Umhlosinga Development Agency (Proprietary) Limited
(Registration number 2004/016608/07)
Annual Financial Statements
for the year ended 30 June 2011

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Municipal entity
Directors	HAS Fakude LF Mathenjwa WD Eckersley LE Mngomezulu JL Dodkins M Mncwango
Registered office	21 Klebe Street Mkhuze Kwazulu Natal 3965
Business address	Lot 308 Ebony Crescent Mtubatuba 3935
Auditors	Auditor General South Africa
Company secretary	NA Mbokazi
Attourneys	Weich & Kriel Inc.
Registered office: 182 Piet Retief Road Pongola 3170	**Postal assdress:** PO Box 266 Pongola 3170
Company registration number	2004/016608/07

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

Directors' Responsibilities and Approval

The directors are required in terms of the Generally Recognised Accounting Practice and Companies Act of South Africa to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with Generally Recognised Accounting Practice and South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with Generally Recognised Accounting Practice and South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

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

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 5 to 16, which have been prepared on the going concern basis, were approved by the board on 03 August 2011 and were signed on its behalf by:

HAS Fakude

(Chairman of the Board of Directors)

Independent Auditors' Report

To the member of Umhlosinga Development Agency (Proprietary) Limited

We have audited the annual financial statements of Umhlosinga Development Agency (Proprietary) Limited, which comprise the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 5 to 16.

Directors' Responsibility for the Annual Financial Statements

The company’s directors are responsible for the preparation and fair presentation of these annual financial statements in accordance with Generally Recognised Accounting Practice and South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Generally Recognised Accounting Practice and Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Umhlosinga Development Agency (Proprietary) Limited as at 30 June 2011, and its financial performance and its cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Generally Recognised Accounting Practice and Companies Act of South Africa.

Auditor General South Africa

Directors' Report

The directors submit their report for the year ended 30 June 2011.

1. Incorporation

The company was incorporated on 17 June 2004 and obtained its certificate to commence business on the same day.

The company was originally incorporated under the name Maxitrade 42 General Trading (Proprietary) Limited and change to Umhlosinga Development Agenecy (Proprietary) Limited on the 04 July 2006, and remained dormant until 01 January 2008 where the establishment phase commenced

2. Review of activities

Main business and operations

The company is engaged in acting as an agent for and on behalf of Umkhanyakude District Municipality for the purpose of implementing economic development agency and all its business allied thereto and ensure the development of Umkhanyakude Municipality and its surrounding areas.

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

Net profit of the company was R 1,229,078 (2010: R 1,198,268 profit), after taxation of R (25,020) (2010: R (9,700)).

3. Going concern

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

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations for the company.

4. Authorised and issued share capital

There were no changes in the authorised or issued share capital of the company during the year under review.

5. Directors

The directors of the company during the year and to the date of this report are as follows:

Name	Nationality
HAS Fakude	South African
LF Mathenjwa	South African
WD Eckersley	South African
LE Mngomezulu	South African
JL Dodkins	South African
M Mncwango	South African

6. Holding company

The company's holding company is Umkhanyakude District Municipality.

7. Auditors

Auditor General South Africa will continue in office in accordance with section 4 (1) (e) of the Public Audit Act of Southern Africa No. 25 of 2004..

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Non-Current Assets			
Property, plant and equipment	2	234,944	50,019
Current Assets			
Cash and cash equivalents	4	947,713	255,567
Total Assets		**1,182,657**	**305,586**
Equity and Liabilities			
Equity			
Share capital	5	100	100
Retained income		912,782	(316,296)
		912,882	**(316,196)**
Liabilities			
Current Liabilities			
Current tax payable		53,921	28,901
Trade and other payables	7	215,854	592,881
		269,775	**621,782**
Total Equity and Liabilities		**1,182,657**	**305,586**

Statement of Comprehensive Income

Figures in Rand	Note(s)	2011	2010
Revenue			
Grants received		6,589,168	6,953,530
Other income			
Golf Day sponsorship		6,000	-
Landing fees		82,069	6,798
Tender fee income		9,800	-
Leave pay		-	3,703
Interest received	9	2,026	26,894
		99,895	**37,395**
Operating expenses			
Accounting fees		(67,942)	(125,924)
Advertising		(140,319)	(179,883)
Auditors remuneration		(268,638)	(47,468)
Bank charges		(6,969)	(6,495)
Cleaning		(7,799)	(5,313)
Computer expenses		(8,638)	(10,618)
Consulting fees		(139,876)	(37,629)
Depreciation		(28,353)	(14,908)
Employee costs		(3,547,388)	(2,998,087)
Project costs		(831,301)	(1,817,854)
Insurance		(15,035)	(3,568)
Lease rentals on operating lease		(17,795)	(22,000)
Legal expenses		(8,668)	-
Postage		(4,215)	(3,723)
Printing and stationery		(22,241)	(18,229)
Repairs and maintenance		(23,269)	(25,288)
Security		(40,589)	(10,292)
Staff welfare		(3,500)	(4,171)
Subscriptions		(78,678)	(68,213)
Telephone and fax		(80,788)	(182,457)
Travel and entertainment		(91,960)	(91,679)
		(5,433,961)	**(5,673,799)**
Operating profit		**1,255,102**	**1,317,126**
Finance costs		(1,004)	(109,158)
Profit before taxation		**1,254,098**	**1,207,968**
Taxation	10	(25,020)	(9,700)
Profit for the year		**1,229,078**	**1,198,268**
Other comprehensive income		-	-
Total comprehensive income		**1,229,078**	**1,198,268**
Total comprehensive income attributable to:			
Owners of the parent		1,229,078	1,198,268

Statement of Changes in Net Assets

Figures in Rand	Share capital	Retained income	Total equity
Balance at 01 July 2009	**100**	**(1,514,564)**	**(1,514,464)**
Changes in equity			
Total comprehensive income for the year	-	1,198,268	1,198,268
Total changes	-	1,198,268	1,198,268
Balance at 01 July 2010	**100**	**(316,296)**	**(316,196)**
Changes in equity			
Total comprehensive income for the year	-	1,229,078	1,229,078
Total changes	-	1,229,078	1,229,078
Balance at 30 June 2011	**100**	**912,782**	**912,882**
Note(s)	5		

Statement of Cash Flows

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Cash generated from operations	11	904,402	(1,157,845)
Interest income		2,026	26,894
Finance costs		(1,004)	(109,158)
Tax paid	12	-	(48,785)
Net cash from operating activities		**905,424**	**(1,288,894)**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(213,278)	(17,169)
Total cash movement for the year		**692,146**	**(1,306,063)**
Cash at the beginning of the year		255,567	1,561,631
Total cash at end of the year	4	**947,713**	**255,568**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice and South African Statements of Generally Accepted Accounting Practiceincluding any interpretations of such Statements issued by the Accounting Practices Board. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

1.1 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.
Office equipment is carried at cost less accumulated depreciation and any impairment losses.

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

Item	Average useful life
Furniture and fixtures	5 years
Office equipment	5 years
IT equipment	3 years

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

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

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

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

1.2 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1.2 Tax (continued)

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.3 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the company reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments are deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the company's own equity instruments. Consideration paid or received shall be recognised directly in equity.

1.4 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

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

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

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

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

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

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

Accounting Policies

1.5 Government grants

Government grants are recognised when there is reasonable assurance that:
- the company will comply with the conditions attaching to them; and
- the grants will be received.

Grants related to income are presented as a credit in the profit or loss (separately).

1.6 Presentation of currency

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

1.7 Going concern assumption

These annual financial statements have been prepared on a going concern basis.

1.8 Unauthorised expenditure

Unauthorised expenditure, is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant Municipal Finance Management Act (Act No. 56 of 2003) Unauthorised expenditure is accounted for as an expense in the statements of Financial Performance and where recovered it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.9 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) or contravention of the supply chain management policy. Irregular expenditure excludes unathorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.10 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 and where recovered it is subsequently accounted for as revenue in the statement of Financial Performance.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Furniture and fixtures	35,943	(5,624)	30,319	11,020	(1,758)	9,262
Motor vehicles	131,000	(8,733)	122,267	-	-	-
Office equipment	24,461	(9,602)	14,859	24,461	(7,672)	16,789
IT equipment	91,868	(24,369)	67,499	34,512	(10,544)	23,968
Total	**283,272**	**(48,328)**	**234,944**	**69,993**	**(19,974)**	**50,019**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	9,262	24,923	(3,866)	30,319
Motor vehicles	-	131,000	(8,733)	122,267
Office equipment	16,789	-	(1,930)	14,859
IT equipment	23,968	57,355	(13,824)	67,499
	50,019	**213,278**	**(28,353)**	**234,944**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	7,514	3,400	(1,652)	9,262
Office equipment	16,676	4,209	(4,096)	16,789
IT equipment	23,565	9,560	(9,157)	23,968
	47,755	**17,169**	**(14,905)**	**50,019**

A register containing the information required by paragraph 22(3) of Schedule 4 of the Companies Act is available for inspection at the registered office of the company.

3. VAT

	2011	2010
VAT Payable	163,322	352,796

4. Cash and cash equivalents

Cash and cash equivalents consist of:

	2011	2010
Cheque Account	50,069	88,245
Call Account	278,868	158,290
Call Account	608,860	1,000
Credit Card	9,726	7,994
Cash on hand	190	38
	947,713	**255,567**

All bank accounts of the Agency are held at Absa Bank
Cheque account - 406 976 2605
Call account - 9200 378 551
Credit card - 5474 7100 5019 4018

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Share capital

Authorised		
1000 Ordinary shares of R1 each	1,000	1,000

900 unissued ordinary shares are under the control of the directors in terms of a resolution of members passed at the last annual general meeting. This authority remains in force until the next annual general meeting.

Issued		
Ordinary	100	100

6. Accruals

Reconciliation of accruals - 2011

	Opening balance	Movements	Total
Accruals - SARS employee taxes	81,077	(81,077)	-
Accruals - Leave pay	33,568	29,160	62,728
	114,645	**(51,917)**	**62,728**

Reconciliation of accruals - 2010

	Opening balance	Movements	Total
Accruals - SARS employee taxes	97,853	(16,776)	81,077
Accrual - Leave pay	37,270	(3,702)	33,568
Accrual Audit fees	95,250	(95,250)	-
	230,373	**(115,728)**	**114,645**

7. Trade and other payables

Trade payables	9,224	125,439
VAT	163,322	352,797
Provision for leave pay	43,308	33,568
Provision for PAYE	-	81,077
	215,854	**592,881**

8. Revenue

Grants received	6,589,168	6,953,530

The amount included in revenue are the following grants received:		
Industrial Development Corp	5,000,000	2,222,825
Umkhanyakude District Municipality	789,168	852,330
MTN SA Foundation	800,000	731,400
DBSA	-	3,832,849
	6,589,168	**7,639,404**

9. Investment revenue

Interest revenue		
Bank	2,026	26,894

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Taxation

Major components of the tax expense

Current		
Local income tax - current period	25,020	9,700

11. Cash generated from operations

Profit before taxation	1,254,098	1,207,968
Adjustments for:		
Depreciation and amortisation	28,353	14,908
Interest received	(2,026)	(26,894)
Finance costs	1,004	109,158
Changes in working capital:		
Trade and other payables	(377,027)	(2,462,985)
	904,402	**(1,157,845)**

12. Taxation paid

Balance at beginning of the year	(28,901)	(67,986)
Current tax for the year recognised in profit or loss	(25,020)	(9,700)
Balance at end of the year	53,921	28,901
	-	**(48,785)**

13. Directors' emoluments

Non-executive

2011	Emoluments
For services as directors	152,436

2010	Emoluments
For services as directors	150,468

The directors are reimbursed on their travel expenses at R3.75 per kilometre travelled plus a sitting fee of R1 600 for board meetings and sub-committeee meetings.

14. Management remuneration

Chief Executive Officer - AX Gericke		
Basic salary	452,976	444,720
Travel allowance	144,000	144,000
Cell phone allowance	10,200	10,200
	607,176	**598,920**

The above remuneration package was earned by Mr. AX Gericke, Chief Executive Officer of the company from 01 July 2010 to 30 June 2011.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

15. Related parties

Relationships
Ultimate holding company : Umkhanyakude District Municipality

Related party transactions

Telephone expenses	31,173	152,812
Salary cost	607,995	603,027
Grant received	150,000	-

Related party transactions consist of expenses paid by Umkhanyakude District Municipality on behalf of Umhlosinga Development Agency (Pty) Ltd. The salary cost is that of the Chief Operating Officer who has been seconded to Umhlosinga Development Agency (Pty) Ltd.

16. Friutless and wasteful expenditure

Frutless and wasteful expenditure in the prior year		
- Penalties incurred on late payment of VAT and PAYE	-	74,007
- Interest incurred on late payment of VAT and PAYE	-	35,077
- Charges incurred on early cancellation of cellphone contract	-	6,578
	-	**115,662**

The late payment of VAT and PAYE was due to the non-availability of funds at the time when payment was due. As such the penalties and interest incurred thereon was beyond the control of management. The early cancellation of the cellphone contract is currently being investigation by management, to identify the responsible party and to understand the circumstances surrounding the cancellation.

17. Operating lease

At the reporting date, the entity has outstanding commitments under operating leases which fall due as follows:

Within 1 year	17,587	17,587
In the second to fifth year inclusive	35,173	52,760
After five years	-	-
	52,760	**70,347**

18. Disclosure

1. SCM deviation, payment of R230 000.00 excl. 14% vat to Dynamus Technologies as per SCM regulation S36(2).

2. Irregular expense incurred of R139 876 paid to RBM Corporate for tax consultants.