The municipality's maximum liability towards the Municipal Entity is R100.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>15. LONG-TERM RECEIVABLES</b>		
	<b>Gross Balances R</b>	<b>Provision for Impairment R</b>
		<b>Net Balances R</b>
<b>As at 30 June 2011</b>		
Officials: Relocation Loans	24,982	-
Sundry Loans	14,693	-
	39,675	-
Less: Current Portion transferred to Current Receivables		13,427
Officials: Relocation Loans		9,827
Sundry Loans		3,600
<b>Total Long-term Receivables</b>		<b>26,248</b>
<b>As at 30 June 2010</b>		
Officials: Relocation Loans	21,654	-
Sundry Loans	18,293	-
	39,947	-
Less: Current Portion transferred to Current Receivables		11,158
Officials: Relocation Loans		11,158
Sundry Loans		-
<b>Total Long-term Receivables</b>		<b>28,789</b>

**RELOCATION LOANS**

Relocation Loans granted to officials are expensed after 36 months' service in the municipality. A pro rata amount is recovered should an official leave the service of the municipality within the 36 month period.

**SUNDRY LOANS**

Sundry Loans comprise expenditure recoverable from officials for damages caused to municipal property. The debt is repaid by monthly deductions.

The municipality does not hold deposits or any other security for its Long-term Receivables.

No Long-term Receivables have been pledged as security for the municipality's financial liabilities.

Long-term Receivables are neither past due nor impaired as management have no concerns over the credit quality of these assets.

	2011 R	2010 R
<b>15.1 Ageing of Long-term Receivables</b>		
<i>Past Due:</i>		
+ 120 Days	26,248	28,789
<b>Total</b>	<b>26,248</b>	<b>28,789</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>16. INVENTORY</b>		
Consumable Stores - at cost	943,050	1,717,295
Maintenance Materials - at cost	5,084,742	5,168,426
Water - at cost	1,148,698	620,033
Goods Held-for-Sale	41,235	41,235
<b>Total Inventory</b>	<b>7,217,725</b>	<b>7,546,988</b>

Inventories are held for own use with the result that no write downs of Inventory to Net Realisable Value were required.

The cost of water production for the year amounted to R5,05 per kilolitre (2010: R4,82 per kilolitre).

The cost of Inventories recognised as an expense during the period was R5 576 332 (2010: R5 985 523).

Inventories of R765 259 (2010: R357 867) are expected to be utilised only after more than twelve months.

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

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

Property Held-for-Sale - at cost	1,054,544	1,001,039
<b>Total Non-current Assets Held-for-Sale</b>	<b>1,054,544</b>	<b>1,001,039</b>
<b>Liabilities associated with Non-current Assets Held-for-Sale</b>	-	-
<b>Net Non-current Assets Held-for-Sale</b>	<b>1,054,544</b>	<b>1,001,039</b>

**17.1 Property Held-for-Sale**

The municipality intends to dispose some of its Property, Plant and Equipment through public auction within the next twelve months. No impairment loss was recognised on reclassification of the property as held-for-sale, nor at 30 June 2011.

**18. TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Impairment R	Net Balance R
<b>As at 30 June 2011</b>			
Service Debtors:	83,377,765	58,454,082	24,923,683
Sewerage	26,691,891	12,109,898	14,581,993
Water	56,685,874	46,344,184	10,341,690
Water Rate Debtors	17,201,820	8,491,663	8,710,157
Other Trade Debtors	10,017,123	3,698,070	6,319,053
<b>Total Trade Receivables from Exchange Transactions</b>	<b>110,596,708</b>	<b>70,643,815</b>	<b>39,952,893</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R	
	Gross Balances R	Provision for Impairment R	Net Balance R
<b>As at 30 June 2010</b>			
Service Debtors:	61,977,807	40,781,469	21,196,339
Sewerage	16,925,366	6,970,128	9,955,238
Water	45,052,441	33,811,341	11,241,100
Water Rate Debtors	21,354,635	-	21,354,635
Other Trade Debtors	5,377,261	2,652,487	2,724,774
<b>Total Trade Receivables from Exchange Transactions</b>	<b>88,709,703</b>	<b>43,433,956</b>	<b>45,275,748</b>

Included in Trade Receivables from Exchange Transactions is an amount of R5,3 million (2010: R3,1 million) in respect of the consumption of metered services not billed as at 30 June.

Trade Receivables from Exchange Transactions are billed monthly, latest end of month. The Credit Control Policy states that the average credit period for Trade Receivables is 30 days. Except for Water Rates, no interest and collection fees are charged on Trade Receivables. Such interest is charged at a fixed rate of 15,0% (fifteen percent) per annum on the outstanding balance. A once-off collection fee of 10,0% (ten percent) is raised after 31 January annually. The municipality enforces its approved Credit Control Policy to ensure the recovery of Trade Receivables.

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

At 30 June 2011, the Municipality is owed R5 603 (30 June 2010: R6 136) million by National and Provincial Government.

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

**18.1 Ageing of Trade Receivables from Exchange Transactions**

**As at 30 June 2011**

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Sewerage:</b>					
Gross Balances	13,083,900	1,877,218	1,332,721	10,398,053	26,691,891
Less: Provision for Impairment	1,440,915	1,474,595	783,581	8,410,806	12,109,898
<b>Net Balances</b>	<b>11,642,985</b>	<b>402,623</b>	<b>549,140</b>	<b>1,987,246</b>	<b>14,581,993</b>
<b>Water:</b>					
Gross Balances	9,076,887	3,811,202	3,020,640	40,777,144	56,685,874
Less: Provision for Impairment	8,515,394	2,206,424	2,371,506	33,250,859	46,344,184
<b>Net Balances</b>	<b>561,493</b>	<b>1,604,778</b>	<b>649,134</b>	<b>7,526,285</b>	<b>10,341,690</b>
<b>Water Rates:</b>					
Gross Balances	8,610,157	-	100,000	8,491,663	17,201,820
Less: Provision for Impairment	13,439	-	53,802	8,424,423	8,491,663
<b>Net Balances</b>	<b>8,596,719</b>	<b>-</b>	<b>46,198</b>	<b>67,240</b>	<b>8,710,157</b>
<b>Other Debtors:</b>					
Gross Balances	-	-	-	10,017,123	10,017,123
Less: Provision for Impairment	-	-	-	3,698,070	3,698,070
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,319,053</b>	<b>6,319,053</b>



**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**                      **2010**  
**R**

As at 30 June Trade Receivables of R19 151 697 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	<b>Past Due</b>			<b>Total</b>
	<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>	
<b>All Trade Receivables:</b>				
Gross Balances	5,688,420	4,453,362	69,683,983	79,825,764
Less: Provision for Impairment	3,681,020	3,208,889	53,784,159	60,674,067
<b>Net Balances</b>	<b>2,007,400</b>	<b>1,244,472</b>	<b>15,899,824</b>	<b>19,151,697</b>

**As at 30 June 2010**

	<b>Current</b>	<b>Past Due</b>			<b>Total</b>
	<i>0 - 30 days</i>	<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>	
<b>Sewerage:</b>					
Gross Balances	7,330,160	2,290,061	706,701	6,598,445	16,925,366
Less: Provision for Impairment	-	-	371,683	6,598,445	6,970,128
<b>Net Balances</b>	<b>7,330,160</b>	<b>2,290,061</b>	<b>335,018</b>	<b>-</b>	<b>9,955,238</b>

**Water:**

Gross Balances	17,790,719	5,297,904	1,885,918	20,077,900	45,052,441
Less: Provision for Impairment	6,549,618	5,297,904	1,885,918	20,077,900	33,811,341
<b>Net Balances</b>	<b>11,241,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,241,100</b>

**Water Rates:**

Gross Balances	1,068,619	2,873	1,314	20,281,830	21,354,635
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>1,068,619</b>	<b>2,873</b>	<b>1,314</b>	<b>20,281,830</b>	<b>21,354,635</b>

**Other Debtors:**

Gross Balances	-	-	-	5,377,261	5,377,261
Less: Provision for Impairment	-	-	-	2,652,487	2,652,487
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,724,774</b>	<b>2,724,774</b>

As at 30 June Trade Receivables of R25 635 868 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	<b>Past Due</b>			<b>Total</b>
	<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>	
<b>All Trade Receivables:</b>				
Gross Balances	7,590,838	2,593,932	52,335,435	62,520,205
Less: Provision for Impairment	5,297,904	2,257,601	29,328,832	36,884,337
<b>Net Balances</b>	<b>2,292,933</b>	<b>336,331</b>	<b>23,006,604</b>	<b>25,635,868</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R		
<b>18.2 Summary of Trade Receivables from Exchange Transactions by Customer Classification</b>				
	<b>Consumers</b>	<b>Industrial/ Commercial</b>	<b>National and Provincial Government</b>	<b>Other</b>
	R	R	R	R
<b>As at 30 June 2011</b>				
<i>Current:</i>				
0 - 30 days	19,135,176	9,445,763	2,190,005	-
<i>Past Due:</i>				
31 - 60 Days	3,609,963	1,740,487	337,969	-
61 - 90 Days	2,843,646	1,284,951	324,765	-
+ 90 Days	45,756,919	11,159,278	2,750,663	10,017,123
Sub-total	71,345,705	23,630,479	5,603,402	10,017,123
Less: Provision for Impairment	60,367,952	6,577,793	-	3,698,070
<b>Total Trade Receivables by Customer Classification</b>	<b>10,977,753</b>	<b>17,052,686</b>	<b>5,603,402</b>	<b>6,319,053</b>
<b>As at 30 June 2010</b>				
<i>Current:</i>				
0 - 30 days	17,614,259	7,144,109	1,431,130	-
<i>Past Due:</i>				
31 - 60 Days	4,670,075	2,129,901	790,862	-
61 - 90 Days	1,605,355	652,871	335,706	-
+ 90 Days	36,052,381	7,308,746	3,579,048	5,395,261
Sub-total	59,942,070	17,235,627	6,136,746	5,395,261
Less: Provision for Impairment	32,061,880	6,778,538	-	4,593,537
<b>Total Trade Receivables by Customer Classification</b>	<b>27,880,190</b>	<b>10,457,089</b>	<b>6,136,746</b>	<b>801,724</b>

**18.3 Reconciliation of the Provision for Impairment**

Balance at beginning of year	43,433,956	28,410,599
Impairment Losses recognised	27,209,859	14,846,112
Impairment Losses reversed	-	-
Amounts recovered	-	177,245
Amounts written off as uncollectable	-	-
<b>Balance at end of year</b>	<b>70,643,815</b>	<b>43,433,956</b>

In terms of the financial instruments classification (Note 49.1), management has classified consumer debtors as loans and receivables for the purposes of assessing interest rate risk, credit risk and liquidity (Notes 49.4, 49.6.2 and 49.8). The concentration of credit risk has been on residential consumers. Consequently, in determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of Consumer Debtors has been more aggressive in the year under review, and has been made for all residential consumer balances outstanding for more than 90 days (2010: 90 days). In management's professional judgement, no further credit provision is required in excess of the Provision for Impairment.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer Debtors are presented net of a provision for impairment.

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

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>18.4 Ageing of impaired Trade Receivables from Exchange Transactions</b>		
<i>Current:</i>		
0 - 30 Days	9,969,747	6,549,618
<i>Past Due:</i>		
31 - 60 Days	3,681,020	5,297,904
61 - 90 Days	3,208,889	2,257,601
+ 90 Days	53,784,159	29,328,832
<b>Total</b>	<b>70,643,815</b>	<b>43,433,956</b>

**18.5 Derecognition of Financial Assets**

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

**19. TRADE RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Impairment R	Net Balances R
<b>As at 30 June 2011</b>			
Payments made in Advance	1,426,781	-	1,426,781
Government Subsidy Claims	5,243,855	1,613,200	3,630,655
Insurance Claims	901,215	-	901,215
Municipal Entities	50,979	-	50,979
Sundry Deposits	1,017,415	-	1,017,415
Sundry Debtors	3,003,568	1,962,583	1,040,985
<b>Total Trade Receivables from Non-exchange Transactions</b>	<b>11,643,813</b>	<b>3,575,783</b>	<b>8,068,029</b>
<b>As at 30 June 2010</b>			
Payments made in Advance	-	-	-
Government Subsidy Claims	2,885,225	2,885,225	-
Insurance Claims	-	-	-
Municipal Entities	10,470	-	10,470
Sundry Deposits	1,017,415	-	1,017,415
Sundry Debtors	2,789,037	-	2,789,037
<b>Total Trade Receivables from Non-exchange Transactions</b>	<b>6,702,146</b>	<b>2,885,225</b>	<b>3,816,921</b>

*Trade Receivables from Non-exchange Transactions* have been restated to correctly disclose the accrual for External Interest. Refer to Note 40.1 on "Correction of Error" for details of the restatement.

The average credit period for **Government Grants and Subsidies** is dependent on the Government Department involved and the nature of the claim. No interest is charged on outstanding Government Grants and Subsidies. The subsidies are payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

**Insurance Claims** are amounts which are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

Included in **Sundry Deposits** is an amount of R539 737 (2010: R539 737) in respect of cash deposits made to Eskom for the supply of electricity.

**Sundry Debtors** are in respect of debits outstanding at year-end on normal business transactions entered into by the municipality.

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

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

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

2011  
R

2010  
R

**19.1 Ageing of Trade Receivables from Non-exchange Transactions**

As at 30 June 2011

	Current	Past Due			Total
	0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>Payments made in Advance:</b>					
Gross Balances	1,426,781	-	-	-	1,426,781
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>1,426,781</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,426,781</b>
<b>Government Subsidy Claims:</b>					
Gross Balances	-	-	-	5,243,855	5,243,855
Less: Provision for Impairment	-	-	-	1,613,200	1,613,200
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,630,655</b>	<b>3,630,655</b>
<b>Insurance Claims:</b>					
Gross Balances	-	-	-	901,215	901,215
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>901,215</b>	<b>901,215</b>
<b>Municipal Entities:</b>					
Gross Balances	-	-	-	50,979	50,979
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,979</b>	<b>50,979</b>
<b>Sundry Deposits:</b>					
Gross Balances	-	-	-	1,017,415	1,017,415
Less: Provision for Impairment	-	-	-	-	-
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,017,415</b>	<b>1,017,415</b>
<b>Sundry Debtors:</b>					
Gross Balances	-	-	-	3,003,568	3,003,568
Less: Provision for Impairment	-	-	-	1,962,583	1,962,583
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,040,985</b>	<b>1,040,985</b>

As at 30 June Other Trade Receivables of R6 641 248 were past due but not impaired. The age analysis of these Other Trade Receivables are as follows:

	Past Due			Total
	31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Other Trade Receivables:</b>				
Gross Balances	-	-	10,217,032	10,217,032
Less: Provision for Impairment	-	-	3,575,783	3,575,783
<b>Net Balances</b>	<b>-</b>	<b>-</b>	<b>6,641,248</b>	<b>6,641,248</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R			2010 R
<b>As at 30 June 2010</b>	Current <i>0 - 30 days</i>	Past Due		Total
		<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>
<b>Payments made in Advance:</b>				
Gross Balances	-	-	-	-
Less: Provision for Impairment	-	-	-	-
<b>Net Balances</b>	-	-	-	-
<b>Government Subsidy Claims:</b>				
Gross Balances	-	-	-	2,885,225
Less: Provision for Impairment	-	-	-	2,885,225
<b>Net Balances</b>	-	-	-	-
<b>Insurance Claims:</b>				
Gross Balances	-	-	-	-
Less: Provision for Impairment	-	-	-	-
<b>Net Balances</b>	-	-	-	-
<b>Municipal Entities:</b>				
Gross Balances	-	-	-	10,470
Less: Provision for Impairment	-	-	-	-
<b>Net Balances</b>	-	-	-	10,470
<b>Sundry Deposits:</b>				
Gross Balances	-	-	-	1,017,415
Less: Provision for Impairment	-	-	-	-
<b>Net Balances</b>	-	-	-	1,017,415
<b>Sundry Debtors:</b>				
Gross Balances	-	-	-	2,789,037
Less: Provision for Impairment	-	-	-	-
<b>Net Balances</b>	-	-	-	2,789,037

As at 30 June Other Trade Receivables of R3 816 921 were past due but not impaired. The age analysis of these Trade Receivables are as follows:

	Past Due			Total
		<i>31 - 60 Days</i>	<i>61 - 90 Days</i>	<i>+ 90 Days</i>
<b>All Other Trade Receivables:</b>				
Gross Balances	-	-	-	6,702,146
Less: Provision for Impairment	-	-	-	2,885,225
<b>Net Balances</b>	-	-	-	3,816,921

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>19.2 Reconciliation of Provision for Impairment</b>		
Balance at beginning of year	2,885,225	2,002,201
Impairment Losses recognised	1,962,583	2,993,622
Impairment Losses reversed	(1,272,025)	-
Amounts recovered	-	-
Amounts written off as uncollectable	-	(2,110,598)
<b>Balance at end of year</b>	<b>3,575,783</b>	<b>2,885,225</b>

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

The Provision for Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of a Debtor, the municipality considers any change in the credit quality of the Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to most of these debtors being sundry in nature. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

The following loans and receivables are included in the total amount of the Provision for Impairment :

Sundry Debtors	1,962,583	-
Government Subsidy Claims	1,613,200	2,885,225
Other	-	-
<b>Total Provision for Impairment on Other Trade Receivables</b>	<b>3,575,783</b>	<b>2,885,225</b>

**20. VAT RECEIVABLE**

Vat Receivable	<b>31,384,019</b>	<b>19,474,078</b>
----------------	-------------------	-------------------

VAT is payable on the payments basis. Once payment is received from debtors, VAT is paid over to SARS.

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

The municipality was undergoing a VAT audit at year-end to confirm the completeness and validity of the net VAT due to the municipality. Subsequent to year end, the municipality received VAT refunds from SARS.

**21. BANK, CASH AND CASH EQUIVALENTS**

Bank, Cash and Cash Equivalents	42,022,720	152,736,683
Bank Overdraft	-	(4,465)
<b>Total Bank, Cash and Cash Equivalents</b>	<b>42,022,720</b>	<b>152,732,218</b>

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

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>21.1 Current Investment Deposits</b>		
Call Deposits	11,299,147	26,546,485
Notice Deposits	5,754,880	5,488,964
Short-term Portion of Investments	-	17,838,885
<b>Total Current Investment Deposits</b>	<b><u>17,054,027</u></b>	<b><u>49,874,334</u></b>
 <b>Call Deposits</b> are investments with a maturity period of less than 3 months and earn interest rates varying from 5,25% to 6,25% (2010: 6,25% to 8,65%) per annum.		
 <b>Notice Deposits</b> are investments with a maturity period of less than 12 months. No deposits were held for 2010/11 (2010: earn interest rates varying from 6,25% to 8,65% per annum).		
 <b>Short-term Investment Deposits are attributable to Funds as follows:</b>		
Capital Replacement Reserve	-	-
External Financing Fund	-	-
Unspent Conditional Grants	17,054,027	32,035,449
Repayment of Long-term Liabilities	-	17,838,885
Available for Operational Purposes	-	-
<b>Total Short-term Investment Deposits</b>	<b><u>17,054,027</u></b>	<b><u>49,874,334</u></b>
 <b>21.2 Bank Accounts</b>		
Cash in Bank	24,963,783	102,857,239
Bank Overdraft	-	(4,465)
<b>Total Bank Accounts</b>	<b><u>24,963,783</u></b>	<b><u>102,852,775</u></b>
 The Municipality has the following bank accounts:		
<b>Absa Bank Ltd - Port Shepstone</b>		
<i>Account Number 406 668 6529 (Primary Bank Account):</i>		
Cash book balance at beginning of year	12,033,008	30,042,339
Cash book balance at end of year	<u>25,167</u>	<u>12,033,008</u>
Bank statement balance at beginning of year	30,042,339	5,422,341
Bank statement balance at end of year	<u>84,862</u>	<u>30,042,339</u>
 <i>Account Number 406 668 6472 (General Bank Account):</i>		
Cash book balance at beginning of year	4,984,163	3,791,348
Cash book balance at end of year	<u>2,367,405</u>	<u>4,984,163</u>
Bank statement balance at beginning of year	4,898,155	5,569,392
Bank statement balance at end of year	<u>2,364,705</u>	<u>4,898,155</u>
 <i>Account Number 406 668 6294 (Collection Account):</i>		
Cash book balance at beginning of year	735,260	49,775
Cash book balance at end of year	<u>804,620</u>	<u>735,260</u>
Bank statement balance at beginning of year	49,775	8,536
Bank statement balance at end of year	<u>815,424</u>	<u>49,775</u>
 <i>Account Number 406 671 0647 (Consumer Deposits Bank Account):</i>		
Cash book balance at beginning of year	(4,465)	546,714
Cash book balance at end of year	<u>652,933</u>	<u>(4,465)</u>
Bank statement balance at beginning of year	546,714	354,022
Bank statement balance at end of year	<u>1,228,042</u>	<u>546,714</u>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<i>Account Number 406 660 3763 (Salaries Account):</i>		
Cash book balance at beginning of year	366	5,249
Cash book balance at end of year	<u>111,894</u>	<u>366</u>
Bank statement balance at beginning of year	52,518	131,648
Bank statement balance at end of year	<u>205,500</u>	<u>52,518</u>
<i>Account Number 406 757 0977 (Sanlam Group Life Account):</i>		
Cash book balance at beginning of year	3,849,306	3,462,447
Cash book balance at end of year	<u>4,601,481</u>	<u>3,849,306</u>
Bank statement balance at beginning of year	3,462,447	2,273,719
Bank statement balance at end of year	<u>4,601,481</u>	<u>3,462,447</u>
<i>Account Number 406 668 6367 (MIG Project Account):</i>		
Cash book balance at beginning of year	9,032,140	7,550,367
Cash book balance at end of year	<u>5,785,698</u>	<u>9,032,140</u>
Bank statement balance at beginning of year	7,550,367	950,602
Bank statement balance at end of year	<u>5,785,698</u>	<u>7,550,367</u>
<i>Account Number 407 187 0797 (Disaster Account):</i>		
Cash book balance at beginning of year	209,722	212,170
Cash book balance at end of year	<u>207,171</u>	<u>209,722</u>
Bank statement balance at beginning of year	212,170	17,450
Bank statement balance at end of year	<u>207,171</u>	<u>212,170</u>
<i>Account Number 407 198 0239 (Market Account):</i>		
Cash book balance at beginning of year	13,274	461,736
Cash book balance at end of year	<u>533,418</u>	<u>13,274</u>
Bank statement balance at beginning of year	461,736	-
Bank statement balance at end of year	<u>553,418</u>	<u>461,736</u>
<i>Account Number 407 626 7341 (EFF Bank Account):</i>		
Cash book balance at beginning of year	72,000,000	-
Cash book balance at end of year	<u>3,559</u>	<u>72,000,000</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>3,559</u>	<u>-</u>
<i>Account Number 407 755 1917 (Conditional Grants Account):</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>9,870,437</u>	<u>-</u>
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<u>9,870,437</u>	<u>-</u>
<b>Standard Bank - Port Shepstone Branch</b>		
<i>Account Number 05 330 000 9 (Direct Deposits Account):</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	6,242
Bank statement balance at end of year	<u>-</u>	<u>-</u>



**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>Bank Accounts are attributable to Funds as follows:</b>		
Capital Replacement Reserve	175,736	450,040
Unspent Conditional Grants	121,568,591	156,545,446
Available for / (Utilised by) Operational Purposes	(96,780,545)	(54,142,712)
<b>Total Bank and Cash</b>	<b>24,963,783</b>	<b>102,852,775</b>

Interest on overdrawn current accounts are charged at the banker's prime rate. Interest is earned at different rates per annum on favourable balances.

**21.3 Cash and Cash Equivalents**

Cash Floats and Advances	4,910	5,110
Other Cash Equivalents	-	-
<b>Total Cash on hand in Cash Floats, Advances and Equivalents</b>	<b>4,910</b>	<b>5,110</b>

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

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

**22. OPERATING LEASE ASSETS / RECEIVABLES**

The municipality had no long-term arrangements to be classified as operating lease agreements for the two financial years.

**23. GOVERNMENT GRANTS AND SUBSIDIES**

Provincial Equitable Share	161,009,000	120,121,000
Levies Replacement	38,831,516	35,147,000
Other Grants Received	4,400,257	14,538,236
<b>Operational Grants</b>	204,240,773	169,806,237
<b>Conditional Grants</b>	246,123,085	356,472,787
National: FMG Grant	1,111,817	847,014
National: DEAT Grant	777,170	25,147
National: MIG Grant	207,378,065	247,413,148
National: DWAF Grant	2,169,915	23,704,050
Provincial: Local Government Grants	2,495,663	6,974,133
Provincial: Dept of Public Works Grant	-	2,479,744
Provincial: Dept of Sport & Recreation Grant	1,698,437	625,437
Provincial: Dept of Transport Grant	283,576	-
Provincial: Dept of Local Government & Traditional Affairs Grant	28,148,818	74,058,270
Other Spheres of Government Grants: DBSA	2,059,625	-
Other Spheres of Government Grants: Industrial Development Corporation	-	345,844
<b>Total Government Grants and Subsidies</b>	<b>450,363,859</b>	<b>526,279,024</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>Operational Grants:</b>		
<b>23.1 National: Equitable Share</b>		
Balance unspent at beginning of year	-	-
Current year receipts	161,009,000	120,121,000
Conditions met - transferred to Revenue: Operating Expenses	(161,009,000)	(120,121,000)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<u>-</u>	<u>-</u>

In terms of the Constitution, this unconditional grant is used primarily to subsidise the provision of basic services to the community. All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant. No funds were withheld.

**Conditional Grants:**

**23.2 National: Finance Management Grant (FMG)**

Balance unspent at beginning of year	1,097,707	1,142,449
Current year receipts	1,000,000	802,272
Conditions met - transferred to Revenue: Operating Expenses	(1,111,817)	(847,014)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<u>985,890</u>	<u>1,097,707</u>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns). No funds were withheld.

**23.3 National: Economic Affairs and Tourism Grant (DEAT)**

Balance unspent at beginning of year	651,600	458,924
Current year receipts	2,827,280	217,823
Conditions met - transferred to Revenue: Operating Expenses	(390,400)	(25,147)
Conditions met - transferred to Revenue: Capital Expenses	(386,770)	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<u>2,701,709</u>	<u>651,600</u>

The European Community represented by the Department of Economic Development (Gijima KZN) awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment". No funds were withheld.

**23.4 National: Local Government Grants**

Balance unspent at beginning of year	1,471,916	5,815,930
Current year receipts	1,023,747	2,630,118
Conditions met - transferred to Revenue: Operating Expenses	(2,495,663)	(6,527,600)
Conditions met - transferred to Revenue: Capital Expenses	-	(446,532)
Conditions still to be met - transferred to Liabilities (see Note 9)	<u>-</u>	<u>1,471,916</u>

Various grants are paid by Provincial Local Government to help implement the IDP, PMS, Sports Stadium and financial reform initiatives as required by the Municipal Finance Management Act (MFMA), 2003 and the Municipal Systems Act (MSA), 2000. No funds have been withheld.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>23.5 National: Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of year	82,200,825	147,291,281
Current year receipts	136,551,533	182,322,693
Conditions met - transferred to Revenue: Operating Expenses	(114,029,434)	(40,876,515)
Conditions met - transferred to Revenue: Capital Expenses	(93,348,632)	(206,536,633)
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>11,374,293</b>	<b>82,200,825</b>

The MIG grant is aimed at supplementing municipal budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households and for the provision, rehabilitation and renewal of municipal infrastructure . No funds were withheld.

**23.6 National: Dept of Water Affairs and Forestry Grant (DWAF)**

Balance unspent at beginning of year	4,520,271	18,090,121
Current year receipts	14,014,000	10,134,200
Conditions met - transferred to Revenue: Operating Expenses	(2,039,761)	(10,877,351)
Conditions met - transferred to Revenue: Capital Expenses	(130,154)	(12,826,700)
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>16,364,356</b>	<b>4,520,271</b>

DWAF grants are aimed at supplementing municipal budgets to assist with the construction of water delivery infrastructure, execution of water service delivery and the development of an Asset Management Plan. No funds were withheld.

**23.7 Provincial: Dept of Public Works Grant**

Balance unspent at beginning of year	-	2,479,744
Current year receipts	-	-
Conditions met - transferred to Revenue: Operating Expenses	-	(2,479,744)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 9)	-	-

Public Works Grants are utilised to construct or upgrade various infrastructure of informal settlement areas within the municipal district through utilising labour intensive construction methods in order to maximise job creation for local communities and opportunities for emerging contractors. No funds were transferred to the municipality for the year under review.

**23.8 Provincial: Dept of Sport and Recreation Grant**

Balance unspent at beginning of year	2,825,629	3,316,512
Current year receipts	-	134,554
Conditions met - transferred to Revenue: Operating Expenses	(846,187)	(625,437)
Conditions met - transferred to Revenue: Capital Expenses	(852,249)	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>1,127,193</b>	<b>2,825,629</b>

The purpose of the grant received from the Department of Sport and Recreation was to promote mass participation of a number of selected sport codes and related activities within disadvantaged communities in conjunction with other recreation federations, as well as to assist with the construction of the Ugu Sports and Leisure Centre. No funds were withheld.

**23.9 Provincial: Dept of Transport Grant**

Balance unspent at beginning of year	283,576	270,063
Current year receipts	-	13,513
Conditions met - transferred to Revenue: Operating Expenses	(283,576)	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>0</b>	<b>283,576</b>

This funding was furnished by the KZN Department of Transport to assist with the preparation of a Public Transport Plan as required by the National Land Transport Transition Act, 2000. No funds were transferred to the municipality for the year under review.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>23.10 Provincial: Dept of Cooperative Governance and Traditional Affairs Grant</b>		
Balance unspent at beginning of year	40,948,961	71,878,105
Current year receipts	44,950,574	43,129,126
Conditions met - transferred to Revenue: Operating Expenses	(19,991,731)	(32,411,523)
Conditions met - transferred to Revenue: Capital Expenses	(8,157,087)	(41,646,748)
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>57,750,717</b>	<b>40,948,961</b>

Grants received from CoGTA are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act. They are aimed at supplementing municipal budgets to assist with the assessment of water service delivery mechanisms, water delivery planning and water services technical support. Funding was also received to assist with the construction of the Ugu Sports and Leisure Centre. No funds were withheld.

**23.11 Other Government: DBSA**

Balance unspent at beginning of year	1,368,002	1,302,859
Current year receipts	2,630,053	65,143
Conditions met - transferred to Revenue: Operating Expenses	(2,059,625)	-
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>1,938,429</b>	<b>1,368,002</b>

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment. No funds were withheld.

**23.12 Other Government: Industrial Development Corporation**

Balance unspent at beginning of year	137,444	476,743
Current year receipts	-	6,545
Conditions met - transferred to Revenue: Operating Expenses	-	(345,844)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>137,444</b>	<b>137,444</b>

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment. No funds were withheld.

**23.13 Changes in levels of Government Grants**

Based on the allocations set out in the Division of Revenue Act, (Act No 06 of 2011), government grant funding is expected to increase over the forthcoming two financial years 2011/12 and 2012/13.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>24. PUBLIC CONTRIBUTIONS AND DONATIONS</b>		
Conditional Contributions	19,186,143	-
Unconditional Contributions	-	1,509,328
<b>Total Public Contributions and Donations</b>	<b>19,186,143</b>	<b>1,509,328</b>

**24.1 Reconciliation of Conditional Public Contributions and Donations**

**24.1.1 Developers' Contributions**

Balance unspent at beginning of year	52,948,239	47,577,385
Current year receipts	9,011,067	5,370,854
Conditions met - transferred to Revenue: Operating Expenses	-	-
Conditions met - transferred to Revenue: Capital Expenses	(19,186,143)	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>42,773,163</b>	<b>52,948,239</b>

The District Municipality receives funds from Public Developers to provide municipal services to new developments. These contributions were utilised for this purpose. No funds have been withheld.

**24.1.2 Public Contributions**

Balance unspent at beginning of year	126,725	309,876
Current year receipts	3,548,615	1,326,177
Conditions met - transferred to Revenue: Operating Expenses	(205,916)	(1,509,328)
Conditions met - transferred to Revenue: Capital Expenses	-	-
Conditions still to be met - transferred to Liabilities (see Note 9)	<b>3,469,424</b>	<b>126,725</b>

The District Municipality receives funds from Public Donors to provide humanitarian aid in various instances. These contributions were utilised for these purposes. No funds have been withheld.

**25. SERVICE CHARGES**

Sale of Water	168,240,781	184,990,540
Sewerage and Sanitation Charges	72,039,707	61,738,918
<b>Total Service Charges</b>	<b>240,280,488</b>	<b>246,729,458</b>

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

**26. RENTAL OF FACILITIES AND EQUIPMENT**

Rental Revenue from Other Facilities	955,738	792,249
<b>Total Rental of Facilities and Equipment</b>	<b>955,738</b>	<b>792,249</b>

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

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>27. INTEREST EARNED</b>		
<b>External Investments:</b>		
Bank Account	3,297,946	1,828,100
Short-term Investments	402,301	271,772
Long-term Investments	2,461,115	2,162,711
	<b>6,161,362</b>	<b>4,262,583</b>
<b>Outstanding Debtors:</b>		
Outstanding Billing Debtors	1,606,472	1,028,968
Fair Value adjustment of Service Charges	15,464,940	37,445,569
	<b>17,071,412</b>	<b>38,474,536</b>
<b>Total Interest Earned</b>	<b>23,232,774</b>	<b>42,737,119</b>

*Interest Earned* has been restated to correctly disclose the accrual for External Interest. Refer to Note 40.1 on "Correction of Error" for details of the restatement.

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

Avaliable-for-Sale Financial Assets	3,700,247	2,099,872
Loans and Receivables	17,071,412	38,474,536
Held-to-Maturity Investments	2,461,115	2,162,711
	<b>23,232,774</b>	<b>42,737,119</b>

**28. OTHER REVENUE**

Internal Recoveries	106,484,245	93,768,323
Sundry Services Rendered	9,130,321	13,825,739
Tender Deposits Forfeited	181,344	149,727
Other Revenue	2,352	89,666
<b>Total Other Revenue</b>	<b>115,798,262</b>	<b>107,833,455</b>

The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 23 to 27, rendered which are billed to or paid for by the users as the services are required according to approved tariffs. Internal Recoveries are journalised from other trading and economic services.

**29. EMPLOYEE RELATED COSTS**

Employee Related Costs - Salaries and Wages	144,564,478	116,077,422
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids	31,249,589	34,240,242
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	20,350,395	19,176,060
Housing Benefits and Allowances	1,025,310	1,150,877
Overtime Payments	19,363,455	20,178,135
Performance Bonuses	-	342,759
Defined Benefit Plan Expense:	4,726,936	3,600,376
Current Service Cost	2,520,211	2,137,922
Interest Cost	2,437,546	2,304,455
Net Actuarial (gains)/losses recognised	(230,820)	(842,000)
Vested Past Service Cost	-	-
<b>Total Employee Related Costs</b>	<b>221,280,163</b>	<b>194,765,871</b>

Advances are made to employees in terms of the municipality's policy to assist them in the event of the death of a dependant. Loans to employees are set out in Note 15.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>Remuneration of Section 57 Employees:</b>		
<b><i>Remuneration of the Municipal Manager</i></b>		
Annual Remuneration	612,745	570,016
Leave Encashed	-	-
Car, Entertainment, Housing, Subsistence and Other Allowances	426,654	413,020
Performance Bonus	-	89,369
Contributions to UIF, Medical and Pension Funds	11,337	11,201
<b>Total</b>	<b>1,050,736</b>	<b>1,083,605</b>
<b><i>Remuneration of the Deputy Municipal Manager</i></b>		
Annual Remuneration	690,635	642,451
Leave Encashed	-	-
Car, Entertainment, Housing, Subsistence and Other Allowances	257,323	238,351
Performance Bonus	-	72,389
Contributions to UIF, Medical and Pension Funds	9,965	9,790
<b>Total</b>	<b>957,923</b>	<b>962,981</b>
<b><i>Remuneration of the Chief Financial Officer</i></b>		
Annual Remuneration	397,753	368,785
Leave Encashed	-	-
Car, Entertainment, Housing, Subsistence and Other Allowances	373,139	334,575
Performance Bonus	-	66,506
Contributions to UIF, Medical and Pension Funds	113,091	107,037
<b>Total</b>	<b>883,983</b>	<b>876,902</b>
<b><i>Remuneration of the General Manager: Corporate Services</i></b>		
Annual Remuneration	636,894	570,755
Leave Encashed	-	-
Car, Entertainment, Housing, Subsistence and Other Allowances	219,741	192,024
Performance Bonus	-	-
Contributions to UIF, Medical and Pension Funds	9,606	8,484
<b>Total</b>	<b>866,241</b>	<b>771,264</b>
<b><i>Remuneration of the General Manager: Infrastructure and Economic Development</i></b>		
Annual Remuneration	636,894	246,759
Leave Encashed	-	-
Car, Entertainment, Housing, Subsistence and Other Allowances	226,314	148,115
Performance Bonus	-	-
Contributions to UIF, Medical and Pension Funds	9,649	4,237
<b>Total</b>	<b>872,857</b>	<b>399,110</b>
<b><i>Remuneration of the General Manager: Water Services</i></b>		
Annual Remuneration	636,895	579,586
Leave Encashed	-	27,403
Car, Entertainment, Housing, Subsistence and Other Allowances	212,298	206,928
Performance Bonus	-	66,506
Contributions to UIF, Medical and Pension Funds	8,067	8,052
<b>Total</b>	<b>857,260</b>	<b>888,475</b>
<b><i>Remuneration of the General Manager: Operations</i></b>		
Annual Remuneration	554,796	494,365
Leave Encashed	-	-
Car, Entertainment, Housing, Subsistence and Other Allowances	294,397	273,858
Performance Bonus	-	-
Contributions to UIF, Medical and Pension Funds	9,565	8,521
<b>Total</b>	<b>858,758</b>	<b>776,744</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>Remuneration of the Senior Manager: Strategy and Shared Services</b>		
Annual Remuneration	485,782	442,601
Leave Encashed	32,121	36,296
Car, Entertainment, Housing, Subsistence and Other Allowances	161,927	157,968
Performance Bonus	-	47,988
Contributions to UIF, Medical and Pension Funds	7,972	7,808
<b>Total</b>	<b>687,802</b>	<b>692,662</b>
The following compensation was payable to key management personnel in terms of IAS 19 as at 30 June:		
<b>Post Employment Benefits:-</b>		
Chief Financial Officer	46,949	44,378
<b>Total</b>	<b>46,949</b>	<b>44,378</b>
<b>Other Long-term Benefits:-</b>		
Chief Financial Officer	44,186	25,031
<b>Total</b>	<b>44,186</b>	<b>25,031</b>
<b>Staff Leave Benefits:-</b>		
Municipal Manager	151,789	118,404
Deputy Municipal Manager	175,974	104,591
Chief Financial Officer	63,696	45,437
General Manager: Corporate Services	66,772	45,525
General Manager: Infrastructure & Economic Development	56,047	69,630
General Manager: Water Services	82,664	52,125
General Manager: Operations	59,629	61,662
Special Advisor	63,051	63,376
<b>Total</b>	<b>719,622</b>	<b>560,749</b>

**30. REMUNERATION OF COUNCILLORS**

Mayor	731,118	729,180
Deputy Mayor	469,052	537,783
Speaker	519,347	520,926
Executive Committee Members	1,732,386	1,716,355
Councillors	2,739,927	2,962,297
<b>Total Councillors' Remuneration</b>	<b>6,191,830</b>	<b>6,466,540</b>

***In-kind Benefits***

The Councillors occupying the positions of Mayor, Deputy Mayor, Speaker and Executive Committee Members of the municipality serve in a full-time capacity. They are provided with office accommodation and secretarial support at the expense of the municipality in order to enable them to perform their official duties.

Councillors may utilise official Council transportation when engaged in official duties.

The following additional personal support is provided by the municipality:

- (i) The Mayor has one full-time bodyguard and one full-time driver.
- (ii) The Deputy Mayor has one full-time aide, fulfilling various personal duties.
- (iii) The Speaker has one full-time driver.



**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>31. DEPRECIATION AND AMORTISATION</b>		
Depreciation: Property, Plant and Equipment	49,920,793	41,793,795
Amortisation: Intangible Assets	1,628,497	2,924,381
<b>Total Depreciation and Amortisation</b>	<b>51,549,290</b>	<b>44,718,176</b>
<b>32. IMPAIRMENT LOSSES</b>		
<i>32.1 Impairment Losses on Fixed Assets</i>		
<b>Impairment Losses Recognised:</b>	-	338,113
Property, Plant and Equipment	-	338,113
Intangible Assets	-	-
<b>Impairment Losses Reversed:</b>	-	-
Property, Plant and Equipment	-	-
Intangible Assets	-	-
	<b>-</b>	<b>338,113</b>
<i>32.2 Impairment Losses on Financial Assets</i>		
<b>Impairment Losses Recognised:</b>	29,172,443	17,839,734
Consumer Debtors	27,209,859	14,846,112
Other Debtors	1,962,583	2,993,622
<b>Impairment Losses Reversed:</b>	(1,272,025)	-
Consumer Debtors	-	-
Other Debtors	(1,272,025)	-
	<b>27,900,418</b>	<b>17,839,734</b>
<b>Total Impairment Losses</b>	<b>27,900,418</b>	<b>18,177,847</b>
<b>33. FINANCE COSTS</b>		
Loans and Payables at amortised cost	21,322,239	9,250,876
Finance Leases	-	49,196
Other Interest Paid	22,508	-
<b>Total Interest Paid on External Borrowings</b>	<b>21,344,748</b>	<b>9,300,073</b>
The weighted average capitalisation rate on funds borrowed generally is 9,33% per annum (2010: 3,64% per annum).		
<b>34. BULK PURCHASES</b>		
Water	31,839,355	25,672,081
<b>Total Bulk Purchases</b>	<b>31,839,355</b>	<b>25,672,081</b>

Bulk Purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Bulk Water is purchased from the Umgeni Water Board and eThekweni Municipality.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>35. CONTRACTED SERVICES</b>		
Agency Services	114,855	161,489
Alarm Monitoring Services	30,068	204,605
Cash Banking Services	138,100	126,759
Chemistry Services	103,920	85,990
Cleaning Services	1,248,798	1,121,329
Consultants' Fees	5,381,141	6,314,807
Internal Audit Services	223,476	349,643
Security Services	8,945,771	7,476,327
Other Contracted Services	315,537	871,738
<b>Total Contracted Services</b>	<b>16,501,666</b>	<b>16,712,687</b>
<b>36. GRANTS AND SUBSIDIES PAID</b>		
Low Income Subsidy	44,779,367	35,927,570
Community Projects	90,902,979	168,676,469
Drought Relief	15,461,954	5,355,760
Other Benevolent Organisations and Grants-in-Aid	2,309,439	5,909,143
<b>Total Grants and Subsidies</b>	<b>153,453,739</b>	<b>215,868,942</b>

The **Low Income Subsidy** is in respect of providing basic service levels to indigent households. Refer to Note 23.1.

**Community Projects** consist primarily of Ventilated Pit Latrines (VIPs) constructed for communities that have no access to sanitation services. This project is accelerated to deal swiftly with the municipality's sanitation backlog programme as funded through the Municipal Infrastructure Grant.

**Drought Relief** is meant to provide relief to areas not being supplied with potable water under conditions of drought.

In respect of **Grants-in-Aid**, the Mayor makes grants available on application after consultation with the Municipal Manager / Executive Committee on the merits of such an application.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>37. GENERAL EXPENSES</b>		
Included in General Expenses are the following:		
2010 FIFA Soccer World Cup Contingency	113,206	3,940,513
Accommodation, Seminars and Travelling	1,785,665	1,534,339
Advertising	492,982	561,610
Audit Fees	2,169,322	1,942,013
Cellphones, Internet and Telephones:	3,833,673	4,192,731
Cleaning Materials and Chemicals	348,507	592,679
Commission Paid	934,958	934,432
Consultant IT Support	2,600,640	1,446,777
Electricity	27,735,730	22,099,363
Events and Programmes	3,789,604	3,033,454
Insurance General	1,448,827	1,529,821
Fuel and Oil	9,195,595	7,430,831
Gardening Services	3,864,272	2,802,307
Kwanaloga Games	1,327,670	3,691,366
Kwanaloga Subscriptions	1,297,858	881,148
Legal Expenses	3,807,614	1,411,784
Licences	2,806,074	2,349,474
Loose/Small Tools	1,180,972	1,579,349
Marketing Expenses	1,533,286	1,266,823
Materials	7,249,115	5,418,583
Postage	1,802,788	1,392,941
Printing and Stationery	656,595	1,007,224
Property Transfers	639,412	-
Public Participation	703,912	-
Refreshments	664,129	572,885
Rentals - Property, Plant and Equipment	4,037,105	4,057,466
Staff Training	1,012,864	1,419,598
Sports and Leisure Centre	2,763,861	-
Transport Costs	4,693,465	5,720,939
Uniforms and Protective Clothing	635,630	296,836
Vehicle Tracking	684,073	164,633
Workmen's Compensation Insurance	1,219,859	979,524
Internal Charges	106,484,245	93,768,323
Other General Expenses	3,171,700	2,895,474
<b>Total General Expenses</b>	<b>206,685,207</b>	<b>180,915,243</b>

The amounts disclosed above for Soccer World Cup Contingency are in respect of costs incurred to host Team Algeria at the Ugu Sports and Leisure Centre, being the base camp for training.

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

**37.1 Material Losses**

Estimated Non-revenue Water (NRW)

	<b>1,483,821</b>	<b>2,808,089</b>
	1,483,821	2,808,089

The amounts disclosed above for **Water Losses** are in respect of production costs incurred in the extraction, purification, storage and distribution of water by the municipality; hence the restatement of the comparative amount from R33 038 656 to R 2 808 089.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
A five year strategic non-revenue water reduction plan was adopted and implemented by the Executive Committee in May 2008. The below-mentioned technical information was derived as part of the implementation plan:		
<b>Volumes in Ml/year:</b>		
System Input Volume	35,430	32,093
Billed Authorised Consumption	23,818	20,621
Unbilled Authorised Consumption	984	986
Apparent Losses	3,254	3,146
Real Losses	7,374	7,340
NRW	11,612	11,472

No other extra-ordinary expenses were incurred.

**38. DISCONTINUED OPERATIONS**

No operations have been discontinued.

**39. CHANGE IN ACCOUNTING POLICY**

The municipality adopted the exempted portions of the following Accounting Standards for the first time during the financial year 2010/11 in order to comply with the basis of preparation of the Annual Financial Statements as disclosed in Accounting Policy 1. These have been implemented as at 30 June 2010:

- GRAP 21 Impairment of Non-cash-generating Assets
- GRAP 23 Revenue from Non-exchange Transactions
- GRAP 26 Impairment of Cash-generating Assets
- GRAP 104 Financial Instruments

**GRAP 104 - Financial Instruments**

The municipality opted to develop an Accounting Policy based on GRAP 104, Financial Instruments.

**39.1 Reclassification of Financial Instruments**

The municipality opted to develop an Accounting Policy based on GRAP 104, Financial Instruments. The effect of this change in Accounting Policy is summarised in the following table that indicates the effect of the classification and measurement adjustments to the municipality's Financial Instruments as at 30 June 2010.

	Old Classification as per IAS 39	Classification per GRAP 104	Old Carrying Amount	New Carrying Amount
<b>FINANCIAL ASSETS:</b>				
<b>Long-term Receivables</b>				
Relocation Loans	Loans and receivables	Amortised cost	10,496	10,496
Sundry Loans	Loans and receivables	Amortised cost	18,293	18,293
<b>Trade Receivables from Exchange Transactions</b>				
Sewerage	Loans and receivables	Amortised cost	9,955,238	9,955,238
Water	Loans and receivables	Amortised cost	11,241,100	11,241,100
Water Rate Debtors	Loans and receivables	Amortised cost	21,354,635	21,354,635
Other Trade Debtors	Loans and receivables	Amortised cost	2,724,774	2,724,774
<b>Trade Receivables from Non-exchange Transactions</b>				
Municipal Entities	Loans and receivables	Amortised cost	10,470	10,470
Sundry Deposits	Loans and receivables	Amortised cost	1,017,415	1,017,415
Sundry Debtors	Loans and receivables	Amortised cost	2,789,037	2,789,037

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

			2011 R	2010 R
	Old Classification as per IAS 39	Classification per GRAP 104	Old Carrying Amount	New Carrying Amount
<b>Bank, Cash and Cash Equivalents</b>				
Call Deposits	Available for sale	Fair value	26,546,485	26,546,485
Notice Deposits	Held to maturity	Amortised cost	5,488,964	5,488,964
Short-term Portion of Investments	Held to maturity	Amortised cost	17,838,885	17,838,885
Bank Balances	Available for sale	Fair value	102,857,239	102,857,239
Cash Floats and Advances	Available for sale	Fair value	5,110	5,110
<b>Current Portion of Long-term Receivables</b>				
Relocation Loans	Loans and receivables	Amortised cost	11,158	11,158
<b>FINANCIAL LIABILITIES:</b>				
<b>Long-term Liabilities</b>				
Annuity Loans	Financial liabilities at amortised cost	Amortised cost	219,097,288	219,097,288
Finance Lease Liabilities	Financial liabilities at amortised cost	Amortised cost	2,176,914	2,176,914
<b>Consumer Deposits</b>				
Water	Financial liabilities at amortised cost	Fair value	17,765,540	17,765,540
<b>Creditors</b>				
Trade Creditors	Financial liabilities at amortised cost	Amortised cost	28,528,521	28,528,521
Payments received in Advance	Financial liabilities at amortised cost	Amortised cost	3,173,485	3,173,485
Retentions	Financial liabilities at amortised cost	Fair value	11,802,594	11,802,594
Staff Bonuses	Financial liabilities at amortised cost	Amortised cost	7,220,811	7,220,811
Staff Leave	Financial liabilities at amortised cost	Amortised cost	8,035,498	8,035,498
Projects	Financial liabilities at amortised cost	Amortised cost	49,795,096	49,795,096
Other Creditors	Financial liabilities at amortised cost	Amortised cost	14,396,892	14,396,892
<b>Bank Overdraft</b>				
Bank Overdraft	Financial liabilities at amortised cost	Fair value	4,465	4,465
<b>Current Portion of Long-term Liabilities</b>				
Local Registered Stock	Financial liabilities at amortised cost	Amortised cost	20,300,000	20,300,000
Annuity Loans	Financial liabilities at amortised cost	Amortised cost	7,018,972	7,018,972
Finance Lease Liabilities	Financial liabilities at amortised cost	Amortised cost	6,965,865	6,965,865

**Effect of the Change in Accounting Policy:**

The above-mentioned changes in Accounting Policies had no effect on the Accumulated Surplus as at 30 June 2010 and the Accumulated Surplus of prior years was not affected either.

**40. CORRECTION OF ERROR**

**40.1 Reclassification of External Interest Earned and Sundry Debtors:**

The prior year figures of Revenue for Interest Earned on External Investments and Other Debtors have been restated to correctly disclose Interest Earned by the municipality, previously accrued for in error.

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

	External Interest Earned	Other Debtors
<b>Revenue as per AFS previously published for 2009/10</b>	<b>9,885,446</b>	<b>9,439,785</b>
Reclassification of External Interest Earned	(5,622,864)	(5,622,864)
<b>Revenue as per AFS currently disclosed for 2009/10</b>	<b>4,262,583</b>	<b>3,816,921</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

2011  
R

2010  
R

**40.2 Reclassification of Creditors and Accumulated Surplus:**

The opening balances of Creditors and Accumulated Surplus have been restated to correctly classify the nature of Creditors of the municipality as at 30 June 2009, eliminating amounts previously incorrectly raised as creditors.

The effect of the Correction of Error is as follows:

	<b>Creditors</b>	<b>Accumulated Surplus</b>
<b>Balances previously published per AFS as at 30 June 2009</b>	<b>130,471,826</b>	<b>682,124,123</b>
Reclassify Creditors to reflect the actual creditors of the municipality	(4,560,151)	4,560,151
<b>Balances now published per AFS as at 30 June 2009</b>	<b>125,911,675</b>	<b>686,684,274</b>
Transactions incurred for the Year 2009/10	(2,958,779)	181,041,207
<b>Balances now published per AFS as at 30 June 2010</b>	<b>122,952,896</b>	<b>867,725,481</b>
	<b>2011</b>	<b>2010</b>
	<b>R</b>	<b>R</b>

**41. CHANGE IN ACCOUNTING ESTIMATES**

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

**41.1 Depreciation Expenditure:**

The residual values, estimated useful lives and depreciation method were reviewed at 30 June 2010. Adjustments to the residual values and useful lives affect the amount of depreciation for the current year and is expected to affect future periods as well. The adjustments are as follows:

Increase / (Decrease) in Depreciation due to adjustments to Useful Lives of PPE	(6,957,977)	-
<b>Increase / (Decrease) in Depreciation of PPE</b>	<b>(6,957,977)</b>	<b>-</b>
Depreciation as previously stated	58,507,267	44,718,176
Adjustment due to Change in Accounting Estimate	(6,957,977)	-
<b>Depreciation as per Note 31</b>	<b>51,549,290</b>	<b>44,718,176</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	<b>2011</b>	<b>2010</b>
	<b>R</b>	<b>R</b>
<b>42. CASH GENERATED BY OPERATIONS</b>		
Surplus / (Deficit) for the Year	92,355,818	181,041,207
Adjustment for:		
Depreciation and Amortisation	51,549,290	44,718,176
Impairment Losses on Property, Plant and Equipment	-	338,113
Losses / (Gains) on Disposal of Property, Plant and Equipment	(824,851)	28,574
Property, Plant and Equipment transferred to Non-current Assets Held-for-Sale	53,505	378,606
Other Movement on Property, Plant and Equipment	7,025,813	-
Contribution to Retirement Benefit Liabilities	1,339,696	1,604,539
Expenditure incurred from Retirement Benefit Liabilities	(632,004)	(690,754)
Contribution to Provisions - Current	47,691	198,430
Contribution to Provisions - Non-current	3,387,240	1,995,837
Expenditure incurred from Provisions	(890,890)	(825,198)
Contribution to Impairment Provision	27,900,418	17,839,734
Bad Debts Recovered	-	177,245
Bad Debts Written-off	-	(2,110,598)
Investment Income	(23,232,774)	(42,737,119)
Interest Paid	21,344,748	9,300,073
<b>Operating Surplus before working capital changes</b>	<b>179,423,699</b>	<b>211,256,864</b>
Decrease/(Increase) in Inventories	329,263	340,628
Decrease/(Increase) in Non-current Assets Held-for-Sale	(53,505)	(378,606)
Decrease/(Increase) in Consumer Debtors	(21,887,005)	(14,682,858)
Decrease/(Increase) in Other Debtors	(4,941,666)	33,281,598
Decrease/(Increase) in VAT Receivable	(11,909,941)	40,482,547
Increase/(Decrease) in Consumer Deposits	501,230	291,034
Increase/(Decrease) in Creditors	27,736,230	(2,958,779)
Increase/(Decrease) in Conditional Grants and Receipts	(49,958,276)	(111,829,097)
Increase/(Decrease) in Operating Lease Liability	(3,954)	(21,472)
<b>Cash generated by / (utilised in) Operations</b>	<b>119,236,075</b>	<b>155,781,860</b>
<b>43. NON-CASH INVESTING AND FINANCING TRANSACTIONS</b>		
<p>During the 2010/11 financial year, the municipality acquired R0 (2009/10: R6 314 375) of vehicles under finance leases. These lease agreements have been capitalised and the acquisitions will be reflected in the Cash Flow Statement over the term of the finance leases via lease repayments.</p>		
<b>44. FINANCING FACILITIES</b>		
Unsecured Credit Card Facility, reviewed annually and payable monthly:		
- Amount used	-	-
- Amount unused	80,000	80,000
	<b>80,000</b>	<b>80,000</b>
Unsecured Fleet Card Facility, reviewed annually and payable monthly:		
- Amount used	-	159,842
- Amount unused	1,500,000	1,340,158
	<b>1,500,000</b>	<b>1,500,000</b>
Unsecured DBSA Loan Facility with maturity date to be determined upon final disbursement:		
- Amount used	62,000,000	53,778,982
- Amount unused	-	8,221,018
	<b>62,000,000</b>	<b>62,000,000</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
Secured Bank Loan Facilities with various maturity dates through to 2011 and which may be extended by mutual agreement:		
- Amount used	4,430,381	19,700,000
- Amount unused	-	400,000
	<b>4,430,381</b>	<b>20,100,000</b>

**45. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION**

Long-term Liabilities (See Note 3)	228,594,874	255,559,040
Used to finance Property, Plant and Equipment - at cost	(228,591,315)	(183,559,040)
Sub-total	3,559	72,000,000
Cash set aside for the Repayment of Long-term Liabilities (See Notes 3, 14 and 21)	-	17,838,885
<b>Cash invested for Repayment of Long-term Liabilities</b>	<b>3,559</b>	<b>89,838,885</b>

Long-term Liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that Long-term Liabilities can be repaid on redemption date.

**46. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**46.1 Unauthorised Expenditure**

Reconciliation of Unauthorised Expenditure:

Opening balance	3,940,513	-
Unauthorised Expenditure current year	56,419,341	152,493,091
Approved by Council or condoned	-	(148,552,577)
Unauthorised Expenditure awaiting authorisation	<b>60,359,855</b>	<b>3,940,513</b>

Incident	Disciplinary Steps / Criminal Proceedings
<i>Budgeted amounts exceeded:-</i>	<i>To be condoned by Executive Committee</i>
- Employee Related Costs - R164 895 (2010: R0)	
- Remuneration of Councillors - R0 (2010: R1 788 066)	
- Depreciation and Amortisation - R5 577 467 (2010: R0)	
- Impairment Losses - R20 520 418 (2010: R14 877 847)	
- Repairs and Maintenance - R0 (2010: R1 814 717)	
- Finance Costs - R5 948 126 (2010: R0)	
- Bulk Purchases - R0 (2010: R4 134 581)	
- Grants and Subsidies Paid - R24 095 230 (2010: R125 908 792)	
General Expenses include an amount of R113 206 (2010: R3 940 513) paid in respect of hosting the Algerian Football Association	<i>To be condoned by Executive Committee</i>

**46.2 Fruitless and Wasteful Expenditure**

Reconciliation of Fruitless and Wasteful expenditure:

Opening balance	8,708	-
Fruitless and Wasteful Expenditure current year	22,508	8,708
Condoned or written off by Council	-	-
Fruitless and Wasteful Expenditure awaiting condonement	<b>31,216</b>	<b>8,708</b>

Incident	Disciplinary Steps / Criminal Proceedings
Interest on late payment - Creditors	<i>A report will be adopted by the Executive Committee, condoning the "Fruitless and Wasteful Expenditure".</i>



**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>46.3 Irregular Expenditure</b>		
Reconciliation of Irregular Expenditure:		
Opening balance	24,030,357	13,482,227
Irregular Expenditure current year	21,277,137	37,851,581
Condoned or written off by Council	(24,030,357)	(27,303,451)
Irregular Expenditure awaiting condonement	<u>21,277,137</u>	<u>24,030,357</u>

Incident	Disciplinary Steps / Criminal Proceedings
<i>Payments of R0 (2010: R14 649 460) to successful bidders in respect of capital works, in the absence of receipt of their audited financial statements, as required by paragraph 23 of the Supply Chain Management Policy. This non-compliance has not compromised any of the bid processes; which processes have been fair, equitable and transparent.</i>	None.
<i>Expenditure of R3 901 822 (2010: R1 464 243) contrary to the provisions of paragraph 44 of the Municipal Supply Chain Management Regulations as described in Note 47.8</i>	<i>A report will be adopted by the Executive Committee, condoning the "Irregular Expenditure".</i>
<i>Irregular expenditure also includes R 17,3 (2010: R 21,2) million for expenditure incurred contrary to Supply Chain Management processes.</i>	<i>A report will be adopted by the Executive Committee, condoning the "Irregular Expenditure".</i>

**47. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

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

Opening Balance	-	-
Council Subscriptions	1,297,858	837,288
Amount Paid - current year	(1,297,858)	(837,288)
Amount Paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<u>-</u>	<u>-</u>

**47.2 Audit Fees**

Opening Balance	8,520	18,390
Current year Audit Fee	2,170,682	1,920,669
Amount Paid - current year	(2,103,842)	(1,912,149)
Amount Paid - previous years	(8,520)	(18,390)
<b>Balance Unpaid (included in Creditors)</b>	<u>66,840</u>	<u>8,520</u>

The balance unpaid represents the audit fee for planning the audit for the 2010/2011 financial year and is payable by 31 July 2011.

**47.3 VAT**

VAT inputs receivables and VAT outputs payables are shown in Note 20. All VAT returns have been submitted by the due date throughout the year.

**47.4 PAYE and UIF**

Opening Balance	(0)	-
Current year Payroll Deductions	34,350,686	29,611,469
Amount Paid - current year	(31,768,835)	(29,611,469)
Amount Paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<u>2,581,851</u>	<u>(0)</u>

The balance represents PAYE, UIF, and SDL deducted from employees and councillors in the June 2011 payroll. These amounts were paid during July 2011.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>47.5 Pension and Medical Aid Deductions</b>		
Opening Balance	-	-
Current year Payroll Deductions and Council Contributions	39,840,974	34,316,330
Amount Paid - current year	(36,407,690)	(34,316,330)
Amount Paid - previous years	-	-
<b>Balance Unpaid (included in Creditors)</b>	<b>3,433,284</b>	<b>-</b>

The balance represents Pension and Medical Aid contributions deducted from employees and councillors in the June 2011 payroll, as well as the municipality's contributions to these funds. These amounts were paid during July 2011.

**47.6 Councillor's arrear Consumer Accounts**

The following Councillors had arrear accounts outstanding for more than 90 days as at:

	Total	Outstanding up to 90 days	Outstanding more than 90 days
<b>30 June 2011</b>			
Khawula SA	5,944	2,128	3,816
Madlala NA	360	56	304
Manyoni MA	647	84	563
Mhlongo ZA	184	87	97
Myende L	1,854	56	1,798
Njoko HD	2,106	1,324	782
<b>Total Councillor Arrear Consumer Accounts</b>	<b>11,095</b>	<b>3,735</b>	<b>7,360</b>
<b>30 June 2010</b>			
Dzingwa TN	13,720	1,092	12,628
Mavundla IM	429	78	351
Njongo SO	5,990	1,243	4,747
Vezi TE	6,281	1,442	4,839
<b>Total Councillor Arrear Consumer Accounts</b>	<b>26,420</b>	<b>3,855</b>	<b>22,565</b>

During the year the following Councillors had arrear accounts outstanding for more than 90 days:

	Highest amount outstanding	Ageing
<b>30 June 2011</b>		
Khawula SA	3,816	> 90 Days
Madlala NA	304	> 90 Days
Manyoni MA	563	> 90 Days
Mhlongo ZA	97	> 90 Days
Myende L	1,798	> 90 Days
Njoko HD	782	> 90 Days
<b>30 June 2010</b>		
Dzingwa TN	12,628	> 90 Days
Mavundla IM	351	> 90 Days
Njongo SO	4,747	> 90 Days
Vezi TE	4,839	> 90 Days

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

No known matters existed at reporting date.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
R                      **2010**  
R

**47.8 Deviation from, and ratification of minor breaches of, the Procurement Processes**

In terms of section 36(2) of the Supply Chain Management Policy approved by Council it is stipulated that bids where the formal procurement processes could not be followed, must be noted in the financial statements.

Deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were presented to the Executive Committee, which condoned the various cases.

Department	Date	Successful Tenderer	Reason	Amount
Municipal Manager's Office - ERP Section	July 2010	Cene Business Solutions	Implementers of the Faultman System	12,000.00 Excluding VAT
<i>Development and implementation of the SMS facility for Faultman Call Centre System</i>				
Municipal Manager's Office - ERP Section	July 2010	Dynatech Information Systems	Installers of the operating system	48,860.00 Excluding VAT
<i>Revenue Management System operating and server migration</i>				
Municipal Manager's Office - ERP Section	July 2010	Seethal Attorneys	Information regarding previous prejudice against municipality	25,079.00 Excluding VAT
<i>Amend a contract presented for signature by City Works in respect of the implementation of the ERP billing system</i>				
Municipal Manager's Office - Special Programmes	July 2010	St Michaels Sands Hotel	Only available conference centre at the time	10,350.00 Excluding VAT
<i>Venue for Take a Child to Work Project</i>				
Corporate Services - EAP Section	July 2010	Dr Fred Babumba-Lukwago	Continuation of consultation process	8,000.00 Excluding VAT
<i>Specialist orthopaedic practitioner for consultation assessment and medical reports on EAP clients</i>				
Corporate Services - EAP Section	July 2010	Dr MA Desai	Continuation of consultation process	8,771.93 Excluding VAT
<i>Consultation and assessment of EAP clients</i>				
Corporate Services - EAP Section	July 2010	Dr Ayoob Moosa Bux	Continuation of consultation process	6,000.00 Excluding VAT
<i>Assessment and further management of EAP clients</i>				
Corporate Services - Registry Section	July 2010	Container Conversions and Repair	Only service provider meeting the requirements	28,740.00 Excluding VAT
<i>Park homes, divided into two in order to accommodate 2 interns and consultants, cleaners and outside cleaning staff</i>				
Water Services - Project Management Unit	July 2010	Amathubi Construction Services	Urgent need for water in rural schools	140,000.00 Excluding VAT
<i>Rural water connections to schools within the Ugu district</i>				
Municipal Manager's Office - Legal Section	August 2010	Xolile Ntshulana	Capable & extensive knowledge of criminal and civil law	11,400.00 Excluding VAT
<i>Attend receipt of instructions, perusal and analysing forensic report</i>				
Municipal Manager's Office - Mayoralty & Communications	August 2010	Touch Africa	3 Year contract between municipality and company	320,000.00 Excluding VAT
<i>Co-ordination and management fees for the annual Ugu Jazz Festival 2010</i>				
Municipal Manager's Office - Shared Services	August 2010	Hibiscus Coast Municipality	IDP Support Grant	51,666.00 Excluding VAT
<i>This grant was transferred to Ugu District Municipality to be shared by all the Ugu family of municipalities</i>				
Municipal Manager's Office - Shared Services	August 2010	Hibiscus Coast Municipality	IDP Support Grant	100,000.00 Excluding VAT
<i>This grant was transferred to Ugu District Municipality to be shared by all the Ugu family of municipalities</i>				

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**

**2010**  
**R**

Department	Date	Successful Tenderer	Reason	Amount
Municipal Manager's Office - Special Programmes	August 2010	Sfiso Ncwane	Preferred professional singer	20,000.00 Excluding VAT
<i>Performing on the Women's Day celebration</i>				
Municipal Manager's Office - Youth Development Section	August 2010	Legacy and Future Events & Exhibition Management	Recommended supplier for this job	4,000.00 Excluding VAT
<i>Recording the whole event during the Winter Games</i>				
Corporate Services - IT Section	August 2010	Alprene Plastic Products (Pty) Ltd	Slow internet was hampering official work	6,944.31 Excluding VAT
<i>Urgent upgrade of internet access</i>				
Corporate Services - IT Section	August 2010	ePages.net	Hosting municipality's website	13,466.70 Excluding VAT
<i>Outstanding invoices for the service of hosting the municipality's website, FTP</i>				
Corporate Services - IT Section	August 2010	Jireth Technologies	Previously installed entire wireless network	64,914.00 Excluding VAT
<i>Installation of wireless link from Park Rynie and Connor Street</i>				
Corporate Services - Registry Section	August 2010	Nashua Communications	Installers of operating system	97,022.44 Excluding VAT
<i>Voice cabling and data cabling for Marburg and Park Rynie offices</i>				
Corporate Services - Registry Section	August 2010	Nashua Communications	Installers of operating system	132,374.88 Excluding VAT
<i>Voice cabling and data cabling for Marburg and Park Rynie offices</i>				
Corporate Services - Registry Section	August 2010	RNF Contractors	Emergency repair of burst water pipes	36,715.00 Excluding VAT
<i>Plumbing service for Oslo Beach, extension of order number Spu027316</i>				
Corporate Services - Registry Section	August 2010	RNF Contractors	A tender process is in progress	38,501.80 Excluding VAT
<i>August handy man, general maintenance work done</i>				
IED Department	August 2010	Lake Eland	Provided a free venue; charged for lunch only	4,800.00 Excluding VAT
<i>Business management for Sizuzimpilo Agriculture co-operative</i>				
Water Services Authority	August 2010	DM Contractors	Emergency work	170,000.00 Excluding VAT
<i>Alterations to be carried at the dumping site to avoid spillage of raw effluent on top of the road</i>				
Water Services	August 2010	Sal Kuhlase Civils CC	Additional work	93,677.20 Excluding VAT
<i>Additional fees on Spu023560, as the job is not finished yet</i>				
Water Services - Bhobhoyi Plant	August 2010	Drain Experts	Emergency work	200,000.00 Excluding VAT
<i>Urgent repairs to a failing sewer system at Bhobhoyi/Mkholombe</i>				
Water Services - Melville Water Works	August 2010	Teri's Engineering CC	Additional work	200,000.00 Excluding VAT
<i>Supply and install walkway 16m, safety hand rail pipe all around, remove existing cat ladder and complete structure to be galvanised</i>				
Water Services - Mkholombe Plant	August 2010	RNF contractors	Emergency work	200,000.00 Excluding VAT
<i>Urgent repairs to a failing sewer system at Bhobhoyi/Mkholombe</i>				

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**

**2010**  
**R**

<b>Department</b>	<b>Date</b>	<b>Successful Tenderer</b>	<b>Reason</b>	<b>Amount</b>
Water Services - Sanitation Section	August 2010	Anthony's Welding Works	Advised to use contractor on site to carry out the repairs	3,895.00 Excluding VAT
<i>Clarifier has lost it's siphon, pipe is leaking, has to fit 3 new cj couplings</i>				
Water Services - Sanitation Section	August 2010	Anthony's Welding Works	Advised to use contractor on site to carry out the repairs	16,661.10 Excluding VAT
<i>Clarifier has lost it's siphon, pipe is leaking, has to fit 3 new cj couplings</i>				
Municipal Manager's Office - ERP Section	September 2010	Dynatech Information Systems (Pty) Ltd	Installed the operating system in all RMS servers	5,985.00 Excluding VAT
<i>Transfer backup file from Linux server to Windows backup server</i>				
Municipal Manager's Office - ERP Section	September 2010	Payday Software Systems	Sole Service Provider	16,691.88 Excluding VAT
<i>ESS module consultation hours, travelling and accommodation for the consultant</i>				
Municipal Manager's Office - Legal Section	September 2010	Aequitas Legal and Business Solutions	Vast experience in local government legislation	19,250.00 Excluding VAT
<i>Draft a MOU to be entered into between Ugu and Local Municipalities</i>				
Municipal Manager's Office - Legal Section	September 2010	Seethal Attorneys	Representing the municipality in the BTG matter	35,000.00 Excluding VAT
<i>Private firm to draft an addendum for complementation of an ERP billing solution</i>				
Municipal Manager's Office - Legal Section	September 2010	Shepstone & Wylie Attorneys	Commercial law department with proven expertise	10,000.00 Excluding VAT
<i>Peruse and comment on draft software maintenance agreement</i>				
Municipal Manager's Office - Mayoralty & Communications	September 2010	Jays Studio	Only company locally that can print such an album	4,000.00 Excluding VAT
<i>Printing of photo album for Ugu Winter Games</i>				
Municipal Manager's Office - Special Programmes	September 2010	Eagles Nest	Preferred accommodation	19,500.00 Excluding VAT
<i>Men's workshop (HIV &amp; AIDS) taking place at Eagles Nest (around Margate)</i>				
Municipal Manager's Office - Special Programmes	September 2010	Sakha Ikhaya	Requested to assist with the motivational speaker	2,500.00 Excluding VAT
<i>Motivational speaker at Women's Day celebrations</i>				
Municipal Manager's Office - Youth Development Section	September 2010	Lucky's Sports	Preferred supplier	6,903.00 Excluding VAT
<i>Sports equipment</i>				
Municipal Manager's Office - Youth Development Section	September 2010	Margate Pro Shop	Preferred supplier	3,000.00 Excluding VAT
<i>Supply golfing equipment</i>				
Municipal Manager's Office - Youth Development Section	September 2010	Umqhele B&B	Available accommodation	40,000.00 Excluding VAT
<i>Accommodation of Mayor, Body guards and Councillors for the Kwanaloga Games</i>				
Municipal Manager's Office - Youth Development Section	September 2010	Zamandla Business Enterprise	Preferred supplier	4,788.00 Excluding VAT
<i>VIP braai on the 08.08.2010 during Winter Games</i>				
Corporate Services - IT Section	September 2010	Marburg Haven	Only available accommodation	7,020.00 Excluding VAT
<i>LED Forum</i>				

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**

**2010**  
**R**

Department	Date	Successful Tenderer	Reason	Amount
Corporate Services - Registry Section	September 2010	BFBA Consultants	Specific request of service provider	92,625.00 Excluding VAT
<i>Consultant access control and time attendance tender specifications</i>				
Corporate Services - Registry Section	September 2010	Full Swing Trading 982 CC	Additional work	4,565.00 Excluding VAT
<i>Board room chairs need handles to be replaced</i>				
IED Department	September 2010	Top View Productions	Extension of purchase order Spu026006	5,500.00 Excluding VAT
<i>Aerial photograph and internal photographs of the sports stadium</i>				
Water Services - Workshop Section	September 2010	Anthony's Welding Works	Emergency work	16,729.00 Excluding VAT
<i>16" Spool piece flange both ends</i>				
Water Services - Workshop Section	September 2010	Bulk Diesel	Only suppliers of bulk diesel in the South Coast Area	36,700.00 Excluding VAT
<i>5000 Litres of diesel</i>				
Municipal Manager's Office	October 2010	M E Ngcobo	Urgent	1,378.60 Excluding VAT
<i>Expenses for boxing officials attending meeting (site inspection) in coastland hotel for Kwanaloga Games</i>				
Municipal Manager's Office - ERP Section	October 2010	Cene Business Solutions	Sole suppliers	64,410.00 Excluding VAT
<i>Faultman training, travel, testing, street and data conversion</i>				
Municipal Manager's Office - ERP Section	October 2010	Connection 42	Sole suppliers	82,613.00 Excluding VAT
<i>Consultant's car hire, accommodation, R700 daily allowance</i>				
Municipal Manager's Office - ERP Section	October 2010	Consolidated African Technologies	Sole suppliers of Radix machines	2,052.00 Excluding VAT
<i>Consultant's travel and miscellaneous experts for meter reading workshop</i>				
Municipal Manager's Office - ERP Section	October 2010	DST Global Solutions	Implemented and support the system	5,700.00 Excluding VAT
<i>Custima DB backup automation to disk, move files to Windows Server</i>				
Municipal Manager's Office - ERP Section	October 2010	Dynatech Information Systems (Pty) Ltd	SCO Unix expertise and assisting on ad hoc basis for a while	123,120.00 Excluding VAT
<i>Custima support and consulting</i>				
Municipal Manager's Office - Legal Section	October 2010	Paul Preston Attorneys	Originally appointed to advise on the matter	42,697.28 Excluding VAT
<i>Represent Ugu Municipality in an arbitration matter in respect of ex employee</i>				
Municipal Manager's Office - Legal Section	October 2010	Rhugbeer and Associates Attorneys	Matter of pure legal interpretation	219,446.00 Excluding VAT
<i>Engage the services of a private legal practitioner to provide an interpretation of the legislation</i>				
Municipal Manager's Office - Legal Section	October 2010	Spectrum Valuation Services	Conducted many valuations on behalf of the municipality	13,030.20 Excluding VAT
<i>Conducting the valuation of land belonging to the municipality</i>				
Municipal Manager's Office - Mayoralty & Communications	October 2010	Shobana's Construction	Additional work	60,994.56 Excluding VAT
<i>Water proof and seal roof over Mayor's area and Municipal Manager's offices</i>				

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**                      **2010**  
**R**

Department	Date	Successful Tenderer	Reason	Amount
Municipal Manager's Office - Youth Development Section	October 2010	John Paul 11 Children Centre	Preferred venue	4,780.00 Excluding VAT
<i>Ladies table tennis for Kwanaloga Games 2010 on the 9th and 10th of October, provided lunch and facility</i>				
Municipal Manager's Office - Youth Development Section	October 2010	John Paul 11 Children Centre	Preferred venue	7,030.00 Excluding VAT
<i>Lunch packs for Kwanaloga training on the 16 -17 October 2010</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Lucky's Sports	Kits only available at Lucky's	41,043.42 Excluding VAT
<i>Sports kit, volley and soccer podium</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Margate Pro Shop	Preferred supplier	3,100.00 Excluding VAT
<i>Supply golfing equipment</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Margate Sport School	Preferred venue	8,607.00 Excluding VAT
<i>Training facility and catering for Ugu athletes team for Kwanaloga Games 2010</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Mathutha Investment	Donation	7,000.00 Excluding VAT
<i>Transporting members of the choir from Gamalakhe to Pietermaritzburg</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Port Shepstone Senior Primary	Preferred training centre	8,314.00 Excluding VAT
<i>Provision of a hall for the dance on the 16 -17 October and lunch for with juice for 26 delegates</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Port Shepstone Senior Primary	Preferred training centre	9,190.00 Excluding VAT
<i>Catering and training facility for players preparing for Kwanaloga Games</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Sagewise	Preferred supplier	4,389.00 Excluding VAT
<i>Providing lunch during training session on the 17 October 2010 for Kwanaloga Games preparations</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Sagewise	Preferred training centre	21,215.40 Excluding VAT
<i>Providing a facility for training and catering for the players which is dance and rugby females</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Sagewise	Preferred supplier	25,764.00 Excluding VAT
<i>Catering and accommodation for players in preparation for Kwanaloga Games</i>				
Municipal Manager's Office - Youth Development Section	October 2010	Sagewise	Preferred venue	34,726.68 Excluding VAT
<i>Catering and training facility for players preparing for Kwanaloga Games on 15 -17 October 2010</i>				
Corporate Services	October 2010	South African Post Office	Only place that does bulk mail	10,000.00 Excluding VAT
<i>Postage for all Ugu departments</i>				
Corporate Services - Skills Development	October 2010	Willie Bloem and Associates	Recommended supplier for training	6,300.00 Excluding VAT
<i>Travelling costs for Willie Bloem</i>				
Corporate Services - Skills Development	October 2010	Willie Bloem and Associates	Recommended supplier for training	22,500.00 Excluding VAT
<i>Disciplinary Hearing training and traveling expenses</i>				

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**

**2010**  
**R**

Department	Date	Successful Tenderer	Reason	Amount
Corporate Services - Registry Section	October 2010	Ikhayelihle Cleaning Service	A tender process is in progress	265,320.93 Excluding VAT
<i>Contract has expired, rendering services on a month to month basis</i>				
Corporate Services - Registry Section	October 2010	Othi Mngathi Cleaning CC	A tender process is in progress	30,000.00 Excluding VAT
<i>Ugu Fresh Produce Market cleaning service extension of Spu026611 by three months</i>				
IED Department	October 2010	Ritdec CC	Owners of the tea tree nursery	17,578.09 Excluding VAT
<i>Operational costs at Ezinqoleni for the tea tree project ( electricity being used)</i>				
Treasury Department	October 2010	Umdlalo Lodge	Only available accommodation	2,677.00 Excluding VAT
<i>Provision of accommodation for consultants on asset register compilation</i>				
Treasury Department	October 2010	Umdlalo Lodge	Only available accommodation	3,656.01 Excluding VAT
<i>Provision of accommodation for consultants on asset register compilation</i>				
Water Services	October 2010	Absco Contractors	Work not finished and contract was extended	219,446.01 Excluding VAT
<i>Extension of contract Ugu-02-953-2009 for the manufacturing and supply of VIP toilets at Umzumbe</i>				
Water Services	October 2010	Oribi Paving	Work not finished and contract was extended	219,446.01 Excluding VAT
<i>Manufacturing &amp; supply of 450 VIP toilets and associated fittings</i>				
Water Services	October 2010	Ubomi Cooperative Contractors	Work not finished and contract was extended	219,446.01 Excluding VAT
<i>Manufacturing and supply of 400 vip toilets in Vulamehlo</i>				
Water Services	October 2010	Rothenberger Tools SA	Sole providers of drain inspection camera	55,000.00 Excluding VAT
<i>Room pushrod camera with a self-levelling head</i>				
Water Services - Administration	October 2010	Amanzi Ngawethu Contracting CC	Extension of contract while new supplier being appointed	139,369.76 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	Amaphiko Ejuba	Extension of contract while new supplier being appointed	29,383.45 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	Crossmor Transport	Extension of contract while new supplier being appointed	74,310.84 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	Debbie's Hardware	Extension of contract while new supplier being appointed	239,859.01 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	Eagle Ukhozi Transport	Extension of contract while new supplier being appointed	254,329.04 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	Magma Trading	Extension of contract while new supplier being appointed	238,425.36 Excluding VAT
<i>Emergency water supply</i>				



**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**

**2010**  
**R**

Department	Date	Successful Tenderer	Reason	Amount
Water Services - Administration	October 2010	Masakhane Tankers	Extension of contract while new supplier being appointed	233,927.08 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	PLN Logistics	Extension of contract while new supplier being appointed	88,065.74 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	Simuma Transport	Extension of contract while new supplier being appointed	347,670.42 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	SS Maintenance	Emergency water to Ezinqoleni and Umzumba South	1,046,389.36 Excluding VAT
<i>Emergency water supply</i>				
Water Services - Administration	October 2010	Wasteng (Pty) Ltd	Extension of contract while new supplier being appointed	198,335.80 Excluding VAT
<i>Emergency water supply</i>				
Municipal Manager's Office - Legal Section	November 2010	Aequitas Legal & Business Solutions	Experts in the field of commercial law	20,000.00 Excluding VAT
<i>Draft of a lease agreement for hire of facilities at Ugu Sports Complex</i>				
Municipal Manager's Office - Legal Section	November 2010	Lexis Nexis	Books available at Lexis Nexis only	8,410.71 Excluding VAT
<i>Supply of Constitution of RSA, Structures Act, Systems Act and MFMA</i>				
Municipal Manager's Office - Youth Development Section	November 2010	John Paul 11 Children Centre	Preferred venue	2,380.00 Excluding VAT
<i>Providing training facility and catering in preparation of the tournament for the tennis players in December 2010</i>				
Municipal Manager's Office - Youth Development Section	November 2010	Lucky's Sports	Lucky's provided required sample	187,005.00 Excluding VAT
<i>411 Track suits be done for players during Kwanaloga Games and 411 3/4 pants and t-shirts for the games</i>				
Municipal Manager's Office - Youth Development Section	November 2010	Port Shepstone Primary School	Preferred supplier	3,630.00 Excluding VAT
<i>Providing catering during training camp</i>				
Municipal Manager's Office - Youth Development Section	November 2010	Port Shepstone Primary School	Preferred supplier	4,800.00 Excluding VAT
<i>Providing catering during training camp</i>				
Municipal Manager's Office - Youth Development Section	November 2010	Port Shepstone Primary School	Preferred supplier	10,340.00 Excluding VAT
<i>Providing catering during training camp for 26 dance team members and 18 female rugby players</i>				
Municipal Manager's Office - Youth Development Section	November 2010	Sagewise	Preferred supplier	2,640.00 Excluding VAT
<i>Training and catering for boxing players during the Kwanaloga Games</i>				
Municipal Manager's Office - Youth Development Section	November 2010	Sagewise	Preferred supplier	8,640.00 Excluding VAT
<i>Provision of catering, accommodation and training for players during Kwanaloga Games</i>				
Municipal Manager's Office - Youth Development Section	November 2010	South Coast Academy	Preferred supplier	2,200.00 Excluding VAT
<i>Catering for male rugby players during the Kwanaloga Games</i>				

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**                      **2010**  
**R**

Department	Date	Successful Tenderer	Reason	Amount
Municipal Manager's Office - Youth Development Section	November 2010	South Coast Academy	Preferred supplier	7,150.00 Excluding VAT
<i>Catering in preparation of the tournament</i>				
Corporate Services - IT Section	November 2010	Key Computers	Very urgent work to be done	6,565.80 Excluding VAT
<i>Repair network points</i>				
Corporate Services - IT Section	November 2010	Key Computers	Preferred supplier	143,897.36 Excluding VAT
<i>Purchase laptops for new employees in Water Services</i>				
Corporate Services - Registry Section	November 2010	RNF Contractors	Contract expired; still busy with the tender process	50,611.78 Excluding VAT
<i>Extension of a contract on a month to month basis</i>				
IED Department	November 2010	MGM Holdings	Additional work	17,624.40 Excluding VAT
<i>Professional services rendered towards the application of the rezoning at Creston College</i>				
Water Services - Manager Control Centre	November 2010	Galoshe Trading	Will take longer if they get someone else to do the job	8,500.00 Excluding VAT
<i>Galoshe contracted to erect fence at Margate WWTW, but there were large trees which were identified as an obstruction to the works</i>				
Water Services - Area North	November 2010	LNy Construction	Very urgent work to be done	31,030.80 Excluding VAT
<i>Repair of a pipe at Umthwalume bridge</i>				
Water Services - GIS Section	November 2010	Regma	Sole suppliers	13,592.22 Excluding VAT
<i>Plotter machine repairs</i>				
Water Services - Project Management Unit	November 2010	Sanyathi Construction	Shortening Bid Process	3,405,097.01 Excluding VAT
<i>Pump station buildings and associated works at Uvongo - Contract: Ugu-02-975-2009 ( Additional)</i>				
Municipal Manager's Office - Legal Section	December 2010	Paul Preston Attorneys	This firm drafted the municipal by-laws	7,069.00 Excluding VAT
<i>To engage services of a private firm to the municipality in various by law enforcement matters</i>				
Municipal Manager's Office - Legal Section	December 2010	Sandile Dlomo Inc	Firm's experience with Local Government	70,000.00 Excluding VAT
<i>To engage services of a private legal practitioner to assist with the drafting of sponsorship policy for the municipality</i>				
Municipal Manager's Office - Mayoralty & Communications	December 2010	SHK Constructions	Only company that can supply the services required	55,005.00 Excluding VAT
<i>Supplied with services during Kwanaloga Games in Richards Bay (Tents, Security Guards)</i>				
Municipal Manager's Office - Youth Development Section	December 2010	Port Shepstone Primary School	Preferred venue	11,770.00 Excluding VAT
<i>Provide facility for catering and training for the players which is dance, rugby females, ladies soccer and volley ball</i>				
Municipal Manager's Office - Youth Development Section	December 2010	Lucky's Sports	Material available at Lucky's Sports	18,897.00 Excluding VAT
<i>Lucky's Sports have provided us with the training equipment to be used by our district teams during Kwanaloga Games</i>				
Corporate Services - Human Resources Section	December 2010	M A Makinyane & Associates	Preferred supplier	35,750.00 Excluding VAT
<i>Payment to Makinyane for Mbonane's hearing</i>				

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**

**2010**  
**R**

Department	Date	Successful Tenderer	Reason	Amount
Corporate Services - Registry Section	December 2010	Car Plates and Signs	Order extended while waiting for the suppliers to quote	20,249.82 Excluding VAT
<i>Extension of order no Spu026244 for locksmith services rendered</i>				
Corporate Services - Registry Section	December 2010	Mzimkhulu Electrical CC	Tender now depleted; a tender process is in progress	44,621.35 Excluding VAT
<i>Electrical maintenance</i>				
IED Department	December 2010	MGM Holdings	Additional work	88,802.00 Excluding VAT
<i>Disbursements that were never claimed during the roll of emerging contractors development programme</i>				
Water Services - Administration	December 2010	Magma Trading	New tender process is going on	75,449.78 Excluding VAT
<i>Emergency water supply and the contract has expired</i>				
Water Services - Purification	December 2010	Labware Africa	Reimbursement	5,208.45 Excluding VAT
<i>Reimbursement for the accommodation of Sphelele Ndaba and Phindile Mbutho</i>				
Water Services - Purification	December 2010	Labware Africa	Services utilised nationwide for similar work required by Ugu	17,738.40 Excluding VAT
<i>Professional services rendered on site for configuration of laboratory computers</i>				
Water Services - Purification	December 2010	Labware Africa	Services utilised nationwide for similar work required by Ugu	26,607.60 Excluding VAT
<i>3 Days consulting for training after going live with LIMS system</i>				
Water Services - Purification	December 2010	Labware Africa	Services utilised nationwide for similar work required by Ugu	54,948.00 Excluding VAT
<i>Annual software maintenance help desk support for 2010</i>				
Municipal Manager's Office - Shared Services	January 2011	Estuary County Hotel	Only available conference facility	29,801.00 Excluding VAT
<i>Venue for Lekgotla on the 17 - 18 January 2011</i>				
Municipal Manager's Office - Youth Development Section	January 2011	Kapenta Bay Hotel	Sponsored one night for the event	16,283.00 Excluding VAT
<i>Accommodation for 35 nominees during the Ugu District Youth Awards</i>				
Municipal Manager's Office - Youth Development Section	January 2011	Loxion Records	Cheaper than the supplier which was used previously	15,300.00 Excluding VAT
<i>Television coverage for Ugu District Youth Awards on 15 January 2011</i>				
Corporate Services - IT Section	January 2011	CSS Tirisano	Very Urgent	40,928.85 Excluding VAT
<i>Websense server licenses</i>				
Corporate Services - Registry Section	January 2011	Rentokil Initial	New tender process is going on	328,664.92 Excluding VAT
<i>Hygiene services at various offices of Ugu District Municipality</i>				
Corporate Services - IT Section	February 2011	Ubuntu Technologies	Preferred supplier	23,453.70 Excluding VAT
<i>Server licenses</i>				
Municipal Manager's Office	April 2011	Cyassound	Ugu Jazz Festival	623,850.00 Excluding VAT
<i>Paid artists for Ugu Jazz Festival</i>				

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>Department</b>	<b>Date</b>	<b>Successful Tenderer</b>
<b>Reason</b>	<b>Amount</b>	
Municipal Manager's Office	June 2011	Axnosis (Pty) Ltd
Implementation of different phases of the AX System.	4,674,169.00	Excluding VAT
Axnosis was implementing under BTG's control until main contract was determined; hence Axnosis continued implementation		

Furthermore, the municipality has made the following awards to persons in service of Government Institutions contrary to the provisions of paragraph 44 of the Municipal Supply Chain Management Regulations:

Company Name	Related Person	Company Capacity	Municipal Capacity	Purchases for the Year	Purchases for the Year
Plain Trading 38	NF Shusha		Councillor	-	36,350
Silangwe and Vezi Funeral Services	TE Vezi		Councillor	2,300	13,000
Canaan Productions t/a Lighthouse	E Enock		Employee	-	16,310
Dan's Cleaning Services	T Malishe		Employee	41,520	22,096
Dlambula Trading Enterprise	PS Mbele		Employee	-	70,650
Mpikheleli Contractors	HR Zulu		Employee	-	1,900
Ncokwane Trading Enterprise	PP Chili		Employee	33,550	-
Victorson Building CC	TB Mhlongo		Employee	157,700	-
Vovolethu Function and Catering	Z Mbhele		Employee	40,538	37,500
Amphephethwa Trading & Farming Pro	Cynthia Zanele Nzimande		KZ: Education	7,414	-
Bhayi Ka Ketshe Investments CC	Sigqibo Cetywa		NAT: Correctional S	45,018	-
Bigen Africa Consulting Engine	Iraj Abedian		NAT: Minerals Reso	117,306	-
Blueline Transport CC	Corrida Thembekile Cele		KZ: Health	3,600	-
Botlebembali Trading CC	Linky Thembeka Chemane		KZ: Education	12,000	-
Cool Sounds Trading	SP Msomi		KZN Education	-	115,800
DPI Ichweba	MB Ntuli		KZN Legislature	529	24,564
Emgee Agencies	S Moodley		KZN Education	7,831	35,549
Fahama Trading Enterprise CC	Philisiwe Innocentia Mhlanga		KZ: Sport and Recre	177,952	-
Gender Links	Thenjiwe Mtintso		NAT: International R	3,420	-
Hlalunolwazi Development Enter	Bongiwe Gloria Dunywa		KZ: Education	37,700	-
Isifiso Sika Ndlovu Contracting and Tra	Fredrick Sifiso Ndlovu		KZ: Education	1,044,751	-
Isiqunga Transposrt CC	Phumlani Heophilus Ccele		KZ: Health	69,100	-
Khalamazo Trading and Investments C	Nosipho Zinhle Zulu		KZ: Health	27,421	-
Mafuthe Ngusha Trading	Thulani Comfort Ngcobo		KZ: Agri Env Aff Rui	5,250	-
Masibusiseke Trading CC	Harriet Nana Majola		KZ: Health	71,986	-
Masizikhulise Construction & Other Ser	Doreen Lindiwe Ndlovu		KZ: Transport	205,972	-
Mathutha Investments	MB Cele		KZN Transport	-	270,826
Mlethi Catering	RT Mlethi		KZN Education	26,390	18,000
Mnqobi Catering and Services	NP Ntozakhe		KZN Education	10,500	7,800
Mpikheleli Contractors	TP Zulu		KZN Transport	-	8,000
Mohlapone Trading CC	Morongoe Mohapi		GP: Education	30,825	-
Nelimo Trading	MN Nzama		KZN Education	24,415	190,675
Nhlanhla and Thobi Trading CC	Bathobi Janet Chiliza		KZ: Health	11,112	-
Pure Magic Trading 23 CC	Siboniso Armstrong Duma		KZ: Provincial Legis	791,779	-
SHK Construction CC	Siduduziwe Elizabeth Mncwabe		KZ: Education	55,005	-
Sabinet Online	MD Ralebipi-Simela		Dept Labour	-	21,569
Sakhisizwe Garden Services	NA Mngadi		KZN Education	-	118,422
Shinga Construction	SD Mthembu		KZN Transport	-	133,000
Sibiya Ngwazi Construction Supplies	J Khomo		KZN Health	3,665	104,850
Sojangwe Trading CC	Nonkululeko Cibane		KZ: Health	387,545	-
Sthembu Buntu General Trading	Octavia Queen Cele		KZ: Education	20,000	-
Thengani Lodge CC	Bonisiwe Getrude Zungu		KZ: Education	535	-
Ubala Trading	R Govender		SA Police Service	-	68,699
Ubucubu Home Industries CC	Teressa Duduzile Mkhwanazi		KZ: Agri Env Aff Rui	34,713	-
Vanmor Electrical	M Reddy		KZN Education	-	21,889
Victorson Building	NA Mngadi		KZN Education	-	86,528
Vuka Africa Aerial Surveys and Mappin	Lizwi Ncwane		NAT: Justice & Con:	94,750	-
Xabe Mjelo Trading Enterprise CC	Mandisa Mjelo		KZ: Education	119,339	-
Zin Zan General Suppliers CC	Eugenia Zinhle Memela		KZ: Education	80,000	-
Ziphephise Trading	CM Mahlawe		SA Police Service	-	40,267
Zongwana Projects CC	Nokonwabisa Maud Zongwana		KZ: Education	98,392	-
<b>Total Purchases</b>				<b>3,901,822</b>	<b>1,464,243</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>48. COMMITMENTS FOR EXPENDITURE</b>		
<b>48.1 Capital Commitments</b>		
Commitments in respect of Capital Expenditure:		
<b>- Approved and Contracted for:-</b>	<b>108,143,960</b>	<b>168,461,806</b>
<i>Infrastructure</i>	105,364,318	155,700,110
<i>Community</i>	67,447	67,447
<i>Heritage</i>	-	-
<i>Other</i>	2,712,195	12,694,249
<i>Housing Development Fund</i>	-	-
<i>Investment Properties</i>	-	-
<b>- Approved but Not Yet contracted for:-</b>	<b>62,377,533</b>	<b>26,241,474</b>
<i>Infrastructure</i>	32,528,749	23,549,937
<i>Community</i>	-	-
<i>Heritage</i>	-	-
<i>Other</i>	29,848,784	2,691,537
<i>Housing Development Fund</i>	-	-
<i>Investment Properties</i>	-	-
<b>Total Capital Commitments</b>	<b>170,521,492</b>	<b>194,703,280</b>
This expenditure will be financed from:		
External Loans	-	49,249,143
Capital Replacement Reserve	-	-
Government Grants	105,142,378	100,908,625
District Council Grants	-	-
Public Contributions	-	-
Own Resources	65,379,114	44,545,512
	<b>170,521,492</b>	<b>194,703,280</b>

**48.2 Lease Commitments**

Finance Lease Liabilities and Non-cancellable Operating Lease Commitments are disclosed in Notes 3 and 10.

**49. FINANCIAL INSTRUMENTS**

**49.1 Classification**

**FINANCIAL ASSETS:**

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

<u>Financial Assets</u>	<u>Classification</u>		
<b>Long-term Receivables</b>			
Relocation Loans	Amortised cost	15,155	10,496
Sundry Loans	Amortised cost	11,093	18,293
<b>Trade Receivables from Exchange Transactions</b>			
Sewerage	Amortised cost	14,581,993	9,955,238
Water	Amortised cost	10,341,690	11,241,100
Water Rate Debtors	Amortised cost	8,710,157	21,354,635
Other Trade Debtors	Amortised cost	6,319,053	2,724,774

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

		2011 R	2010 R
<b>Trade Receivables from Non-exchange Transactions</b>			
Payments made in Advance	Amortised cost	1,426,781	-
Government Subsidy Claims	Amortised cost	3,630,655	-
Insurance Claims	Amortised cost	901,215	-
Municipal Entities	Amortised cost	50,979	10,470
Sundry Deposits	Amortised cost	1,017,415	1,017,415
Sundry Debtors	Amortised cost	1,040,985	2,789,037
<b>Bank, Cash and Cash Equivalents</b>			
Call Deposits	Fair value	11,299,147	26,546,485
Notice Deposits	Amortised cost	5,754,880	5,488,964
Short-term Portion of Investments	Amortised cost	-	17,838,885
Bank Balances	Fair value	24,963,783	102,857,239
Cash Floats and Advances	Fair value	4,910	5,110
<b>Current Portion of Long-term Receivables</b>			
Relocation Loans	Amortised cost	9,827	11,158
Sundry Loans	Amortised cost	3,600	-
<b>SUMMARY OF FINANCIAL ASSETS</b>			
<b>Financial Assets at Amortised Cost:</b>			
Long-term Receivables	Relocation Loans	15,155	10,496
Long-term Receivables	Sundry Loans	11,093	18,293
Trade Receivables from Exchange Transactions	Sewerage	14,581,993	9,955,238
Trade Receivables from Exchange Transactions	Water	10,341,690	11,241,100
Trade Receivables from Exchange Transactions	Water Rate Debtors	8,710,157	21,354,635
Trade Receivables from Exchange Transactions	Other Trade Debtors	6,319,053	2,724,774
Trade Receivables from Non-exchange Transactions	Payments made in Advance	1,426,781	-
Trade Receivables from Non-exchange Transactions	Government Subsidy Claims	3,630,655	-
Trade Receivables from Non-exchange Transactions	Insurance Claims	901,215	-
Trade Receivables from Non-exchange Transactions	Municipal Entities	50,979	10,470
Trade Receivables from Non-exchange Transactions	Sundry Deposits	1,017,415	1,017,415
Trade Receivables from Non-exchange Transactions	Sundry Debtors	1,040,985	2,789,037
Current Portion of Long-term Receivables	Officials: Relocation Loans	9,827	11,158
Current Portion of Long-term Receivables	Sundry Loans	3,600	-
Bank, Cash and Cash Equivalents	Notice Deposits	5,754,880	5,488,964
Bank, Cash and Cash Equivalents	Short-term Portion of Investments	-	17,838,885
		<u>53,815,478</u>	<u>72,460,465</u>
<b>Financial Assets at Fair Value:</b>			
Bank, Cash and Cash Equivalents	Call Deposits	11,299,147	26,546,485
Bank, Cash and Cash Equivalents	Bank Balances	24,963,783	102,857,239
Bank, Cash and Cash Equivalents	Cash Floats and Advances	4,910	5,110
		<u>36,267,840</u>	<u>129,408,834</u>
<b>Total Financial Assets</b>		<u><b>90,083,317</b></u>	<u><b>201,869,299</b></u>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

		2011 R	2010 R
<b>FINANCIAL LIABILITIES:</b>			
In accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:			
<u><b>Financial Liabilities</b></u>	<u><b>Classification</b></u>		
<b>Long-term Liabilities</b>			
Annuity Loans	Financial liabilities at amortised cost	215,212,091	219,097,288
Finance Lease Liabilities	Financial liabilities at amortised cost	519,948	2,176,914
<b>Consumer Deposits</b>			
Water	Financial liabilities at amortised cost	18,266,771	17,765,540
<b>Creditors</b>			
Trade Creditors	Financial liabilities at amortised cost	61,952,793	28,528,521
Payments received in Advance	Financial liabilities at amortised cost	2,853,255	3,173,485
Retentions	Financial liabilities at amortised cost	1,375,275	11,802,594
Staff Bonuses	Financial liabilities at amortised cost	7,843,118	7,220,811
Staff Leave	Financial liabilities at amortised cost	8,426,016	8,035,498
Projects	Financial liabilities at amortised cost	33,794,957	49,795,096
Other Creditors	Financial liabilities at amortised cost	34,443,712	14,396,892
<b>Bank Overdraft</b>			
Bank Overdraft	Financial liabilities at amortised cost	-	4,465
<b>Current Portion of Long-term Liabilities</b>			
Local Registered Stock	Financial liabilities at amortised cost	-	20,300,000
Annuity Loans	Financial liabilities at amortised cost	10,462,124	7,018,972
Finance Lease Liabilities	Financial liabilities at amortised cost	2,400,712	6,965,865
<b>SUMMARY OF FINANCIAL LIABILITIES</b>			
<b>Financial Liabilities at Amortised Cost:</b>			
Long-term Liabilities	Annuity Loans	215,212,091	219,097,288
Long-term Liabilities	Finance Lease Liabilities	519,948	2,176,914
Creditors	Trade Creditors	61,952,793	28,528,521
Creditors	Retentions	1,375,275	11,802,594
Creditors	Staff Bonuses	7,843,118	7,220,811
Creditors	Staff Leave	8,426,016	8,035,498
Creditors	Projects	33,794,957	49,795,096
Creditors	Other Creditors	34,443,712	14,396,892
Current Portion of Long-term Liabilities	Local Registered Stock	-	20,300,000
Current Portion of Long-term Liabilities	Annuity Loans	10,462,124	7,018,972
Current Portion of Long-term Liabilities	Finance Lease Liabilities	2,400,712	6,965,865
		376,430,745	375,338,451
<b>Financial Liabilities at Fair Value:</b>			
Consumer Deposits	Electricity and Water	18,266,771	17,765,540
Creditors	Payments received in Advance	2,853,255	3,173,485
Bank Overdraft	Bank Overdraft	-	4,465
		21,120,026	20,943,490
<b>Total Financial Liabilities</b>		<b>397,550,771</b>	<b>396,281,941</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

2011  
R

2010  
R

**49.2 Fair Value**

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

**Cash and Short-term Investments**

The carrying amount approximates the Fair Value because of the short maturity of these instruments.

**Long-term Investments**

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

**Loan Receivables/Payables**

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

**Trade and Other Receivables/Payables**

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

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

**Other Financial Assets and Liabilities**

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

**Long-term Liabilities**

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

Management considers the carrying amounts of Financial Assets and Financial Liabilities recorded at amortised cost in the Annual Financial Statements to approximate their Fair Values on 30 June 2011, as a result of the short-term maturity of these assets and liabilities.

The Financial Instruments of the municipality have been reclassified as disclosed in Note 39.1, Change in Accounting Policy.

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

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by IFRS 7. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments. The levels have been defined as follows:

**Level 1:-**

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

**Level 2:-**

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

**Level 3:-**

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



**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011			2010
	R			R
<b>30 June 2011</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	R	R	R	R
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value:</b>				
Notice Deposits	-	5,754,880	-	5,754,880
Call Deposits	-	11,299,147	-	11,299,147
Bank Balances and Cash	-	24,968,692	-	24,968,692
<b>Total Financial Assets</b>	<b>-</b>	<b>42,022,720</b>	<b>-</b>	<b>42,022,720</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value:</b>				
Annuity Loans	-	215,212,091	-	215,212,091
Finance Lease Liabilities	-	519,948	-	519,948
Bank Overdraft	-	-	-	-
<b>Total Financial Liabilities</b>	<b>-</b>	<b>215,732,038</b>	<b>-</b>	<b>215,732,038</b>
<b>Total Financial Instruments</b>	<b>-</b>	<b>(173,709,319)</b>	<b>-</b>	<b>(173,709,319)</b>
<b>30 June 2010</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	R	R	R	R
<b>FINANCIAL ASSETS</b>				
<b>Financial Instruments at Fair Value:</b>				
Notice Deposits	-	5,488,964	-	5,488,964
Call Deposits	-	26,546,485	-	26,546,485
Short-term Portion of Investments	-	17,838,885	-	17,838,885
Bank Balances and Cash	-	102,862,349	-	102,862,349
<b>Total Financial Assets</b>	<b>-</b>	<b>152,736,683</b>	<b>-</b>	<b>152,736,683</b>
<b>FINANCIAL LIABILITIES</b>				
<b>Financial Instruments at Fair Value:</b>				
Annuity Loans	-	219,097,288	-	219,097,288
Finance Lease Liabilities	-	2,176,914	-	2,176,914
Bank Overdraft	-	4,465	-	4,465
<b>Total Financial Liabilities</b>	<b>-</b>	<b>221,278,667</b>	<b>-</b>	<b>221,278,667</b>
<b>Total Financial Instruments</b>	<b>-</b>	<b>(68,541,984)</b>	<b>-</b>	<b>(68,541,984)</b>

**49.3 Capital Risk Management**

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality's overall strategy remains unchanged from 2010.

The capital structure of the municipality consists of debt, which includes the Long-term Liabilities disclosed in Note 3, Bank, Cash and Cash Equivalents and Equity, comprising Accumulated Surplus as disclosed in Note 2 and the Statement of Changes in Net Assets.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b><u>Gearing Ratio</u></b>		
In terms of the municipality's five year financial plan, financial benchmarks, year-on-year in respect of the debt-to-equity ratio, is reflected at 100%, decreasing to 90%. This ratio is as a result of the developmental challenges faced by the municipality. Some of the borrowings are below market related rates.		
The gearing ratio at the year-end was as follows:		
Debt	228,594,874	255,559,040
Bank, Cash and Cash Equivalents	(24,968,692)	(102,862,349)
Net Debt	203,626,182	152,696,690
Total Capital	1,163,707,480	1,020,422,171
<b>Net debt to equity ratio</b>	<b>17.50%</b>	<b>14.96%</b>

Debt is defined as Long- and Short-term Liabilities, as detailed in Note 3.

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

**49.4 Financial Risk Management Objectives**

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

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

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

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

Further quantitative disclosures are included throughout these Annual Financial Statements.

**49.5 Significant Risks**

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

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

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

Risks and exposures are disclosed as follows:

**Market Risk**

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

**Credit Risk**

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

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

2011	2010
R	R

**Liquidity Risk**

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

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

A maturity analysis for Financial Liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in Notes 49.8 and 49.9 to the Annual Financial Statements.

**49.6 Market Risk**

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 49.8 below). No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

**49.6.1 Foreign Currency Risk Management**

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

**49.6.2 Interest Rate Risk Management**

*Interest Rate Risk* is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Financial Assets and Liabilities that are sensitive to interest rate risk are cash and cash equivalents, investments, and loan payables. The municipality is not exposed to interest rate risk on these financial instruments as the rates applicable are fixed interest rates.

Potential concentrations of interest rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting percentage exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed periodically by the Chief Financial Officer and authorised by the Council.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Periodic credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

<b>2011</b>	<b>2010</b>
<b>R</b>	<b>R</b>

**Interest Rate Sensitivity Analysis**

The sensitivity analysis below was determined based on the exposure to interest rates at the reporting date. For variable rate long-term instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out in Notes 49.8 and 49.9 below.

*Cash and Cash Equivalents:*

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

- Surplus for the year ended 30 June 2011 would have decreased / increased by R828 333 (2009: decreased / increased by R1 067 152). This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

**49.7 Credit Risk Management**

*Credit Risk* refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

**Investments/Bank, Cash and Cash Equivalents**

The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposed to any significant credit risk.

**Trade and Other Receivables**

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and sanitation services rendered to them.

Trade receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- A new owner is advised, prior to the issue of a rates clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**                      **2010**  
**R**

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer.

Long-term Receivables and Other Debtors are individually evaluated annually at Statement of Financial Position date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities.

The table below shows the balance of the 5 major counterparties at the balance sheet date. Management is of the opinion that, although these parties are the 5 counterparties with highest outstanding balances, no significant credit risk exposure exists, based on the payment history of the parties.

Counterparty and Location	30 June 2011		30 June 2010	
	Credit Limit	Carrying Amount	Credit Limit	Carrying Amount
	R	R	R	R
Hyprop Investments	-	615,951	-	-
San Lameer Estate Management	-	472,342	-	-
Sisonke District Municipality	-	426,960	-	590,172
South African Police Services (Jail)	-	413,025	-	789,105
Umdoni Municipality (Fire Hydrants)	-	384,428	-	-
Margate Police Station	-	-	-	517,037
T O Onderlinge Maatskappy	-	-	-	470,623
Department Public Works	-	-	-	386,061
			<b>2011</b>	<b>2010</b>
			<b>R</b>	<b>R</b>

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

Fixed Deposit Investments	100	100
Long-term Receivables	39,675	39,947
Trade Receivables from Exchange Transactions	110,596,708	88,709,703
Trade Receivables from Non-exchange Transactions	11,643,813	6,702,146
Bank, Cash and Cash Equivalents	42,022,720	152,732,218
<b>Maximum Credit and Interest Risk Exposure</b>	<b>164,303,016</b>	<b>248,184,115</b>

The major concentrations of credit risk that arise from the municipality's receivables in relation to customer classification are as follows:

	%	%
Consumer Debtors:		
- Household	65%	68%
- Industrial / Commercial	21%	19%
- National and Provincial Government	5%	7%
- Other Classes	9%	6%
<b>Total Credit Risk</b>	<b>100%</b>	<b>100%</b>

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
<b>Bank and Cash Balances</b>		
ABSA Bank Ltd	36,262,930	147,731,573
First National Bank of SA Ltd	5,754,880	5,000,000
INCA	-	17,838,885
Cash Equivalents	4,910	5,110
<b>Total Bank and Cash Balances</b>	<b>42,022,720</b>	<b>170,575,568</b>
<b>Credit quality of Financial Assets:</b>		
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
<b>Long-term Receivables</b>		
Group 1	39,675	39,947
Group 2	-	-
Group 3	-	-
<b>Total Long-term Receivables</b>	<b>39,675</b>	<b>39,947</b>
<b>Trade Receivables from Exchange Transactions</b>		
Counterparties without external credit rating:-		
Group 1	20,801,197	16,497,499
Group 2	-	3,142,381
Group 3	-	-
	20,801,197	19,639,880
<b>Total Trade Receivables from Exchange Transactions</b>	<b>20,801,197</b>	<b>19,639,880</b>
<b>Trade Receivables from Non-exchange Transactions</b>		
Group 1	-	-
Group 2	-	-
Group 3	1,426,781	-
<b>Total Trade Receivables from Non-exchange Transactions</b>	<b>1,426,781</b>	<b>-</b>

**Credit Quality Groupings:**

Group 1 - High certainty of timely payment. Liquidity factors are strong and the risk of non-payment is small.

Group 2 - Reasonable certainty of timely payment. Liquidity factors are sound, although ongoing funding needs may enlarge financing requirement. The risk of non-payment is small.

Group 3 - Satisfactory liquidity factors and other factors which qualify the entity as investment grade. However, the risk factors of non-payment are larger.

None of the financial assets that are fully performing have been renegotiated in the last year.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**49. FINANCIAL INSTRUMENTS (Continued)**

**49.8 Liquidity Risk Management**

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 44 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.

**Liquidity and Interest Risk Tables**

The following table details the municipality's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
<b>30 June 2011</b>								
Non-interest Bearing		0.00%	168,955,897	168,955,897	-	-	-	-
Fixed Interest Rate Instruments		9.33%	320,820,055	13,341,575	14,116,575	28,138,796	88,884,789	176,338,319
			<b>489,775,952</b>	<b>182,297,472</b>	<b>14,116,575</b>	<b>28,138,796</b>	<b>88,884,789</b>	<b>176,338,319</b>
<b>30 June 2010</b>								
Non-interest Bearing		0.00%	140,722,901	140,722,901	-	-	-	-
Fixed Interest Rate Instruments		3.64%	200,713,229	6,328,005	27,403,005	10,817,209	37,994,341	118,170,669
			<b>341,436,131</b>	<b>147,050,906</b>	<b>27,403,005</b>	<b>10,817,209</b>	<b>37,994,341</b>	<b>118,170,669</b>

The following table details the municipality's expected maturity for its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the municipality anticipates that the cash flow will occur in a different period.

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
<b>30 June 2011</b>								
Non-interest Bearing			48,065,508	48,065,508	-	-	-	-
Variable Interest Rate Instruments			42,017,810	42,017,810	-	-	-	-
Fixed Interest Rate Instruments			-	-	-	-	-	-
			<b>90,083,317</b>	<b>90,083,317</b>	-	-	-	-
<b>30 June 2010</b>								
Non-interest Bearing			49,137,726	49,137,726	-	-	-	-
Variable Interest Rate Instruments			134,892,688	134,892,688	-	-	-	-
Fixed Interest Rate Instruments			17,838,885	17,838,885	-	-	-	-
			<b>201,869,299</b>	<b>201,869,299</b>	-	-	-	-



#### 49.9 Effective Interest Rates and Repricing Analysis

In accordance with IAS 32.67(a) and (b) the following tables indicate the average effective interest rates of Income-earning Financial Assets and Interest-bearing Financial Liabilities at the reporting date and the periods in which they mature or, if earlier, reprice:

30 June 2011

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
<b>FIXED RATE INSTRUMENTS</b>								
<b>Held-to-maturity Investments</b>	<b>14</b>		-	-	-	-	-	-
INCA		13.39%	-	-	-	-	-	-
INCA		12.90%	-	-	-	-	-	-
<b>Secured Bank Facilities</b>	<b>3</b>		-	-	-	-	-	-
INCA		16.80%	-	-	-	-	-	-
INCA		15.60%	-	-	-	-	-	-
<b>Unsecured Bank Facilities</b>	<b>3</b>		<b>(225,674,215)</b>	-	-	<b>(669,009)</b>	<b>(19,135,381)</b>	<b>(205,869,824)</b>
ABSA		11.51%	(96,775,583)	-	-	-	-	(96,775,583)
DBSA		10.00%	(669,009)	-	-	(669,009)	-	-
DBSA		2.65%	(3,664,038)	-	-	-	(3,664,038)	-
DBSA		5.00%	(22,115,943)	-	-	-	-	(22,115,943)
DBSA		5.00%	(25,000,000)	-	-	-	-	(25,000,000)
DBSA		5.00%	(61,978,298)	-	-	-	-	(61,978,298)
DBSA (Ex Hibiscus Coast)		Various	(13,664,619)	-	-	-	(13,664,619)	-
DBSA (Ex Umdoni)		Various	(960,657)	-	-	-	(960,657)	-
DBSA (Ex Umuziwabantu)		Various	(846,067)	-	-	-	(846,067)	-
<b>Total Fixed Rate Instruments</b>			<b>(225,674,215)</b>	-	-	<b>(669,009)</b>	<b>(19,135,381)</b>	<b>(205,869,824)</b>
<b>VARIABLE RATE INSTRUMENTS</b>								
Short-term Investment Deposits	<b>21</b>	11.93%	17,054,027	17,054,027	-	-	-	-
Bank Balances and Cash	<b>21</b>	11.93%	24,963,783	24,963,783	-	-	-	-
<b>Total Variable Rate Instruments</b>			<b>42,017,810</b>	<b>42,017,810</b>	-	-	-	-

30 June 2010

Description	Note ref in AFS	Average effective Interest Rate	Total	6 Months or less	6 - 12 Months	1 - 2 Years	2 - 5 Years	More than 5 Years
	#	%	R	R	R	R		R
<b>FIXED RATE INSTRUMENTS</b>								
<b>Held-to-maturity Investments</b>	<b>14</b>		<b>17,838,885</b>	-	-	<b>17,838,885</b>	-	-
INCA		13.39%	16,601,922	-	-	16,601,922	-	-
INCA		12.90%	1,236,963	-	-	1,236,963	-	-
<b>Secured Bank Facilities</b>	<b>3</b>		<b>(20,300,000)</b>	-	<b>(20,300,000)</b>	-	-	-
INCA		16.80%	(18,500,000)	-	(18,500,000)	-	-	-
INCA		15.60%	(1,800,000)	-	(1,800,000)	-	-	-
<b>Unsecured Bank Facilities</b>	<b>3</b>		<b>(226,116,260)</b>	-	-	-	-	<b>(226,116,260)</b>
ABSA		11.51%	(102,000,000)	-	-	-	-	(102,000,000)
DBSA		10.00%	(957,777)	-	-	-	-	(957,777)
DBSA		2.65%	(4,340,811)	-	-	-	-	(4,340,811)
DBSA		5.00%	(23,593,572)	-	-	-	-	(23,593,572)
DBSA		5.00%	(25,000,000)	-	-	-	-	(25,000,000)
DBSA		5.00%	(53,778,982)	-	-	-	-	(53,778,982)
DBSA (Ex Hibiscus Coast)		Various	(14,393,612)	-	-	-	-	(14,393,612)
DBSA (Ex Umdoni)		Various	(1,205,440)	-	-	-	-	(1,205,440)
DBSA (Ex Umuziwabantu)		Various	(846,067)	-	-	-	-	(846,067)
<b>Total Fixed Rate Instruments</b>			<b>(228,577,375)</b>	-	<b>(20,300,000)</b>	<b>17,838,885</b>	-	<b>(226,116,260)</b>
<b>VARIABLE RATE INSTRUMENTS</b>								
Short-term Investment Deposits	<b>21</b>	11.93%	49,874,334	49,874,334	-	-	-	-
Bank Balances and Cash	<b>21</b>	11.93%	102,857,239	102,857,239	-	-	-	-
<b>Total Variable Rate Instruments</b>			<b>152,731,573</b>	<b>152,731,573</b>	-	-	-	-

**49.10 Other Price Risks**

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

2011  
R                      2010  
R

**50. MULTI-EMPLOYER RETIREMENT BENEFIT INFORMATION**

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

Councillors have the option to belong to the Pension Fund for Municipal Councillors.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up of the Retirement, Superannuation and Provident Funds.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, the details of which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance of R18,5 million (2010: R15,9 million) represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

**DEFINED BENEFIT SCHEMES**

**Retirement Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2010.

The interim actuarial valuation performed as at 31 March 2010 revealed that the fund had a shortfall of R243,2 (31 March 2009: shortfall of R214,2) million, with a funding level of 88,2% (31 March 2009: 88,6%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (29,00%) should be sufficient to eradicate the shortfall in the fund by 31 March 2015.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,35% is payable by the local authority.

This surcharge is payable until 31 March 2015. This position will be monitored on an annual basis.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund.

**Superannuation Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2010.

The interim actuarial valuation performed as at 31 March 2010 revealed that the fund had a shortfall of R213,3 (31 March 2009: shortfall of R29,9) million, with a funding level of 95,9% (31 March 2009: 99,4%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 1,69% (31 March 2009: 1,50%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 7,0% of pensionable salaries. It is expected that the deficit will be fully funded by 2016.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**2011**  
**R**                      **2010**  
**R**

**DEFINED CONTRIBUTION SCHEMES**

**Municipal Councillors Pension Fund:**

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2010.

**Provident Fund:**

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2010.

The interim actuarial valuation performed as at 31 March 2010 revealed that the market value of the fund was R836,4 (31 March 2009: R574,0) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 1,95 times the member's contributions by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2010.

None of the above mentioned plans are State Plans.

**51. RELATED PARTY TRANSACTIONS**

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

**51.1 Interest of Related Parties**

Councillors and/or management of the municipality have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
Chiliza M A	Councillor	Owner of Taxi Operator Licence; Spouse the owner of Prizalli Construction
Dzingwa T N	Councillor	Director of Giya Trades with 50% Interest
Mohamed S M	Councillor	Shareholding in Oasis Crescent Equity; 25% Beneficiary of Dr A Mohamed Family Trust
Moosa Bux E	Councillor	Trustee of EB Family Trust; Spouse the owner of MB Electrical & Lighting
Mtshane M P	Councillor	Nogadu Trading CC
Nair Y	Councillor	20% Shareholding in NITS Investment
Nyawuza S G	Councillor	40% Interest in Shayamoya Supply Store; Partnership in Zamakahle B Enterprise
Shusha N F	Councillor	NAWA KZN; Greenville Investment owned by family
Zuma S M	Councillor	Director of Changing Tides 1149; 20% Interest in Thingz Caterers; 2% Interest in A+P, trading as Mbali Construction; Interest in The Business Zones; 100% Beneficiary of Sisonke Trust
Mbonane Z	General Manager	Southern Africa Institute for Urban Mngement; DUT/SEDA Innovation Incubator; Invo Tech
Mnyandu M B	General Manager	40% Membership in Ezamagedeza Trading
Mnyayiza O T	General Manager	Director of Hibiscus Development Agency; Board Member of Vezumnotho Investment
Pawandiwa M N	General Manager	Spouse the owner of Valotech 46 CC

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R	
<b>51.2 Services rendered to Related Parties</b>			
During the year the municipality rendered services to the following related parties that are related to the municipality as indicated:			
	<b>Sewerage Charges R</b>	<b>Water Charges R</b>	<b>Sundry Charges R</b>
			<b>Outstanding Balances R</b>
<b>For the Year ended 30 June 2011</b>			
Councillors	50,443	82,593	-
Municipal Manager and Section 57 Personnel	3,691	21,951	-
<b>Total Services</b>	<b>54,134</b>	<b>104,544</b>	<b>-</b>
<b>For the Year ended 30 June 2010</b>			
Councillors	71,993	102,679	-
Municipal Manager and Section 57 Personnel	4,421	27,112	-
<b>Total Services</b>	<b>76,414</b>	<b>129,790</b>	<b>-</b>

The services rendered to Related Parties are charged at approved tariffs that were advertised to the Public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer Deposits were received from Councillors, the Municipal Manager and Section 57 Personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

**51.3 Loans granted to Related Parties**

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in Note 15 to the Annual Financial Statements.

**51.4 Compensation of Related Parties**

Compensation of Key Management Personnel and Councillors is set out in Notes 29 and 30 respectively, to the Annual Financial Statements.

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

				2011 R	2010 R
<b>51.5 Purchases from Related Parties</b>					
The municipality procured goods and / or services from the following companies, which are considered to be Related Parties:					
Company Name	Related Person	Company Capacity	Municipal Capacity	Purchases for the Year	Purchases for the Year
Silangwe and Vezi Funeral Services	TE Vezi		Councillor	2,300	13,000
Plain Trading 38	NF Shusha		Councillor	-	36,350
MB Electrical & Lighting	Cllr Moosa Bux		Councillor	169,862	141,798
Paul Preston Attorney's	P Preston		Audit Committee	111,969	-
Shelly Travel CC	CV Elliott		Audit Committee	283,548	-
Canaan Productions t/a Lighthouse	E Enock		Employee	-	16,310
Dan's Cleaning Services	T Malishe		Employee	41,520	22,096
Dlambula Trading Enterprise	PS Mbele		Employee	-	70,650
Mpikeleli Contractors	HR Zulu		Employee	-	1,900
RNF Contractors	M Goberdaan		Employee	774,569	313,143
Vovolethu Function and Catering	Z Mbhele		Employee	40,538	37,500
Victorson Building CC	TB Mhlongo		Employee	157,700	-
Ncokwane Trading Enterprise	PP Chili		Employee	33,550	-
<b>Total Purchases</b>				<b>1,615,556</b>	<b>652,747</b>

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

**52. CONTINGENT LIABILITIES**

**52.1 Guarantees:**

(i) The municipality issued a bank guarantee in the amount of R10 000 in favour of Hibiscus Coast Municipality in lieu of a deposit on the electricity accounts of the municipality.

(ii) The municipality issued a bank guarantee in the amount of R2 852 000 in favour of Eskom to cover deposits on the electricity accounts of the municipality.

**52.2 Powers and Functions:**

It has come to the attention of management that a local municipality has indicated its intention of raising a claim against the district to recover expenses incurred in respect of the Environmental Health Powers and Functions. Negotiations have been entered into in this regard between the municipalities. Currently management is of the opinion that there are no legal grounds to entertain a possible claim.

With the takeover of Water and Sanitation Schemes from the local municipalities in 2004, certain assets were funded through internal funding which these local municipalities are claiming from the district. Currently management is of the opinion that there are no legal grounds to entertain the possible claims.

**52.3 Court Proceedings:**

(i) Council is involved in a dispute with Sublime Marketing (the applicant), where the applicant is claiming an amount of R227 142, with interest estimated at R192 432, in respect of functions performed on behalf of Ezingoleni Municipality / Horseshoe Farm. The municipality is currently defending the estimated claim and is awaiting the enrollment of the matter for trial. The outcome of the legal processes is unknown at this stage. The Municipality denies any agreement with Sublime, and therefore will not be settling on this matter. We await court action from Sublime.

(ii) Council has been involved in a court case with ABCON / PILCON Projects into alleged fraud and / or fronting in terms of its Supply Chain Management Policy. Although judgement has been passed, an appeal has been lodged and is still pending in the High Court. The outcome is not known at this stage. The Municipality has instructed attorneys to take the matter on review. The costs of the matter, if reviewed, are unknown at this stage.

**2,862,000**      **2,862,000**

**12,947,266**      **12,947,266**

**573,474**      **4,533,056**

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

	2011 R	2010 R
(iii) Notice has been served to the municipality by Bytes Systems Integration (Pty) Ltd for breach of contract, requiring the municipality to pay an amount of R3 959 582 to BSI in order to rectify the breach. Failing to comply, BSI notified the municipality of its intention to terminate its contract with the municipality and institute legal action for recovery of all outstanding moneys including interest, standing time, legal costs and damages suffered. The breach originates from the alleged non-payment of invoices rendered for the customisation, implementation and training fees relating to the Xellent Billing Module of the Microsoft Axapta ERP Project. Subsequently both parties agreed to a settlement figure of R2 500 000 which amount has been paid by the municipality.		
(iv) JZZ Engineering is claiming from the municipality as per a prescribed claim against a cession agreement entered into. The possible liability amounts to R153 900, plus costs. The outcome of the matter is still unknown. The Municipality has drafted and entered its plea in the matter.		
<b>52.4 Insurance Claims:</b>	<u>592,181</u>	<u>531,600</u>
(i) Claims lodged against the municipality for alleged damages caused by incidents of which the municipality should take ownership, have been referred to the municipality's insurers.		

**53. CONTINGENT ASSETS**

<b>53.1 Court Proceedings:</b>	<u>-</u>	<u>9,294,268</u>
(i) The municipality has instituted a claim to the amount of R9 294 268 against Bytes Systems Integration (Pty) Ltd for breach of contract. The alleged breach is for contractual work not completed, but claimed or payment, on the Microsoft Axapta ERP Project for the development, customisation, implementation and training of accounting software to be utilised by the municipality. Subsequently the claim was withdrawn. Also see Note 52.3 in this regard.		
(ii) The Nyenyezi Communal Property Association has indicated that it desires to transfer a housing development project, known as the "Jesus Housing Development", to the municipality. It is being investigated whether this will be probable as the land was originally transferred to the community in terms of a Regional Land Claim. Should the Constitution provide for the sale and transfer of the property, the municipality shall acquire the property through a deed of sale and establish a township in terms of the "Less Formal Township Establishment Act (Act 113 of 1991)". The chairman of the Jesus Housing Development to consult and furnish attorneys with the Constitution. The value of the asset and the cost of transfer are unknown at this stage.		

**54. COMPARISON WITH THE BUDGET**

Budgeted amounts for expenditure have been exceeded as indicated below:

Category of Expenditure	30 June 2011		30 June 2010	
	Budgeted Amount	Actual Amount	Budgeted Amount	Actual Amount
	R	R	R	R
Employee Related Costs	221,115,268	221,280,163	-	-
Remuneration of Councillors	-	-	4,678,475	6,466,540
Depreciation and Amortisation	45,971,823	51,549,290	-	-
Impairment Losses	7,380,000	27,900,418	3,300,000	18,177,847
Repairs and Maintenance	-	-	30,398,674	32,213,391
Finance Costs	15,396,622	21,344,748	-	-
Bulk Purchases	-	-	21,537,500	25,672,081
Grants and Subsidies Paid	129,358,509	153,453,739	89,960,150	215,868,942
Loss on Disposal of Property, Plant and Equipment	-	-	-	28,574
Total Expenditure	-	-	656,395,864	744,839,425

The excess expenditure has not been authorised and is disclosed as such in Note 46.1.

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

**UGU DISTRICT MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

2011	2010
R	R

**55. IN-KIND DONATIONS AND ASSISTANCE**

The municipality did not receive any In-kind Donations and Assistance during the year under review.

**56. PRIVATE PUBLIC PARTNERSHIPS**

The municipality was not a party to any Private Public Partnerships during the financial year 2010/11.

**57. EVENTS AFTER THE REPORTING DATE**

No events having financial implications requiring disclosure occurred subsequent to 30 June 2011.

**57.1 Ugu Fresh Produce Market:**

The municipality has agreed in principle to curtail the operations of the Ugu Fresh Produce Market. Staff, equipment, vehicles and immovable property shall remain with the municipality for strategic purposes and service delivery. However, at the Reporting Date no agreements were finalised and the municipality is still responsible for the operations and funding of the services until further notice.

**58. COMPARATIVE FIGURES**

The comparative figures were restated as a result of the effect of Changes in Accounting Policies (Note 39) and prior period Errors (Note 40).

**59. STANDARDS AND INTERPRETATIONS IN ISSUE NOT YET ADOPTED**

At the date of authorisation of these Annual Financial Statements the municipality has not applied the following GRAP standards that have been issued, but are not yet effective:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
- GRAP 25 Employee Benefits - issued December 2009
- GRAP 103 Heritage Assets - issued July 2008

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

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

**60. GOING CONCERN**

Unspent Conditional Grants were not cash backed by an amount of R96,6 million at 30 June 2011 (2010: R35,8 million).

The current liabilities exceeded the current assets at year end, indicating that the municipality has had challenges operating as a going concern; management has adopted a plan of action, setting out clear targets to ensure that the municipality continues to operate as a going concern for the foreseeable future.





30 June 2010

Description	Original Total Budget	Budget Adjustments	Virement	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
	R	R	R	R	R	R	R	R	R
<b>FINANCIAL PERFORMANCE</b>									
<b>Revenue</b>									
Service Charges	283,129,254	-	-	283,129,254	246,729,458	-	(36,399,796)	87.14	87.14
Rental of Facilities and Equipment	176,938	-	-	176,938	792,249	-	615,311	447.76	447.76
Interest Earned - External Investments	18,374,716	-	-	18,374,716	4,262,583	-	(14,112,133)	23.20	23.20
Interest Earned - Outstanding Debtors	1,164,701	-	-	1,164,701	38,474,536	-	37,309,835	3,303.38	3,303.38
Government Grants and Subsidies Received	220,921,750	-	-	220,921,750	526,279,024	-	305,357,274	238.22	238.22
Public Contributions and Donations	-	-	-	-	1,509,328	-	1,509,328	-	-
Other Revenue	132,628,506	-	-	132,628,506	107,833,455	-	(24,795,051)	81.30	81.30
<b>Total Revenue</b>	<b>656,395,864</b>	<b>-</b>	<b>-</b>	<b>656,395,864</b>	<b>925,880,632</b>	<b>-</b>	<b>269,484,768</b>	<b>141.06</b>	<b>141.06</b>
<b>Expenditure</b>									
Employee Related Costs	211,197,244	-	-	211,197,244	194,765,871	-	(16,431,373)	92.22	92.22
Remuneration of Councillors	4,678,475	-	-	4,678,475	6,466,540	1,788,066	1,788,066	138.22	138.22
Depreciation and Amortisation	53,260,019	-	-	53,260,019	44,718,176	-	(8,541,843)	83.96	83.96
Impairment Losses	3,300,000	-	-	3,300,000	18,177,847	14,877,847	14,877,847	550.84	550.84
Repairs and Maintenance	30,398,674	-	-	30,398,674	32,213,391	1,814,717	1,814,717	105.97	105.97
Finance Costs	13,284,748	-	-	13,284,748	9,300,073	-	(3,984,675)	70.01	70.01
Bulk Purchases	21,537,500	-	-	21,537,500	25,672,081	4,134,581	4,134,581	119.20	119.20
Contracted Services	17,672,000	-	-	17,672,000	16,712,687	-	(959,313)	94.57	94.57
Grants and Subsidies Paid	89,960,150	-	-	89,960,150	215,868,942	125,908,792	125,908,792	239.96	239.96
General Expenses	211,107,055	-	-	211,107,055	180,915,243	-	(30,191,813)	85.70	85.70
Loss on Disposal of Property, Plant and Equipment	-	-	-	-	28,574	28,574	28,574	-	-
<b>Total Expenditure</b>	<b>656,395,864</b>	<b>-</b>	<b>-</b>	<b>656,395,864</b>	<b>744,839,425</b>	<b>148,552,577</b>	<b>88,443,561</b>	<b>113.47</b>	<b>113.47</b>
<b>Surplus/(Deficit)</b>	<b>0</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>181,041,207</b>	<b>(148,552,577)</b>	<b>181,041,207</b>	<b>-</b>	<b>-</b>
<b>CAPITAL EXPENDITURE</b>									
Capital Replacement Reserve	85,145,500	-	-	85,145,500	35,116,897	-	(50,028,603)	41.24	41.24
External Loans	15,500,000	-	-	15,500,000	76,804,804	61,304,804	61,304,804	495.51	495.51
Finance Leases	10,000,000	-	-	10,000,000	5,632,503	-	(4,367,497)	56.33	56.33
Grants and Subsidies	145,544,108	-	-	145,544,108	261,456,613	115,912,505	115,912,505	179.64	179.64
<b>Total Sources of Capital Funds</b>	<b>256,189,608</b>	<b>-</b>	<b>-</b>	<b>256,189,608</b>	<b>379,010,816</b>	<b>177,217,309</b>	<b>122,821,208</b>	<b>147.94</b>	<b>147.94</b>

**RECONCILIATION OF BUDGET SURPLUS/(DEFICIT) WITH THE SURPLUS/(DEFICIT) IN THE STATEMENT OF FINANCIAL PERFORMANCE:**

Description	2010/11		2009/10
	R		R
<b>Net surplus/(deficit) per the statement of financial performance</b>	<b>92,355,818</b>		<b>181,041,207</b>
Service Charges	108,105,760		36,399,796
Rental of Facilities and Equipment	38,234		(615,311)
Interest Earned - External Investments	1,821,638		14,112,133
Interest Earned - Outstanding Debtors	(15,871,513)		(37,309,835)
Government Grants and Subsidies Received	(189,170,780)		(305,357,274)
Public Contributions and Donations	(19,186,143)		(1,509,328)
Other Revenue	32,769,152		24,795,051
Gains on Disposal of Property, Plant and Equipment	(824,851)		-
Employee Related Costs	164,895		(16,431,373)
Remuneration of Councillors	(7,516)		1,788,066
Collection Costs	(35,000)		-
Depreciation and Amortisation	5,577,467		(8,541,843)
Impairment Losses	20,520,418		14,877,847
Repairs and Maintenance	(13,948,461)		1,814,717
Finance Costs	5,948,126		(3,984,675)
Bulk Purchases	(2,198,285)		4,134,581
Contracted Services	(4,866,134)		(959,313)
Grants and Subsidies Paid	24,095,230		125,908,792
General Expenses	(45,288,052)		(30,191,813)
Loss on Disposal of Property, Plant and Equipment	-		28,574
<b>Net surplus/deficit per approved budget</b>	<b>(0)</b>		<b>0</b>

**APPENDIX A**  
**UGU DISTRICT MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2011**

Details	Original Loan Amount	Interest Rate	Loan Number	Redeemable	Balance at 30 June 2010	Received during the Period	Redeemed/ Written Off during Period	Balance at 30 June 2011
	R				R	R	R	R
<b>LOCAL REGISTERED STOCK</b>								
INCA	18,500,000	16.80%	A162	30/06/2011	18,500,000	-	18,500,000	-
INCA	1,800,000	15.60%	91, 92 & 93	30/06/2011	1,800,000	-	1,800,000	-
<b>Total Local Registered Stock</b>	<b>20,300,000</b>				<b>20,300,000</b>	<b>-</b>	<b>20,300,000</b>	<b>-</b>
<b>ANNUITY LOANS</b>								
ABSA	102,000,000	11.51%	-	30/06/2020	102,000,000	-	5,224,417	96,775,583
DBSA	3,194,261	10.00%	-	31/03/2013	957,777	-	288,768	669,009
DBSA	5,000,000	2.65%	-	30/06/2015	4,340,811	-	676,773	3,664,038
DBSA	25,000,000	5.00%	101980/001	31/03/2022	23,593,572	-	1,477,629	22,115,943
DBSA	25,000,000	5.00%	101980/002	30/06/2023	25,000,000	-	-	25,000,000
DBSA	62,000,000	5.00%	102756/001	30/06/2029	53,778,982	8,199,317	-	61,978,298
DBSA (Ex Hibiscus Coast)	18,573,441	Various	Various	Various	14,393,612	-	728,993	13,664,619
DBSA (Ex Umdoni)	2,500,000	Various	Various	Various	1,205,440	-	244,783	960,657
DBSA (Ex Umuziwabantu)	1,850,000	Various	Various	Various	846,067	-	-	846,067
<b>Total Annuity Loans</b>	<b>245,117,702</b>				<b>226,116,260</b>	<b>8,199,317</b>	<b>8,641,362</b>	<b>225,674,215</b>
<b>CAPITAL LEASE LIABILITIES</b>								
Ex Hibiscus Coast	-	Fluctuate	-	2006	64,885	-	-	64,885
Nedbank	20,100,000	11.41%	Various (79)	Various	9,077,895	-	6,222,120	2,855,774
<b>Total Capital Lease Liabilities</b>	<b>20,100,000</b>				<b>9,142,779</b>	<b>-</b>	<b>6,222,120</b>	<b>2,920,659</b>
<b>TOTAL EXTERNAL LOANS</b>	<b>285,517,702</b>				<b>255,559,040</b>	<b>8,199,317</b>	<b>35,163,482</b>	<b>228,594,874</b>

**APPENDIX A**  
**UGU DISTRICT MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2011**

---

**LOCAL REGISTERED STOCK**

Originally structured unsecured 30 year loan. Original loan capital of R20,3 million. Interest is paid semi-annually in December and June. The stock was redeemed on 30/06/2011.

**ANNUITY LOANS**

**ABSA (Infrastructure):**

Structured unsecured 10 year loan. Original loan capital of R102 000 000 is repayable quarterly in fixed instalments of capital and interest, the first payment commencing in September 2010.

**DBSA (Umzinto Water Scheme):**

Structured unsecured 20 year loan. Original loan capital of R3 194 261 is repayable annually in fixed instalments of capital and fixed rate interest.

**DBSA (Ugu Fresh Produce Market):**

Structured unsecured 10 year loan. Original loan capital of R5 000 000 is repayable semi-annually in fixed instalments of capital and interest, the first payment commencing in December 2010.

**DBSA (Phase 1 - Sanitation Refurbishment):**

Structured unsecured 15 year loan. Original loan capital of R25 000 000 is repayable semi-annually in 26 fixed instalments of capital and interest, the first payment commencing on the last day of the 5th half-year after the half-year during which the first disbursement was advanced to the borrower.

**DBSA (Phase 2 - Sanitation Refurbishment):**

Structured unsecured 15 year loan. Original loan capital of R25 000 000 is repayable semi-annually in 26 fixed instalments of capital and interest, the first payment commencing on the last day of the 5th half-year after the half-year during which the first disbursement was advanced to the borrower.

**DBSA (Phase 1 - Umzimkulu Water Augmentation):**

Structured unsecured 20 year loan. Original loan capital of R62 000 000 is repayable monthly in 216 fixed instalments of capital and interest, the first payment commencing on the last day of the 25th month after the month during which the first disbursement was advanced to the borrower.

**DBSA (Ex Hibiscus, Umdoni and Umuziwabantu):**

Structured unsecured loans taken over from the local municipalities as a result of a change of powers and functions. These loans are repaid semi-annually at various interest rates.

**CAPITALISED LEASE LIABILITIES**

Structured secured finance leases over vehicles; lease repayments over a period of 3 years at both fixed and variable interest rates.





**APPENDIX B**  
**UGU DISTRICT MUNICIPALITY**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying Value	Budget Additions 2011
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance		
	R	R	R	R	R	R	R	R	R	R	R	R	R
<i>Motor Vehicles:</i>													
Bakkies (LDV's)	3,817,131	-	-	-	-	3,817,131	373,496	560,523	-	-	934,020	2,883,111	-
Cycles	-	-	-	-	-	-	-	-	-	-	-	-	-
Graders	651,270	-	-	-	-	651,270	518,138	18,703	-	-	536,841	114,429	-
Motor Cars	4,612,412	-	-	-	-	4,612,412	2,204,940	518,166	-	-	2,723,106	1,889,306	-
Tractors	1,751,783	-	-	-	(135,986)	1,615,797	304,662	118,043	-	(61,647)	361,058	1,254,739	-
Trailers and Accessories	316,664	-	-	-	-	316,664	12,584	31,935	-	-	44,518	272,145	170,000
Trucks	46,962,229	-	-	-	(768,608)	46,193,621	25,380,180	5,530,214	-	(698,003)	30,212,391	15,981,231	-
Watercraft	28,250	-	-	-	-	28,250	6,780	1,412	-	-	8,192	20,057	-
	<b>105,854,416</b>	<b>2,084,444</b>	<b>3,051,967</b>	<b>(1,034,064)</b>	<b>(904,594)</b>	<b>109,052,169</b>	<b>55,106,271</b>	<b>12,432,516</b>	<b>(975,541)</b>	<b>(759,650)</b>	<b>65,803,595</b>	<b>43,248,573</b>	<b>7,075,650</b>
<b>Total</b>	<b>1,647,331,179</b>	<b>27,355,764</b>	<b>462,218,070</b>	<b>206,102,789</b>	<b>(904,594)</b>	<b>2,342,103,208</b>	<b>911,152,955</b>	<b>49,920,793</b>	<b>(3,958,253)</b>	<b>(759,650)</b>	<b>956,355,846</b>	<b>1,385,747,362</b>	<b>305,802,681</b>

**UGU DISTRICT MUNICIPALITY : ANALYSIS OF INTANGIBLE ASSETS AS AT 30 JUNE 2011**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying Value	Budget Additions 2007
	Opening Balance	Additions	Under Construction	Transfers	Disposals / Transfers	Closing Balance	Opening Balance	Additions	Transfers	Disposals / Transfers	Closing Balance		
	R	R	R	R	R	R	R	R	R	R	R	R	R
<b>Intangible Assets</b>													
Computer Software	20,953,099	3,012,435	-	(32,339)	-	23,933,195	11,175,181	1,628,497	(32,339)	-	12,771,339	11,161,856	9,400,000
Rights and Servitudes	2,377,972	155,269	-	-	-	2,533,242	-	-	-	-	-	2,533,242	500,000
<b>Total Intangible Assets</b>	<b>23,331,071</b>	<b>3,167,704</b>	<b>-</b>	<b>(32,339)</b>	<b>-</b>	<b>26,466,437</b>	<b>11,175,181</b>	<b>1,628,497</b>	<b>(32,339)</b>	<b>-</b>	<b>12,771,339</b>	<b>13,695,098</b>	<b>9,900,000</b>



**APPENDIX C**  
**UGU DISTRICT MUNICIPALITY**  
**SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011**

Description	Cost / Revaluation						Accumulated Depreciation / Impairment					Carrying Value
	Opening Balance	Additions	Under Construction	Transfers	Disposals	Closing Balance	Opening Balance	Additions	Transfers	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	R	R
Executive and Council	7,712,308	75,334	2,052,521	(51,786)	(130,073)	9,658,304	2,262,456	1,814,008	(51,786)	(126,357)	3,898,322	5,759,982
Finance and Administration	21,627,314	4,250,412	1,407,615	(689,838)	-	26,595,503	8,346,052	3,687,025	(653,016)	-	11,380,061	15,215,442
Planning and Development	547,247	18,251	-	(43,338)	-	522,160	358,312	55,741	(32,039)	-	382,014	140,146
Public Safety	127,673	18,251	-	-	-	145,925	84,279	18,449	-	-	102,729	43,196
Sport and Recreation	-	3,435,134	-	-	-	3,435,134	-	2,901,230	-	-	2,901,230	533,904
Environmental Protection	456,527	-	-	(13,990)	-	442,537	182,142	36,569	(13,990)	-	204,722	237,815
Waste Management	156,691,297	18,789,200	88,735,681	(11,406)	(290,206)	263,914,566	98,996,895	5,210,679	(11,406)	(167,398)	104,028,770	159,885,796
Water	1,436,308,823	382,411	367,304,075	202,039,441	(484,315)	2,005,550,435	799,326,023	35,285,683	(3,196,016)	(465,896)	830,949,794	1,174,600,641
Other	23,859,990	386,770	2,718,177	4,873,706	-	31,838,643	1,596,796	911,408	-	-	2,508,204	29,330,439
<b>Total</b>	<b>1,647,331,179</b>	<b>27,355,764</b>	<b>462,218,070</b>	<b>206,102,789</b>	<b>(904,594)</b>	<b>2,342,103,208</b>	<b>911,152,955</b>	<b>49,920,793</b>	<b>(3,958,253)</b>	<b>(759,650)</b>	<b>956,355,846</b>	<b>1,385,747,362</b>

**APPENDIX D**  
**UGU DISTRICT MUNICIPALITY**

**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011**

2010 Actual Revenue	2010 Actual Expenditure	2010 Surplus/ (Deficit)	Description	2011 Actual Revenue	2011 Actual Expenditure	2011 Surplus/ (Deficit)
R	R	R		R	R	R
44,816,162	51,007,464	(6,191,302)	Executive and Council	42,350,006	51,068,281	(8,718,275)
121,069,414	100,345,665	20,723,748	Finance and Administration	139,983,575	110,038,981	29,944,595
22,496,453	24,065,665	(1,569,212)	Planning and Development	32,356,488	24,587,938	7,768,550
(81,132)	5,008,585	(5,089,718)	Public Safety	836,709	457,228	379,480
217,472	700,315	(482,843)	Environmental Protection	2,479,595	5,719,298	(3,239,704)
72,069,796	61,702,993	10,366,803	Waste Water Management	98,460,982	72,027,467	26,433,515
665,918,307	500,377,533	165,540,775	Water	533,639,385	489,902,980	43,736,406
(625,841)	1,631,204	(2,257,045)	Other	535,376	4,484,124	(3,948,749)
<b>925,880,632</b>	<b>744,839,425</b>	<b>181,041,207</b>	<b>Total</b>	<b>850,642,115</b>	<b>758,286,297</b>	<b>92,355,818</b>

**APPENDIX E(1)**  
**UGU DISTRICT MUNICIPALITY**  
**ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011**

Description	2010/11 Actual	2010/11 Budget	2010/11 Variance	2010/11 Variance	Explanation of Significant Variances Greater than 10% versus Budget
	R	R	R	%	
<b>REVENUE</b>					
Service Charges	240,280,488	348,386,248	(108,105,760)	(44.99)	Actual billing less than budgeted for
Rental of Facilities and Equipment	955,738	993,972	(38,234)	(4.00)	
Interest Earned - External investments	6,161,362	7,983,000	(1,821,638)	(29.57)	Own cash utilised for capital expenses to be funded from external loans
Interest Earned - Outstanding debtors	17,071,412	1,199,899	15,871,513	92.97	Result of the discounting of service charges in terms of IAS 39
Government Grants and Subsidies	450,363,859	261,193,078	189,170,780	42.00	Unbudgeted grants received for Water Infrastructure
Other Revenue	115,798,262	148,567,414	(32,769,152)	(28.30)	Internal Recoveries lower due to curtailment of expenditure
Public Contributions and Donations	19,186,143	-	19,186,143	100.00	Capital commitments met from public contributions realised in income
Gains on Disposal of Property, Plant and Equipment	824,851	-	824,851	100.00	Proceeds from insurance on lost assets not budgeted for
<b>Total Revenue</b>	<b>850,642,115</b>	<b>768,323,610</b>	<b>82,318,505</b>	<b>10.71</b>	
<b>EXPENDITURE</b>					
Employee Related Costs	221,280,163	221,115,268	164,895	0.07	
Remuneration of Councillors	6,191,830	6,199,346	(7,516)	(0.12)	
Depreciation	51,549,290	45,971,823	5,577,467	10.82	Assets under construction brought into use
Impairment Losses	27,900,418	7,380,000	20,520,418	73.55	Under budgeted for Provision of Bad Debts
Repairs and Maintenance	21,539,882	35,488,343	(13,948,461)	(64.76)	Borehole repairs and spring protection funded from grants
Interest Paid	21,344,748	15,396,622	5,948,126	27.87	Budget adjustment process inadvertently reduced the budget
Bulk Purchases	31,839,355	34,037,640	(2,198,285)	(6.90)	
Contracted Services	16,501,666	21,367,800	(4,866,134)	(29.49)	Tenders not awarded for certain planned contracted services
Grants and Subsidies Paid	153,453,739	129,358,509	24,095,230	15.70	Unbudgeted grants expended for Water Infrastructure
General Expenses	206,685,207	251,973,259	(45,288,052)	(21.91)	Internal Charges lower due to curtailment of expenditure
<b>Total Expenditure</b>	<b>758,286,297</b>	<b>768,323,610</b>	<b>(10,037,313)</b>	<b>(1.31)</b>	
<b>NET SURPLUS FOR THE YEAR</b>	<b>92,355,818</b>	<b>-</b>	<b>92,355,818</b>		

**APPENDIX E(2)**  
**UGU DISTRICT MUNICIPALITY**

**ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2011**

Description	2010/11	2010/11	2010/11	2010/11	2010/11	2010/11	Explanation of Significant Variances greater than 5% versus Budget
	Actual	Under Construction	Total Additions	Budget	Variance	Variance	
	R	R	R	R	R	%	
<b>Infrastructure</b>							
Executive and Council	75,334	-	75,334	2,000,000	(1,924,666)	(96.23)	Expenditure incurred under Finance and Administration
Finance and Administration	4,250,412	-	4,250,412	950,000	3,300,412	347.41	Expenditure budgeted for under Executive & Council and Public Safety
Planning and Development	18,251	-	18,251	-	18,251	0.00	Expenditure not material
Public Safety	18,251	-	18,251	3,000,000	(2,981,749)	(99.39)	Expenditure incurred under Finance and Administration
Sport and Recreation	3,435,134	-	3,435,134	23,631,863	(20,196,729)	(85.46)	Expenditure incurred in the previous financial year
Waste Management	18,789,200	22,425,271	41,214,472	59,788,700	(18,574,228)	(31.07)	Moratorium placed on projects not started
Water	382,411	152,890,761	153,273,172	216,432,118	(63,158,946)	(29.18)	Moratorium placed on projects not started
Other	386,770	-	386,770	-	386,770	0.00	Expenditure incurred on Ugu Fresh Produce Market not budgeted for
<b>Total</b>	<b>27,355,764</b>	<b>175,316,032</b>	<b>202,671,797</b>	<b>305,802,681</b>	<b>(103,130,884)</b>	<b>(33.72)</b>	

**APPENDIX F**  
**UGU DISTRICT MUNICIPALITY**  
**DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

**Grants and Subsidies Received**

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies Delayed / Withheld					Reason for Delay / Withholding of Funds	Compliance to Revenue Act (*) See below	Reason for Non-compliance
		June	Sept	Dec	March	June	June	Sept	Dec	March	June	June	Sept	Dec	March	June			
FMG	National Treasury	0	1,000,000	0	0	0	356,419	327,738	151,052	468,016	165,011	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Equitable Share	National Treasury	0	83,266,882	66,613,505	49,960,129	0	34,020,726	51,334,892	49,761,703	50,035,568	48,708,353	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Sports and Recreation	Dept Sport & Rec	0	0	0	0	0	124,999	0	108,831	0	1,589,605	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Ugu Agricultural Market	Dept Agriculture	0	0	0	0	1,505,256	0	279,023	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Gijima	DEAT	0	0	0	1,322,023	0	107,874	0	0	111,377	386,770	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Various Provincial	DLGTA	3,875,000	2,947,639	25,000,000	14,527,931	498,750	19,804,844	5,676,193	2,987,369	100,744	21,047,409	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Various National (inc. MIG)	DPLG	77,628,530	51,000,000	46,500,000	38,757,000	0	84,186,817	31,849,831	44,006,994	15,665,241	116,855,999	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
DWAF	DWAF	1,719,700	0	0	13,101,000	913,000	10,783,772	1,025,908	0	0	1,121,428	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Various	DBSA	0	2,916,016	818,829	895,208	0	584,626	303,522	920,773	464,385	509,866	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Various Co-Operative Projects	IDC	0	0	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Various (National Lottery)	National Lottery	0	2,848,614	0	0	0	0	0	0	0	0	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
Various (Public Contributions)	Other	7,800,000	2,132,664	1,123,672	293,669	6,161,063	266,455	166,380	39,536	0	19,186,143	N/A	N/A	N/A	N/A	N/A	N/A	Yes	N/A
<b>Total Grants and Subsidies Received</b>		<b>91,023,230</b>	<b>146,111,815</b>	<b>140,056,006</b>	<b>118,856,960</b>	<b>9,078,069</b>	<b>150,236,532</b>	<b>90,963,487</b>	<b>97,976,258</b>	<b>66,845,331</b>	<b>209,570,584</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			

(\*) Did your municipality comply with the grant conditions in terms of "Grant Framework" in the latest Division of Revenue Act?