

UTHUNGULU



uThungulu District Municipality
uThungulu Distrik Munisipaliteit
uMasipala Wesifunda Waso Thungulu

**Annual Financial Statements
for the year ended 30 June 2013**

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

GENERAL INFORMATION

Nature of business and principal activities	Municipality
Deputy Municipal Manager Finance	MC Reddy
Accounting Officer	MH Nkosi
Registered office	Uthungulu House Krugerrand, CBD RICHARDS BAY
Business address	Uthungulu House Krugerrand, CBD RICHARDS BAY
Postal address	Private Bag X1025 RICHARDS BAY
Bankers	Nedbank Limited
Auditors	Auditor-General of South Africa
Legal advisor	G Dlamini
Municipal demarcation code	DC 28

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Abbreviations

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
IFRS	International Financial Reporting Standards

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STATEMENT OF MUNICIPAL MANAGER'S RESPONSIBILITY

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 77, 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.

I certify that the salaries, allowances and benefits of Councillors as discussed in note 22 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government determination in accordance with this Act.

MH Nkosi
Accounting Officer

Richards Bay
30 August 2013

uThungulu District Municipality

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

		2013	2012
	Note	R	Restated R
Assets			
Current Assets			
Inventories	3	7 269 171	6 122 117
Accounts receivable from exchange transactions	4	37 791 179	22 969 861
Accounts receivable from non exchange transactions	5	14 501 684	25 055 524
Current portion of long term receivables	6	37 921	34 821
Cash and cash equivalents	7	445 848 491	366 716 903
		<u>505 448 446</u>	<u>420 899 226</u>
Non-Current Assets			
Property, plant, equipment	8	1 174 251 299	1 050 408 116
Intangible assets	9	1 077 033	1 476 684
Investments in municipal entities	10	24 672 820	25 206 796
Long term receivables	6	440 148	495 901
Investments	11	-	21 000 000
		<u>1 200 441 300</u>	<u>1 098 587 497</u>
Total Assets		<u>1 705 889 746</u>	<u>1 519 486 723</u>
Liabilities			
Current Liabilities			
Current portion of long term liabilities	12	10 595 110	9 327 015
Payables from exchange transactions	13	136 409 601	126 957 130
Consumer deposits	14	9 113 835	8 229 262
Defined benefit obligations	15	435 000	757 672
Unspent conditional grants and receipts	16	32 460 451	26 499 674
Provisions	17	16 490 794	751 981
		<u>205 504 791</u>	<u>172 522 734</u>
Non-Current Liabilities			
Long term liabilities	12	78 874 001	104 584 204
Defined benefit obligations	15	18 029 000	13 423 263
Provisions	17	57 605 107	69 415 033
		<u>154 508 108</u>	<u>187 422 500</u>
Total Liabilities		<u>360 012 899</u>	<u>359 945 234</u>
Total Assets		1 705 889 746	1 519 486 723
Total Liabilities		(360 012 899)	(359 945 234)
Net Assets		<u>1 345 876 847</u>	<u>1 159 541 489</u>
Accumulated surplus		<u>1 345 876 847</u>	<u>1 159 541 489</u>

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STATEMENT OF FINANCIAL PERFORMANCE

		2013	2012
	Note	R	Restated R
Revenue			
Service charges	18	49 901 919	48 017 382
Interest received	19	27 147 411	27 037 679
Government grants & subsidies	20	570 231 388	553 925 519
Other income	21	9 578 554	8 702 739
Rental income		33 947	33 942
Total revenue		656 893 219	637 717 261
Expenditure			
Employee related costs	22	(99 492 610)	(88 084 985)
Remuneration of councillors	23	(8 522 649)	(7 869 721)
Depreciation, amortisation and impairment	24	(50 492 908)	(36 542 829)
Finance costs	25	(13 490 296)	(11 900 614)
Debt impairment	4	(4 189 974)	(8 023 573)
Repairs and maintenance	26	(43 985 475)	(34 926 111)
Bulk purchases	27	(29 466 494)	(29 204 363)
Contracted services	28	(65 270 434)	(63 004 898)
Grants and subsidies paid	29	(11 126 978)	(10 330 105)
General expenses	30	(144 778 796)	(120 190 307)
Total expenditure		(470 816 614)	(410 077 506)
Operating surplus		186 076 605	227 639 755
Loss on disposal of property, plant and equipment		(265 025)	(419 223)
Fair value adjustments in respect of property, plant & equipment	8	523 775	-
		258 750	(419 223)
Surplus for the year		186 335 355	227 220 532
Attributable to:			
Surplus for the year		186 335 355	227 220 532

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STATEMENT OF CHANGES IN NET ASSETS

	Accumulated surplus R	Total net assets R
Balance at 01 July 2011 previously reported	905 538 331	905 538 331
Changes in net assets		
Changes in accounting estimates	(275 236)	(275 236)
MIG VAT transferred to own revenue - refer to note 20 & 39	27 057 862	27 057 862
Net income (losses) recognised directly in net assets	26 782 626	26 782 626
Surplus for the year restated - refer to note 39	227 220 532	227 220 532
Total recognised income and expenses for the year	254 003 158	254 003 158
Total changes	254 003 158	254 003 158
Balance at 01 July 2012 - restated	1 159 541 492	1 159 541 492
Changes in net assets		
Surplus for the year	186 335 355	186 335 355
Total changes	186 335 355	186 335 355
Balance at 30 June 2013	1 345 876 847	1 345 876 847

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CASH FLOW STATEMENT

	Note	2013 R	2012 R
Cash flows from operating activities			
Receipts			
Receipts from consumers and other debtors		55 834 999	40 330 834
Grants		582 042 063	511 237 598
Interest income		27 147 411	27 037 679
		665 024 473	578 606 111
Payments			
Employee costs		(108 015 259)	(95 954 706)
Suppliers		(294 115 186)	(257 863 861)
Finance costs		(13 490 296)	(11 900 614)
		(415 620 741)	(365 719 181)
Net cash flows from operating activities	31	249 403 732	212 886 930
Cash flows from investing activities			
Payment of property, plant, equipment		(167 323 863)	(188 821 467)
Proceeds from sale of property, plant, equipment		-	174 600
Purchase of other intangible assets	9	(92 800)	(159 712)
Decrease in non-current receivables		52 653	44 462
Decrease/(Increase) in non current investments		21 000 000	(21 000 000)
Movement in Investments in municipal entities		533 976	513 018
Net cash flows from investing activities		(145 830 034)	(209 249 099)
Cash flows from financing activities			
Repayment of long term liabilities		(24 442 108)	(2 279 369)
Net cash flows from financing activities		(24 442 108)	(2 279 369)
Net increase/(decrease) in cash and cash equivalents		79 131 590	1 358 462
Cash and cash equivalents at the beginning of the year		366 716 903	365 358 441
Cash and cash equivalents at the end of the year	7	445 848 491	366 716 903

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	41 518 829	2 250 000	43 768 829	49 901 919	6 133 090	40.1
Rental income	-	34 000	34 000	33 947	(53)	40
Other income	7 550 739	406 870	7 957 609	9 578 554	1 620 945	40.2
Interest received	24 206 509	2 677 932	26 884 441	27 147 411	262 970	40
Total revenue from exchange transactions	73 276 077	5 368 802	78 644 879	86 661 831	8 016 952	
Revenue from non-exchange transactions						
Government grants & subsidies	577 363 000	7 112 550	584 475 550	570 231 388	(14 244 162)	40.3
Total revenue	650 639 077	12 481 352	663 120 429	656 893 219	(6 227 210)	
Expenditure						
Employee related costs	(127 085 327)	14 760 562	(112 324 765)	(99 492 610)	12 832 155	40.4
Remuneration of councillors	(8 144 664)	(447 269)	(8 591 933)	(8 522 649)	69 284	40
Depreciation, amortisation and impairment	(42 318 002)	(8 482 577)	(50 800 579)	(50 492 908)	307 671	40
Finance costs	(14 179 980)	(1 045 313)	(15 225 293)	(13 490 296)	1 734 997	40.5
Debt impairment	(3 378 909)	(1 135 718)	(4 514 627)	(4 189 974)	324 653	40
Repairs and maintenance	(45 836 378)	182 240	(45 654 138)	(43 985 475)	1 668 663	40.6
Bulk purchases	(23 774 501)	(7 126 217)	(30 900 718)	(29 466 494)	1 434 224	40.7
Contracted services	(74 920 534)	(5 059 645)	(79 980 179)	(65 270 434)	14 709 745	40.8
Grants and subsidies paid	(10 785 900)	(348 000)	(11 133 900)	(11 126 978)	6 922	40
General Expenses	(146 065 330)	(46 956 433)	(193 021 763)	(144 778 796)	48 242 967	40.9
Total expenditure	(496 489 525)	(55 658 370)	(552 147 895)	(470 816 614)	81 331 281	
Operating surplus/(loss)	154 149 552	(43 177 018)	110 972 534	186 076 605	75 104 071	
Loss on disposal of property, plant and equipment	-	(261 137)	(261 137)	(265 025)	(3 888)	
Fair value adjustments in respect of property, plant and equipment	-	-	-	523 775	523 775	
	-	(261 137)	(261 137)	258 750	519 887	
Surplus	154 149 552	(43 438 155)	110 711 397	186 335 355	75 623 958	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	154 149 552	(43 438 155)	110 711 397	186 335 355	75 623 958	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	7 631 000	-	7 631 000	7 269 171	(361 829)	40
Current portion of long term receivables	181 000	-	181 000	37 921	(143 079)	40
Accounts receivable from non exchange transactions	20 536 000	-	20 536 000	14 501 684	(6 034 316)	40.10a
Accounts receivable from exchange transactions	11 870 000	-	11 870 000	37 791 179	25 921 179	40.10b
Cash and cash equivalents	346 105 000	-	346 105 000	445 848 491	99 743 491	40.11
	386 323 000	-	386 323 000	505 448 446	119 125 446	
Non-Current Assets						
Property, plant, equipment	1 237 932 000	95 874 000	1 333 806 000	1 174 251 299	(159 554 701)	40.12
Intangible assets	-	-	-	1 077 033	1 077 033	40.12
Investments in municipal entities	48 911 000	-	48 911 000	24 672 820	(24 238 180)	40.13
Long term receivables	453 000	-	453 000	440 148	(12 852)	40
	1 287 296 000	95 874 000	1 383 170 000	1 200 441 300	(182 728 700)	
Total Assets	1 673 619 000	95 874 000	1 769 493 000	1 705 889 746	(63 603 254)	
Liabilities						
Current Liabilities						
Current portion of long term liabilities	8 212 000	-	8 212 000	10 595 110	2 383 110	40.14
Payables from exchange transactions	131 317 000	-	131 317 000	136 409 601	5 092 601	40.15
Consumer deposits	7 458 000	-	7 458 000	9 113 835	1 655 835	40.16
Defined benefit obligations	-	-	-	435 000	435 000	40.17
Unspent conditional grants and receipts	-	-	-	32 460 451	32 460 451	40.15
Provisions	2 222 000	-	2 222 000	16 490 794	14 268 794	40.17
	149 209 000	-	149 209 000	205 504 791	56 295 791	
Non-Current Liabilities						
Long term liabilities	102 257 000	-	102 257 000	78 874 001	(23 382 999)	40.14
Defined benefit obligations	-	-	-	18 029 000	18 029 000	40.17
Provisions	101 588 000	-	101 588 000	57 605 107	(43 982 893)	40.17
	203 845 000	-	203 845 000	154 508 108	(49 336 892)	
Total Liabilities	353 054 000	-	353 054 000	360 012 899	6 958 899	
Net Assets	1 320 565 000	95 874 000	1 416 439 000	1 345 876 847	(70 562 153)	
Reserves						
Accumulated surplus	1 320 565 000	95 874 000	1 416 439 000	1 345 876 847	(70 562 153)	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Note reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Receipts from consumers and other debtors	50 843 000	-	50 843 000	55 834 999	4 991 999	40.18
Grants	575 363 000	7 053 000	582 416 000	582 042 063	(373 937)	40
Interest income	24 433 000	2 678 000	27 111 000	27 147 411	36 411	40
Prior year cash utilised to fund current expenditure	-	104 188 000	104 188 000	-	(104 188 000)	40.19
	650 639 000	113 919 000	764 558 000	665 024 473	(99 533 527)	
Payments						
Employee costs	(436 614 000)	(33 910 000)	(470 524 000)	(108 015 259)	362 508 741	40.20
Suppliers	-	-	-	(294 115 187)	(294 115 187)	40.20
Finance costs	(6 336 000)	(2 205 000)	(8 541 000)	(13 490 296)	(4 949 296)	40.21
	(442 950 000)	(36 115 000)	(479 065 000)	(415 620 742)	63 444 258	
Net cash flows from operating activities	207 689 000	77 804 000	285 493 000	249 403 731	(36 089 269)	
Cash flows from investing activities						
Payment of property, plant, equipment	(236 926 000)	(84 063 000)	(320 989 000)	(167 323 862)	153 665 138	40.22
Purchase of other intangible assets	-	-	-	(92 800)	(92 800)	40.22
Decrease in non current receivables	(60 000)	-	(60 000)	52 653	112 653	40
Decrease in non current investments	-	-	-	21 000 000	21 000 000	40.23
Movement in investments in municipal entities	-	-	-	533 976	533 976	40.24
Net cash flows from investing activities	(236 986 000)	(84 063 000)	(321 049 000)	(145 830 033)	175 218 967	
Cash flows from financing activities						
Repayment of long term liabilities	(7 844 000)	-	(7 844 000)	(24 442 108)	(16 598 108)	40.25
Increase/ (decrease in consumer deposits	368 000	-	368 000	-	(368 000)	40
Net cash flows from financing activities	(7 476 000)	-	(7 476 000)	(24 442 108)	(16 966 108)	
Net increase/(decrease) in cash and cash equivalents	(36 773 000)	(6 259 000)	(43 032 000)	79 131 590	122 163 590	
Cash and cash equivalents at the beginning of the year	330 804 000	-	330 804 000	366 716 903	35 912 903	
Cash and cash equivalents at the end of the year	294 031 000	(6 259 000)	287 772 000	445 848 493	158 076 493	

ACCOUNTING POLICIES

1. Presentation of annual financial statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise. The figures in the statements have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, to all the years presented are set out below.

1.1 Significant judgements and sources of estimation uncertainty

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

1.1.1 Provisions

Management determined an estimate for provisions raised based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Non - Current and Current Provisions.

1.1.2 Useful lives of property, plant and equipment

As described in accounting policies 1.6 & 1.7 the municipality depreciates/amortises its property, plant and equipment 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 become available for use. The useful lives and residual values of the assets are based on industry knowledge and reviewed annually.

1.1.3 Defined benefit plan liabilities

As described in accounting policy 1.4, 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.

Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in note 15 to the financial statements.

1.1.4 Revenue recognition

Accounting policy 1.12 on Revenue from Exchange Transactions and accounting policy 1.13 on Revenue from Non - Exchange Transactions describes the conditions under which revenue is recorded by the management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9; Revenue from Exchange Transactions and GRAP 23 Revenue from Non Exchange Transactions and in particular, when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.1.5 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is based on management's educated judgement.

ACCOUNTING POLICIES

1.2 New standards and interpretations

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of a change in policy. 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 practicable.

The following new GRAP standards have been issued but are not yet effective.

GRAP 18 - Segmental reporting

Compliance with this standard would have had an effect on the presentation only. Financial information would have been reported by segments. The disclosure of this information will assist users of the financial statements to better understand the municipality's historical performance and to identify the resources allocated to support the major activities of the municipality.

GRAP 20 - Related party disclosure

This standard of GRAP on related parties will replace the IPSAS 20 standard on related party disclosure. No significant impact on the financial statements of the Municipality is expected.

GRAP 25 - Employee benefits

This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, no significant impact on the financial statements of the Municipality is expected.

GRAP 105 - Transfer of function between entities under common control

This standard provides the accounting treatment for transfers of functions between entities under common control. However the impact on the Municipality's financial statements is not expected to be significant due to the fact that the Municipality rarely enters into such transactions. The standard is only expected to have an impact on the Municipality in respect of any future transfers or functions.

GRAP 106 - Transfer of functions between entities not under common control

This standard deals with other transfers of functions (i.e. between entities not under common control) and requires the entity to measure transferred assets and liabilities at fair value. It is unlikely that the municipality will enter into any such transactions in the near future.

GRAP 107 - Mergers

This standard deals with requirements for accounting for a merger between two or more entities, and is unlikely to have an impact on the financial statements of the Municipality in the foreseeable future.

The following GRAP standards have been issued and are effective for the period commencing 1 April 2012 and have been applied in the 2012/2013 financial year.

GRAP 21 - Impairment of non - cash generating assets

Non-cash generating assets are assets other than cash generating assets. When the carrying amount of a non-cash generating asset exceeds its recoverable service amount, it is impaired. The standard determines the requirements and provides guidance on how to impair non cash generating assets. In particular, it provides guidance on how to determine an asset's recoverable service amount in the absence of any future cash flows.

ACCOUNTING POLICIES

1.2 New standards and interpretations (continued)

GRAP 23 - Revenue from non-exchange transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. This standard determines the requirements and provides additional guidance on how to account for revenue from non-exchange transactions. In particular, it requires the entity to recognise revenue from grants received, to the extent that there are no further conditions attached to the grant that give rise to an obligation to repay. Most of the grants received by the Municipality are conditional grants and revenue is currently only recognised when the conditions associated with the respective grants are met. There is no effect on the financial statements.

GRAP 24 - Presentation of budget information in the financial statements

This standard determines the specific requirements and provides additional guidance on how to present a comparison between budgeted and actual amounts in the financial statements. This standard has resulted in the introduction of a new statement of comparison of budget and actual amounts.

GRAP 26 - Impairment of cash generating assets

Cash generating assets are those assets held by an entity with the primary objective of generating a commercial return. This standard determines the requirements and provides guidance on how to impair cash generating assets, being assets that are expected to generate a commercial benefit. The standard is not applicable to the municipality as the nature of services rendered by the municipality are not to generate a commercial return.

GRAP 103 - Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. The impact of this standard has been assessed and the municipality has not applied the standard as it has no assets classified as heritage assets.

GRAP 104 - Financial Instruments

This standard will introduce some relatively significant changes when compared to IAS 39, especially in the way financial assets are classified and treated. Notwithstanding the aforementioned classification changes, the financial impact of this standard being applied is expected to be limited.

1.3 Financial instruments

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

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

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

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

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

ACCOUNTING POLICIES

1.3 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES

1.3 Financial instruments (continued)

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

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

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

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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

- combined instruments that are designated at fair value;

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the Statement of Financial Position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Finance lease receivables	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Accounts receivable from exchange transactions	Financial asset measured at amortised cost
Accounts receivable from non exchange transactions	Financial asset measured at amortised cost
Short term investment deposits	Financial asset measured at amortised cost
Investment in fixed deposits	Financial asset measured at amortised cost
Investment in municipal entity	Financial asset measured at amortised cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the Statement of Financial Position or in the notes thereto:

Class	Category
Long term liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Short term loans	Financial liability measured at amortised cost
Current portion of long term liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs are added to financial instruments carried at amortised cost or cost.

ACCOUNTING POLICIES

1.3 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following category:

- Financial instruments at amortised cost.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Investment in municipal entities

In the municipality's annual financial statements, investment in municipal entity is carried at amortised cost at reporting date.

1.4 Employee benefits

1.4.1 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, included under current liabilities.

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 included in payables from exchange transactions.

1.4.2 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 funds. 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.

ACCOUNTING POLICIES

1.4 Employee benefits (continued)

1.4.3 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.

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.

Long-service allowance

The municipality has an obligation to provide long-service allowance benefits to employees belonging to the bargaining council. 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 5, 10, 15, 20, 25 and 30 years of continued service. The rules of this obligation was applicable for the first six (6) months of the financial year as the internal policy which provided for more favourable conditions ceased to apply on the 31/12/2012, and were amended to 10, 15, 20, 25, 30, 35, 40 and 45 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.

Defined benefit plans

The municipality contributes to various defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 15 of the Annual Financial Statements for details). 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 discounted cash method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

1.5 Provisions

Provisions are recognised when:

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

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

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

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

Provision for the rehabilitation of the refuse landfill site is determined at best estimate by consulting engineers.

ACCOUNTING POLICIES

1.6 Property, plant, equipment

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

Initial Recognition

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

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

Property, plant, equipment is initially recognised at cost on its acquisition date or in the case of assets acquired at nil or nominal consideration the deemed cost, being the fair value of the asset at acquisition date.

The cost of an item of property, plant, 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.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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

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

Costs include costs incurred initially to acquire or construct an item of property, plant, 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, 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, equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic fair value of the subsequent expenditure can be reliably measured.

Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity for future economic benefits associated with the asset.

Where the municipality replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

ACCOUNTING POLICIES

1.6 Property, plant, equipment (continued)

Subsequent measurement of all property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses. The municipality does not recognise in the carrying amount of an item of property, plant and equipment the cost of day to day servicing of the item.

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.

Depreciation

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

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

Land, with the exception of landfill sites and cemetery, is not depreciated as it is regarded as having an infinite life. If the cost of the land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential, obtained by incurring those costs. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the asset. 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.

ACCOUNTING POLICIES

1.6 Property, plant, equipment (continued)

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

Item	Expected useful life
Land	
• Permanent	30 years
Buildings	
• Other buildings	30 years
Plant and Equipment	
• Weed Eater	2 years
• Lawn Mower	2 years
• Other	5 years
• Skid Mounted Fire Response	15 years
Furniture	10 years
Computer Equipment	5 years
Infrastructure Electricity	
• Electrical Kiosk	15 years
• Electrical Meters	15 years
• Street Lights	15 years
• Electrical Lines and Cables	40 years
• Electrical Switchgear	40 years
• Power Transformers	40 years
Infrastructure - Plant & Equipment	
• Heavy Duty Infrastructure Pumps	15 years
• Unspecified Infrastructure Assets	15 years
• Standby Generators Sets - Water & Sewerage Camps	15 years
Infrastructure Sewerage Services	
• Sewerage Containment	50 years
• Sewerage Network	50 years
• Sewerage Purification	50 years
Infrastructure Solid Waste Cell Services	
• Solid Waste Cell	7 years
• Cemetery	15 years
Infrastructure Water Services	
• Small Schemes	20 years
• Water Abstraction	20 years
• Water Network	20 years
• Water Purification	20 years
• Water Storage	50 years
Motor Vehicles	
• Bakkie, LDV, Sedan & Tanker	7 years
• Truck	7 years
• Trailer & Caravan	5 years
• Forklift	5 years
• Tractors	15 years
Equipment	
• Office Equipment	5 years

ACCOUNTING POLICIES

1.6 Property, plant, equipment (continued)

Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets and are shown at cost less accumulated depreciation and accumulated impairment.

Derecognition 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 derecognition is included in surplus or deficit when the item is derecognised.

Gains or losses, calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds, are included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

1.7 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

Initial recognition

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale; and
- there is an intention to complete and use or sell it; and
- there is an ability to use or sell it; and
- it will generate probable future economic benefits or service potential; and
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent measurement, amortisation and impairment

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

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ACCOUNTING POLICIES

1.7 Intangible assets (continued)

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

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

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

Item	Useful life
Computer software, other	3 years

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

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 from the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

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

Carrying amount is the amount at which an asset is recognised in the Statement of Financial Position after deducting any accumulated depreciation and accumulated impairment losses thereon.

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

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

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is the period of time over which an asset is expected to be used by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

ACCOUNTING POLICIES

1.8 Impairment of non-cash-generating assets (continued)

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

1.9 Leases

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

1.9.1 Finance leases - The municipality as a lessee

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

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

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

1.9.2 Operating leases - The municipality as a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Financial Performance over the period of the lease.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and, net realisable value or current replacement cost.

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

ACCOUNTING POLICIES

1.10 Inventories (continued)

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

1.11 Tax

Tax Expense:

The municipality is exempt from taxation in terms of section 10(1)(A) of the Income Tax Act.

Value Added Tax (VAT):

The municipality accounts for VAT on the accrual basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality, permission has been given to remit or claim for value - added tax on the payments basis for debtors and creditors.

1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets.

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

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

Measurement

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

ACCOUNTING POLICIES

1.12 Revenue from exchange transactions (continued)

Rendering of services

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

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

Service charges relating to water are based on consumption. Meters are read on a monthly basis and when the meter is not read provisional estimates are made and based on those readings the revenue is invoiced monthly and recognised. 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.

Service charges relating to refuse are recognised on a monthly basis in arrears and on an accrual basis by applying the approved tariff to each consumer that makes use of the landfill site.

Service charges from sanitation are raised on a monthly basis in accordance with the approved tariffs.

Interest and rentals are recognised on a time proportion basis.

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 are brought into use. Where public contributions have been received but the municipality has not met the conditions, a liability is recognised.

1.13 Revenue from non-exchange transactions

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

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

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

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

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

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

ACCOUNTING POLICIES

1.13 Revenue from non-exchange transactions (continued)

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Government grants are recognised as revenue when :

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

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Measurement

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

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

1.14 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.

1.15 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred; and
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on impairment of assets. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

ACCOUNTING POLICIES

1.15 Borrowing costs (continued)

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.16 Budget information

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

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

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

1.17 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 (No. 56 of 2003). All unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Fruitless and wasteful expenditure

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

All fruitless and wasteful expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.19 Irregular expenditure

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

ACCOUNTING POLICIES

1.20 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will result in the future outflow of resources. Capital commitments are not recognised in the statement of Financial Position as a liability but are included in the disclosure note 32, for approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.

1.21 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed. The municipality applies IPSAS 20 for related parties in the absence of an effective GRAP standard.

1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.23 Events after report date

Events after the reporting date that are classified as adjusting events are accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the annual financial statements.

1.24 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1.25 Currency of presentation

These annual financial statements are presented in South African Rands.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	No significant impact as most grants received are conditional grants and revenue is recognised when the conditions are met.
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	The standard requires the municipality to present a comparison between budgeted and actual amounts in the financial statements. A new statement of comparison of budget and actuals has been included.
• GRAP 103: Heritage Assets	01 April 2012	Currently not relevant to the municipality as it has no assets classified as heritage assets.
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	No significant impact unless carrying amount of assets exceed depreciated replacement cost.
• GRAP 26: Impairment of cash-generating assets	01 April 2012	Currently not relevant to the municipality as the nature of services rendered by the municipality are not for the generation of a commercial return.
• GRAP 104: Financial Instruments	01 April 2012	No significant impact expected as notwithstanding classification changes, the financial impact of this standard being applied is expected to be limited.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	Unlikely to be significant as the effect is on presentation only.
• GRAP 25: Employee benefits	01 April 2013	This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, no significant impact on the financial statements of the Municipality is expected.
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	Currently not relevant to the municipality due to the municipality rarely enters into such transactions.
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	Currently not relevant to the municipality as it is unlikely that the municipality will enter into any such transactions in the foreseeable future.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. New standards and interpretations (continued)

- | | | |
|--|---------------|---|
| • GRAP 107: Mergers | 01 April 2014 | Currently not relevant to the municipality as this standard deals with requirements for accounting for a merger between two or more entities, and is unlikely to have an impact on the financial statements of the Municipality in the foreseeable future |
| • GRAP 20: Related parties | 01 April 2013 | No significant impact is expected. |
| • IGRAP 11: Consolidation – Special purpose entities | 01 April 2014 | Currently not relevant to the municipality. |
| • IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures | 01 April 2014 | Currently not relevant to the municipality. |
| • GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements | 01 April 2014 | Unlikely to have significant impact. |
| • GRAP 7 (as revised 2010): Investments in Associates | 01 April 2014 | Currently not relevant to the municipality. |
| • GRAP 8 (as revised 2010): Interests in Joint Ventures | 01 April 2014 | Currently not relevant to the municipality. |
| • GRAP 1 (as revised 2012): Presentation of Financial Statements | 01 April 2013 | No material impact expected. |
| • GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors | 01 April 2013 | No material impact expected. |
| • GRAP 7 (as revised 2012): Investments in Associates | 01 April 2013 | Currently not applicable to the municipality. |
| • GRAP 9 (as revised 2012): Revenue from Exchange Transactions | 01 April 2013 | No material impact expected. |
| • GRAP 12 (as revised 2012): Inventories | 01 April 2013 | No material impact expected. |
| • GRAP 13 (as revised 2012): Leases | 01 April 2013 | No material impact expected. |
| • GRAP 16 (as revised 2012): Investment Property | 01 April 2013 | Currently not applicable to the municipality as the municipality does not hold nor anticipate to hold in the foreseeable future such property. |
| • GRAP 17 (as revised 2012): Property, Plant and Equipment | 01 April 2013 | No material impact expected. |
| • GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101) | 01 April 2013 | Currently not applicable to the municipality. |
| • GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102) | 01 April 2013 | No material impact expected. |
| • IGRAP16: Intangible assets website costs | 01 April 2013 | No material impact expected. |
| • IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue | 01 April 2013 | No material impact expected. |

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
3. Inventories		
Consumable and maintenance materials	6 973 930	5 861 438
Water	295 241	260 679
	7 269 171	6 122 117
Inventories recognised as an expense during the year	2 814 282	4 063 182
Inventory pledged as security		
No inventory was pledged as security.		
4. Accounts receivable from exchange transactions		
Consumer debtors - Gross balances		
Water	39 659 143	32 556 067
Sanitation	4 539 919	3 568 413
Solid waste	2 290 398	2 010 600
	46 489 460	38 135 080
Less: Allowance for impairment		
Water	(25 743 019)	(21 595 886)
Sanitation	(3 291 324)	(2 674 973)
Solid Waste	(403 467)	(1 005 961)
	(29 437 810)	(25 276 820)
Net balance		
Water	13 916 124	10 960 181
Sanitation	1 248 595	893 440
Solid waste	1 886 931	1 004 639
	17 051 650	12 858 260
Summary of debtors by service type		
Water		
Current (0 -30 days)	6 598 266	5 592 734
31 - 60 days	2 943 760	3 304 459
61 - 90 days	1 210 218	788 897
91 - 120 days	951 878	1 405 836
> 121 days	27 955 021	21 464 140
Less: Allowance for impairment	(25 743 019)	(21 595 885)
	13 916 124	10 960 181
Sanitation		
Current (0 -30 days)	425 332	318 586
31 - 60 days	265 915	200 751
61 - 90 days	154 537	139 190
91 - 120 days	144 800	145 716
> 121 days	3 549 337	2 764 170
Less: Allowance for impairment	(3 291 326)	(2 674 973)
	1 248 595	893 440

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012
	R	R
4. Accounts receivable from exchange transactions (continued)		
Solid waste		
Current (0 -30 days)	1 417 629	935 732
31 - 60 days	557 798	429 504
61 - 90 days	9 658	117 059
91 - 120 days	57 757	154 140
> 121 days	247 556	374 165
Less: Allowance for impairment	(403 467)	(1 005 961)
	<u>1 886 931</u>	<u>1 004 639</u>
Summary of debtors by customer classification		
Domestic Consumers		
Current (0 -30 days)	4 385 114	3 515 744
31 - 60 days	2 030 530	1 936 377
61 - 90 days	1 045 722	718 936
91 - 120 days	682 429	1 130 351
> 121 days	27 354 489	21 381 944
	<u>35 498 284</u>	<u>28 683 352</u>
Less: Allowance for impairment	(29 034 344)	(23 974 016)
	<u>6 463 940</u>	<u>4 709 336</u>
Industrial/Commercial		
Current (0 -30 days)	2 183 773	1 680 617
31 - 60 days	1 211 699	984 159
61 - 90 days	90 560	231 881
91 - 120 days	157 309	308 707
> 121 days	2 542 758	1 747 954
	<u>6 186 099</u>	<u>4 953 318</u>
Less: Allowance for impairment	(403 467)	(1 302 804)
	<u>5 782 632</u>	<u>3 650 514</u>
National and Provincial government		
Current (0 -30 days)	1 872 340	1 650 691
31 - 60 days	525 243	1 014 179
61 - 90 days	238 131	94 330
91 - 120 days	186 187	266 635
> 121 days	1 983 178	1 472 576
	<u>4 805 079</u>	<u>4 498 411</u>
Total		
Current (0 -30 days)	8 441 226	6 847 051
31 - 60 days	3 767 472	3 934 715
61 - 90 days	1 374 413	1 045 147
91 - 120 days	1 025 924	1 705 692
> 121 days	31 880 425	24 602 475
Less: Allowance for impairment	(29 437 810)	(25 276 820)
	<u>17 051 650</u>	<u>12 858 260</u>

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
4. Accounts receivable from exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(25 276 820)	(21 107 842)
Contributions to allowance for impairment	(4 189 974)	(8 023 573)
Debt impairment written off against allowance	28 984	3 854 595
	(29 437 810)	(25 276 820)

In the determination of the amounts deemed to be impaired at financial year end, an analysis of each debtor is undertaken. The debtors are classified into one of three categories.

Category A Regular payers, government accounts, consumers with amounts owing not older than 60 days.

Category B Irregular payers.

Category C Indigent customers, customers with debts older than 60 days with no payments made within the last 6 months and inactive accounts.

The value of the provision is determined for the detailed categories as follows:

Category A 0% of consumer's total debt
 Category B 50% of consumer's debt less or equal to 180 days
 100% of consumer's debt > than 180 days
 Category C 100% of consumer's total debt

Accounts receivable from exchange transactions

Consumer debtors	17 051 650	12 858 260
VAT receivable	20 739 529	10 111 601
	37 791 179	22 969 861

5. Accounts receivable from non exchange transactions

Deposits	3 490 212	3 396 102
Employee, councillor account transactions	836 514	1 165 440
Grant & other debtors	692 036	6 996 343
Investment interest accrual	3 954 455	4 617 712
Payments received in advance	659 108	703 695
uMhlathuze municipality - soccer stadium	4 869 359	8 176 232
	14 501 684	25 055 524

6. Long term receivables

Staff recoverable bursaries	4 483	20 314
Staff home loans	435 665	475 587
Non - Current assets	440 148	495 901

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
6. Long term receivables (continued)		
Non-current assets	440 148	495 901
Current portion of long term receivables	37 921	34 821
	478 069	530 722

Staff home loans

Housing loans were granted to qualifying staff prior to 1 July 2004. These loans attract interest per the fringe benefit interest rate as determined by the South African Revenue Services annually. These loans will be repayable in accordance with the home loan agreements.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 800	3 800
Cash book balances	75 844 691	86 713 103
Call Investment deposits	370 000 000	280 000 000
	445 848 491	366 716 903

Call Investment deposits portfolio is detailed below:

<u>Financial Institution</u>	<u>Maturity Date</u>	<u>Investment</u>
ABSA	10/07/2013	R 20 000 000.00
ABSA	26/07/2013	R 20 000 000.00
ABSA	09/09/2013	R 30 000 000.00
NEDBANK	CALL	R 10 000 000.00
NEDBANK	04/07/2013	R 20 000 000.00
NEDBANK	11/07/2013	R 40 000 000.00
NEDBANK	23/07/2013	R 20 000 000.00
NEDBANK	12/08/2013	R 20 000 000.00
STANDARD	02/08/2013	R 40 000 000.00
INVESTEC	24/07/2013	R 50 000 000.00
INVESTEC	08/08/2013	R 40 000 000.00
INVESTEC	12/08/2013	R 20 000 000.00
INVESTEC	22/08/2013	R 20 000 000.00
INVESTEC	11/09/2013	R 20 000 000.00
		<u>R370 000 000.00</u>

An average interest rate of 5.32 % (2012 - 5.646%) was received on investments placed for the financial year.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013 R	30 June 2012 R	30 June 2011 R	30 June 2013 R	30 June 2012 R	30 June 2011 R
NEDBANK - Primary Account Account No. 145 408 8885	111 534 826	112 039 895	54 994 082	111 525 267	111 891 301	54 844 503
<u>Other accounts</u>						
NEDBANK - Account No. 145 408 8893	4 369 966	1 911 924	1 545 346	4 334 015	1 183 288	1 230 428
NEDBANK - Expense Account Account No. 145 408 9016	-	-	-	(40 288 110)	(26 725 522)	(11 076 727)
NEDBANK - Account No. 145 408 8907	14 760	103 302	95 905	14 760	102 905	95 905
NEDBANK - Account No. 145 409 4141	258 759	343 939	331 355	258 759	261 131	261 131
Total	116 178 311	114 399 060	56 966 688	75 844 691	86 713 103	45 355 240

Detailed bank reconciliation's in support of cash book balances is available for inspection at the registered office of the municipality.

uThungulu District Municipality
Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. Property, plant, equipment

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	45 732 850	(1 727 555)	44 005 295	53 149 498	(7 541 323)	45 608 175
Land	12 474 983	-	12 474 983	12 474 983	-	12 474 983
Infrastructure under construction	505 647 853	-	505 647 853	426 385 397	-	426 385 397
Infrastructure	800 189 965	(209 742 269)	590 447 696	713 086 975	(166 364 975)	546 722 000
Other assets - assets under construction	5 411 503	-	5 411 503	2 350 774	-	2 350 774
Other assets	39 622 823	(23 358 854)	16 263 969	30 063 347	(13 196 560)	16 866 787
Total	1 409 079 977	(234 828 678)	1 174 251 299	1 237 510 974	(187 102 858)	1 050 408 116

Reconciliation of property, plant, equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Newly identified assets at fair value	Depreciation	Impairment loss	Impairment reversal	Total
Buildings	45 608 175	124 675	-	-	-	(1 727 555)	-	-	44 005 295
Land	12 474 983	-	-	-	-	-	-	-	12 474 983
Infrastructure under construction	426 385 397	167 310 671	-	(88 048 215)	-	-	-	-	505 647 853
Infrastructure	546 722 000	-	(78 809)	88 263 869	-	(32 227 597)	(12 832 675)	600 908	590 447 696
Other assets - assets under construction	2 350 774	3 276 383	-	(215 654)	-	-	-	-	5 411 503
Other assets	16 866 787	2 873 163	(186 216)	-	523 775	(3 779 770)	(33 770)	-	16 263 969
Total	1 050 408 116	173 584 892	(265 025)	-	523 775	(37 734 922)	(12 866 445)	600 908	1 174 251 299

uThungulu District Municipality
Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. Property, plant, equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Reclassification	Depreciation	Impairment loss	Impairment reversal	Total
Buildings	46 349 123	975 882	-	-	-	(1 716 830)	-	-	45 608 175
Land	12 474 983	-	-	-	-	-	-	-	12 474 983
Infrastructure in construction	302 466 888	196 954 815	-	(76 847 495)	3 811 189	-	-	-	426 385 397
Infrastructure	499 773 485	221 189	-	76 847 495	-	(30 683 861)	-	563 692	546 722 000
Other assets - assets under construction	5 002 007	1 159 956	-	-	(3 811 189)	-	-	-	2 350 774
Other assets	19 049 892	2 457 671	(593 823)	-	-	(3 889 776)	(157 177)	-	16 866 787
	885 116 378	201 769 513	(593 823)	-	-	(36 290 467)	(157 177)	563 692	1 050 408 116

A register containing the information required by section 63 of the Municipal Finance Management Act (No. 56 of 2003) is available for inspection at the registered office of the municipality.

No assets have been pledged as security nor have any restrictions been placed on any assets under the control of the municipality.

uThungulu District Municipality
Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

9. Intangible assets

	2013			2012		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and other	2 842 062	(1 765 029)	1 077 033	2 749 263	(1 272 579)	1 476 684

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software & other	1 476 684	92 800	(492 451)	1 077 033

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software & other	1 975 850	159 712	(658 878)	1 476 684

Other information

A register containing the information required by section 63 of the Municipal Finance Management Act (No. 56 of 2003) is available for inspection at the registered office of the municipality.

No intangible assets have been pledged as security nor have any restrictions been placed on any intangible assets under the control of the municipality.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

			2013 R	2012 R
10. Investments in municipal entities				
	%	%	Carrying	Carrying
	holding	holding	amount	amount
	2013	2012		
uThungulu Financing Partnership	99,00 %	99,00 %	19 307 087	19 498 698
uThungulu House Development Trust	100,00 %	100,00 %	5 365 733	5 708 098
			<u>24 672 820</u>	<u>25 206 796</u>

The carrying amounts of municipal entities are shown net of impairment losses.

11. Investments

Non-current assets

At amortised cost

- 21 000 000

An investment was placed with ABSA on 15 July 2011 at an interest rate of 8.70%. The investment was recalled on 2 January 2013 to settle the Zero coupon held by INCA. Refer to note 12

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
12. Long term liabilities		
Held at amortised cost		
ABSA Bank 12.6%	40 391 568	42 032 370
The loan was raised originally for the development of Uthungulu House building and greater Mthonjaneni Bulk Water Scheme. Subsequently infrastructure for the landfill site and sewer treatment plants were constructed therefrom. The original loan is repayable after a 15 year period (remaining period 11 years). Interest at 12.6% is payable 6 monthly in arrears on the last day of the month.		
INCA 13.95%	-	21 000 000
The loan was raised to finance the purchase and development of the Regional Solid Waste Site. The loan was settled on 3 January 2013.		
INCA 11.95%	25 060 631	26 314 518
The loan was raised to finance extensions to Uthungulu House and the development of the Regional Solid Waste Site cell 2. The original loan is repayable after a 15 year period (remaining period 10 years). Interest at 11.95% is payable 6 monthly in arrears on the last day of the month.		
Obligation under Finance Headlease	24 016 912	24 564 331
The finance headlease payments represent payments by the municipality for a headlease property in which the municipality has a controlling interest at the end of the lease through Uthungulu Financing Partnership and consists of a lease over Portion 2 of ERF 10033 Richards Bay, 2 Haiti, Central Business District, known as Uthungulu House. The original lease period expires on 31 October 2017, ownership of the property will vest with Uthungulu on the termination of the lease. The yield to maturity on the lease is 23.81% and is paid 6 monthly in advance on the last day of the month.		
Long term liabilities	89 469 111	113 911 219
Refer to appendix A for more information.		
Non-current liabilities		
At amortised cost	78 874 001	104 584 204
Current liabilities		
At amortised cost	10 595 110	9 327 015

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012
	R	R
13. Payables from exchange transactions		
Trade payables	103 653 393	103 113 405
Amounts received in advance	2 635 016	2 555 164
Retention payables	24 247 760	15 888 281
Accrued leave pay	5 847 669	5 375 012
Employee payable transactions	25 763	25 268
	<u>136 409 601</u>	<u>126 957 130</u>

The comparative figure for payables from exchange transactions has been re-stated by an amount of R1 475 436.
Refer to note 39

14. Consumer deposits

Water	<u>9 113 835</u>	<u>8 229 262</u>
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In terms of Council's by-laws no interest is raised or paid on consumer deposits.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
15. Defined benefit obligations		
Post-employment health care benefit liability	15 666 000	10 584 545
Long service awards	<u>2 798 000</u>	<u>3 596 390</u>
Total amount of liability for post retirement benefit provisions	18 464 000	14 180 935
	(435 000)	(757 672)
Less current portion of post-employment health care benefit liability	<u>(90 000)</u>	<u>(62 340)</u>
Less current portion of long service awards	<u>(345 000)</u>	<u>(695 332)</u>
Net provision for post retirement benefit liability	<u>18 029 000</u>	<u>13 423 263</u>

15.1 Post-Employment Health Care Benefit Liability

Post-Employee health care benefit liability	<u>15 666 000</u>	<u>10 584 545</u>
Total: Post Retirement Medical Aid Benefit Liability	15 666 000	10 584 545
Less: Transfer to current provisions	<u>(90 000)</u>	<u>(62 340)</u>
Net Post-Employment Health Care Benefit Liability	<u>15 576 000</u>	<u>10 522 205</u>

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain 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 condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2013 by ZAQ Consultants and Actuaries, a member 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. No other post retirement benefits are provided by the municipality.

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

In-service members (Employees)	143	149
In-service non-members	-	40
Continuation members (Retirees, widowers and orphans)	<u>2</u>	<u>2</u>
	<u>145</u>	<u>191</u>

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012
	R	R
15. Defined benefit obligations (continued)		
The liability in respect of past service has been estimated to be as follows:		
In-service members	14 889 000	9 594 496
Continuation members	777 000	990 049
	15 666 000	10 584 545
The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:		
- Bonitas		
- Key Health		
- LA Health		
- Hosmed		
- Samwumed		
The future service cost for the ensuing year is established to be R 1 564 000, whereas the interest-cost for the next year is estimated to be R 1 294 000 (2012: R 1 063 967 and R 887 391 respectively).		
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Rate of interest		
Discount rate	7,89 %	8,41 %
Health care cost inflation rate	7,14 %	7,08 %
Net effective discount rate	0,70 %	1,24 %
Benchmark inflation (= 75% of salary inflation)	6,14 %	4,75 %
Expected retirement age - females	58	58
Expected retirement age - males	63	63
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	15 666 000	10 584 545
	15 666 000	10 584 545
Present value of unfunded obligations	15 666 000	10 584 545
Benefit Liability	15 666 000	10 584 545
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	1 064 000	1 111 284
Interest cost	887 400	870 570
Actuarial (gain)/loss	3 185 055	(1 205 392)
Total included in employee related cost	5 136 455	776 462

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
15. Defined benefit obligations (continued)		
Balance at beginning of year	10 584 545	9 863 739
- Current service cost	1 064 000	1 111 284
- Interest cost	887 400	870 570
- Benefits paid	(55 000)	(55 656)
- Actuarial (gain)/loss on the obligation	3 185 055	(1 205 392)
	<u>15 666 000</u>	<u>10 584 545</u>

The effect of a 1 % movement in the assumed rate of health care cost inflation is as follows:

Increase		
Effect on the aggregate current service and interest cost	305 000	439 000
Effect on the defined benefit obligation	1 687 000	1 552 000
Decrease		
Effect on the aggregate current service and interest cost	(374 000)	(344 500)
Effect on the defined benefit obligation	(2 006 000)	(1 352 000)
Defined benefit obligation	15 666 000	10 584 545

The municipality expects to make a contribution of R 90 000, (2013: R 62 340) to the defined benefit plans during the next financial year.

15.2 Long Service Awards

Provision for Long Service Awards	<u>2 798 000</u>	<u>3 596 390</u>
Total Provision for Long Service Awards	2 798 000	3 596 390
Less: Transfer to current provisions	<u>(345 000)</u>	<u>(695 332)</u>
Net Long Service Awards Liability	<u>2 453 000</u>	<u>2 901 058</u>

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality which includes their uninterrupted service with the former local authorities amalgamated in December 2000. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into a cash amount based on his/her basic salary applicable at the time the award becomes due or, alternatively, credited to his/her vacation leave accrual. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2013 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2013 by ZAQ Consultants and Actuaries, a member 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. No other long service benefits are provided by the municipality.

The future service cost for the ensuing year is established to be R 332 000, whereas the interest-cost for the next year is estimated to be R 206 000 (2012: R 772 680 and R 202 053 respectively).

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
15. Defined benefit obligations (continued)		
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Rate of interest		
Discount rate	7,40 %	6,21 %
Net effective discount rate	0,69 %	0,23 %
Expected rate of salary increase	6,66 %	5,97 %
Expected retirement age - females	58	58
Expected retirement age - males	63	63
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	2 798 000	3 596 390
	2 798 000	3 596 390
Present value of unfunded obligations	2 798 000	3 596 390
Benefit Liability	2 798 000	3 596 390
The amounts recognised in the Statement of Financial Performance are as follows:		
Current service cost	772 680	859 937
Interest cost	202 053	246 604
Actuarial (gain) / losses	(1 421 123)	(452 550)
	(446 390)	653 991
The movement in the defined benefit obligation over the year is as follows:		
Balance at beginning of year	3 596 390	3 561 001
- Current service cost	772 680	859 937
- Interest cost	202 053	246 604
- Benefits paid	(352 000)	(618 602)
- Actuarial (gain)/loss on the obligation	(1 421 123)	(452 550)
Balance at end of year	2 798 000	3 596 390
Defined benefit obligation	2 798 000	3 596 390
Experience adjustments on plan liabilities	-	(684 082)

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
15. Defined benefit obligations (continued)		
Other assumptions		
The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:		
Increase		
Effect on the aggregate of the service cost and interest cost	56 000	47 613
Effect on the defined benefit obligation	238 000	195 000
Decrease		
Effect on the aggregate of the service cost and interest cost	(50 000)	(42 948)
Effect on the defined benefit obligation	(212 000)	(175 000)
Defined benefit obligation	2 798 000	3 596 390

The municipality expects to make a contribution of R 345 000 (2013: R 695 332) to the defined benefit plan during the next financial year.

Defined benefits obligations

	Last Actuarial Valuation	Total Assets R'000	Total Liabilities R'000	Net Gain/(Loss)
Government Employees Pension Fund	March 2010	801 004 000	801 004 000	-
KwaZulu-Natal Joint Municipal Provident Fund	March 2012	1 288 291	1 255 238	33 053
Natal Joint Municipal Pension Fund (Superannuation)	March 2012	6 538 900	6 808 900	(270 000)
Natal Joint Municipal Pension Fund (Retirement)	March 2012	2 415 500	2 667 000	(251 500)
Zululand Joint Provident Fund (uThungulu District Municipality Provident Fund)	February 2009	12 541 836	12 541 836	-

An amount of R 9 925 892 (2012: R 8 018 765) was contributed by Council towards employee retirement funding. These contributions have been expensed. The Zululand Joint Provident Fund has received a notice of exemption for further valuations per notice number 12/8/37666.

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
16. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Conditional Grants from spheres of Government and other		
Department of Co-operative Governance and Traditional Affairs (Previously DTLGA)	9 080 327	10 980 879
Department of Water Affairs	917 526	1 826 455
Department of Co-operative Governance and Traditional Affairs	14 723 666	7 861 281
Department of Public Works	5 147 158	3 025 661
National Treasury	-	500 942
Public donors	180 186	186
Provincial Treasury	280 196	280 196
Department of Sport and Recreation	277 613	3 813
Department of Transport	1 427 737	1 591 846
Department of Economic Affairs and Tourism	11 841	11 842
Department of Agriculture	177 708	177 708
Other - EU	236 493	238 865
	32 460 451	26 499 674

The comparative figure for unspent conditional grants and receipts (municipal infrastructure grant) has been restated by an amount of R 47 749 291 being vat transferred to own revenue per National Treasury's circular 58 . Refer to note 20 and 39

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R			
17. Provisions					
Reconciliation of provisions - 2013					
	Opening Balance	Additions	Utilised during the year	Transfer of current portion	Total
Reclamation of refuse landfill site	69 415 033	4 095 485	(275 540)	(15 629 871)	57 605 107
Performance bonus	751 981	814 554	(705 612)	-	860 923
Current portion of reclamation of refuse landfill site	-	-	-	15 629 871	15 629 871
	70 167 014	4 910 039	(981 152)	-	74 095 901
Reconciliation of provisions - 2012					
	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Reclamation of refuse landfill site	65 117 292	4 297 741	-	-	69 415 033
Performance bonus	768 503	751 980	(180 000)	(588 502)	751 981
	65 885 795	5 049 721	(180 000)	(588 502)	70 167 014
Non-current liabilities				57 605 107	69 415 033
Current liabilities				16 490 794	751 981
<p>Performance bonuses are paid after the financial year end in arrears as the assessment of eligible employees had not taken place at reporting date. During the 2011/2012 financial year the assessment of the previous Municipal Manager and Executive Director Corporate services had been concluded and provided for, however the bonuses amounting to R 293 879 were paid in the 2012/2013 financial year.</p> <p>In terms of licensing of the landfill refuse site, council will incur rehabilitation costs of R 73.5 million to restore the old Empangeni and Cell 1 refuse sites at the end of their useful lives. Planning has commenced in 2013. Provision has been made at best estimate determined by the resident professional engineer at a cost for the current solid waste (Cell 1 & Cell 2) and the old Empangeni Site.</p>					
18. Service charges					
Sale of water				33 304 979	35 615 614
Solid waste revenue				11 722 007	8 444 902
Sanitation revenue				4 604 903	3 740 115
Cemetery revenue				270 030	216 751
				49 901 919	48 017 382
19. Interest received					
Interest revenue					
Outstanding debtors				34 243	39 573
External investments				27 113 168	26 998 106
				27 147 411	27 037 679

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
20. Government grants and subsidies		
Operating grants		
Levy Replacement Grant	165 913 000	152 214 492
Municipal Infrastructure Grant	189 155 078	212 768 744
Equitable share	162 849 000	146 963 509
Department of Co-operative Governance and Traditional Affairs (previously DTLGA)	1 900 553	1 900 892
Department of Water Affairs	42 071 839	34 553 187
Department of Co-operative Governance and Traditional Affairs	3 037 614	1 967 109
Department of Public Works	1 833 503	1 145 732
National Treasury	1 470 942	1 029 277
Public donors	59 750	-
Provincial Treasury	-	940 638
Department of Transport	1 940 109	409 924
Department of Economic Affairs and Tourism	-	32 015
	570 231 388	553 925 519

Summary of grants per funder

Levy Replacement Grant

Regional council levies have been discontinued as from 30 June 2006, and the national fiscus has allocated a levy replacement grant to the district municipalities. The levy replacement grant is an interim measure to ensure the financial stability of the district municipalities while National government is currently defining the overall fiscus streams to local government.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	45 496 307
Current-year receipts	195 223 000	160 933 000
Conditions met - transferred to revenue	(173 002 414)	(185 737 878)
Mig debtor receipt	(6 339 439)	-
Vat transferred to own revenue	(15 881 147)	(20 691 429)
	-	-

This grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas. In line with National Treasury's circular 58, vat transferred to own revenue amounted to R 15 881 147 in the current year, R 20 691 429 for 2011/2012 and R 27 057 862 for the previous financial years. No funds have been withheld.

Equitable Share

In terms of the Constitution, this grant is unconditional and is used to subsidise the provision of basic services to the community. These subsidies includes 6 kilolitre free basic water to the entire district with the exception of KZ 282.

Department of Co-operative Governance and Traditional Affairs (Previously DTLGA)

Balance unspent at beginning of year	10 980 879	12 881 771
Conditions met - transferred to revenue	(1 900 552)	(1 900 892)
	9 080 327	10 980 879

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
20. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 16)		
These grants are used:		
- to build capacity within the district in order to perform functions as per legislature;		
- for disaster programmes, fire fighting equipment, water service delivery planning, shared services unit and infrastructure.		
Department of Water Affairs		
Balance unspent at beginning of year	1 826 455	942 042
Current-year receipts	40 944 885	35 437 600
Conditions met - transferred to revenue	(41 853 814)	(34 553 187)
	<u>917 526</u>	<u>1 826 455</u>
Conditions still to be met - remain liabilities (see note 16)		
These grants are used for:		
- water infrastructure and sanitation projects;		
- drought relief and disaster relief programmes		
Department of Co-operative Governance and Traditional Affairs		
Balance unspent at beginning of year	7 861 281	861 867
Current-year receipts	9 900 000	8 966 523
Conditions met - transferred to revenue	(3 037 615)	(1 967 109)
	<u>14 723 666</u>	<u>7 861 281</u>
Conditions still to be met - remain liabilities (see note 16)		
The Department of Co-operative Governance and Traditional Affairs grants are used to build capacity within the district in order to perform functions as per legislature.		
Department of Public Works Grants		
Balance unspent at beginning of year	3 025 661	1 595 272
Current-year receipts	3 955 000	2 444 000
Conditions met - transferred to revenue	(1 833 503)	(1 145 732)
Other - CPWP	-	132 121
	<u>5 147 158</u>	<u>3 025 661</u>
Conditions still to be met - remain liabilities (see note 16)		
This grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas. No funds have been withheld.		

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
20. Government grants and subsidies (continued)		
National Treasury		
Balance unspent at beginning of year	500 942	280 219
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 470 942)	(1 029 277)
Transferred to EQS & LRG	(280 000)	-
	<u>-</u>	<u>500 942</u>
Conditions still to be met - remain liabilities (see note 16)		
National Treasury other grants are used for:		
- the promotion and support of reforms to municipal financial management; and		
- the implementation of the Municipal Finance Management Act (Act no. 56 of 2003).		
The allocation from the funder was reduced by an amount of R 280 000 through a set off against the Levy replacement and Equitable share tranche in 2012/2013. This pertained to the unspent allocation from 2010/2011 financial year.		
Public donors		
Balance unspent at beginning of year	186	186
Current-year receipts	239 750	-
Conditions met - transferred to revenue	(59 750)	-
	<u>180 186</u>	<u>186</u>
Conditions still to be met - remain liabilities (see note 16)		
The grant received of R160 000 from Foskor is to partner with the district municipality in the fight against HIV and Aids, the grant received of R50 000 from BHP Billiton and R 20 000 from Bell equipment was for corporate social investment programmers, while the grant received of R 9 750 from Eyethu engineering was for the assistance of bursary applications.		
Provincial Treasury		
Balance unspent at beginning of year	280 196	1 220 833
Conditions met - transferred to revenue	-	(940 637)
	<u>280 196</u>	<u>280 196</u>
Conditions still to be met - remain liabilities (see note 16)		
The grant received from Provincial Treasury is used for the upliftment of the district's communities through various programmes.		
Department of Sports and Recreation		
Balance unspent at beginning of year	3 813	3 813
Current-year receipts	273 800	-
	<u>277 613</u>	<u>3 813</u>

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
20. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 16)		
The grant received from the Department of Sport and Recreation is used to develop sporting codes within the district. The grant is spent in accordance with the approved business plan. No funds have been withheld.		
Department of Transport		
Balance unspent at beginning of year	1 591 846	313 770
Current-year receipts	1 776 000	1 688 000
Conditions met - transferred to revenue	(1 940 109)	(409 924)
	1 427 737	1 591 846
Conditions still to be met - remain liabilities (see note 16)		
The Department of Transport grant is used for the development of the public transport plan.		
Department of Economic Affairs and Tourism		
Balance unspent at beginning of year	11 842	43 857
Conditions met - transferred to revenue	-	(32 015)
	11 842	11 842
Conditions still to be met - remain liabilities (see note 16)		
The grant received from the Department of Economic Affairs and Tourism is for the development and promotion of the district's local economy and tourism.		
Department of Agriculture		
Balance unspent at beginning of year	177 708	177 708
Conditions still to be met - remain liabilities (see note 16)		
The grant received from the Department of Agriculture is for the development of district agricultural projects.		
21. Other income		
Sundry income	1 674 892	1 697 259
Income from the uThungulu House Development Trust	2 734 504	2 896 275
Income from uThungulu Financing Partnership	3 355 457	3 060 734
Tender deposits	231 486	265 966
SETA refund	1 167 616	454 212
Insurance claim proceeds	283 235	228 408
Lease income	131 364	99 885
	9 578 554	8 702 739

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
22. Employee related costs		
Employee related costs - salaries and wages	64 026 865	55 131 305
Employee related costs - contributions for UIF, pensions and medical aid	14 323 090	11 672 551
Travel and other allowances	7 400 181	6 235 526
Overtime and relief payments	7 040 423	11 602 892
Housing benefits and allowances	2 418 986	2 686 516
Defined benefits obligations: post-employment health care benefit & long service awards	4 283 065	756 195
	99 492 610	88 084 985

Included in employee related costs above are the following salaries, allowances and benefits:

Remuneration of Municipal Manager

Annual Remuneration	981 689	216 613
Car Allowance	333 728	84 197
Performance Bonuses	154 673	-
Contributions to UIF, SDL and other	13 524	16 495
Dispute settlement	-	1 210 867
Leave pay	-	149 456
	1 483 614	1 677 628

The remuneration for the 2012/2013 financial year pertains to the Municipal Manager who was appointed in the year under review and the performance bonus amount reflected in 2012/2013 pertains to the previous Municipal Manager - refer to note 17

Remuneration of Deputy Municipal Manager - Planning & Economic Development

Annual Remuneration	896 040	797 369
Car Allowance	364 075	352 503
Performance Bonuses	155 873	146 939
Contributions to UIF, SDL and other	15 239	14 164
Acting allowance	-	19 276
Leave pay	18 007	29 708
	1 449 234	1 359 959

Remuneration of Deputy Municipal Manager - Technical Services

Annual Remuneration	1 035 447	683 880
Car Allowance	220 876	166 099
Performance Bonuses	115 574	-
Contributions to UIF, SDL, pension & medical aid	12 859	201 759
Annual Bonus	37 272	33 231
Leave pay	27 345	-
	1 449 373	1 084 969

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
22. Employee related costs (continued)		
Remuneration of Deputy Municipal Manager - Corporate Services		
Annual Remuneration	825 237	226 926
Car Allowance	244 740	54 911
Performance Bonuses	139 206	-
Contributions to UIF, SDL and other	11 834	17 839
Dispute settlement	-	1 362 226
Leave pay	-	120 951
	1 221 017	1 782 853

The remuneration for the 2012/2013 financial year pertains to the Deputy Municipal Manager Corporate services who was appointed in the year under review and the performance bonus amount reflected in 2012/2013 pertains to the previous Executive Director - Corporate Services - refer to note 17

Remuneration of Deputy Municipal Manager - Financial Services

Annual Remuneration	881 216	727 064
Car Allowance	377 430	219 645
Performance Bonuses	140 287	33 062
Contributions to UIF, SDL and other	16 952	11 682
Acting allowance	-	115 272
Leave Pay	97 087	-
Long service leave pay	145 630	-
	1 658 602	1 106 725

23. Remuneration of councillors

Mayor	728 196	690 437
Deputy Mayor	586 532	555 958
Speaker	586 532	559 271
Chief Whip	367 600	276 049
Executive Committee	2 581 614	1 928 176
Councillors	2 930 547	3 220 164
Councillors' pension contribution	741 628	639 666
	8 522 649	7 869 721

In-kind benefits

The Mayor, Deputy Mayor, Speaker, Chief Whip and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council which is included with other expenditure in the Statement of Financial Performance. The Mayor has the use of a Council owned vehicle together with a driver for official duties, and security furthermore is provided for some Exco members based on security assessments.

24. Depreciation, amortisation and impairment

Property, plant, equipment	50 000 458	35 883 951
Intangible assets	492 450	658 878
	50 492 908	36 542 829

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
25. Finance costs		
Interest paid - long term liabilities	<u>13 490 296</u>	<u>11 900 614</u>
26. Repairs and maintenance		
Vehicles, buildings & other	1 361 009	1 616 031
Water and sanitation infrastructure	<u>42 624 466</u>	<u>33 310 080</u>
	43 985 475	34 926 111
27. Bulk purchases		
Electricity for operations	17 415 113	13 193 969
Water	<u>12 051 381</u>	<u>16 010 394</u>
	29 466 494	29 204 363
28. Contracted services		
Service support agent, Information technology services, environmental health and administration services	63 537 996	61 526 743
Internal audit	1 525 661	1 453 752
Specialist services	<u>206 777</u>	<u>24 403</u>
	65 270 434	63 004 898
29. Grants and subsidies paid		
KZ 282 uMhlathuze Municipality	4 603 259	4 342 698
KZ 283 Ntambanana Municipality	6 041 000	5 452 000
KZ 284 Umlalazi Municipality	<u>482 719</u>	<u>535 407</u>
	11 126 978	10 330 105

The comparative figure for grants and subsidies paid has been re-stated by an amount of R 1 085 671. Refer to note 39

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
30. General expenses		
Advertisements	666 394	297 127
Assessment rates & municipal charges	626 568	338 460
Audit committee fees	81 286	112 476
Bank charges	168 058	222 890
Bursaries	24 499	71 249
Chemicals & cleaning materials	2 802 197	2 374 185
Delegations	377 605	249 035
External audit fees	2 295 406	2 246 605
Fuel and oil	2 863 159	2 790 077
IDP operational externally funded projects	64 260 792	45 781 146
IDP operational internal funded projects	52 375 910	44 890 691
Indigent burials	98 069	104 640
Insurance	854 345	1 673 072
Landfill site reclamation	3 819 945	4 297 741
Legal fees	242 073	2 565 412
Levies & membership fees	1 018 989	723 075
Licenses	1 227 207	490 994
Partnership expense	191 611	-
Personal protective equipment	201 981	188 883
Printing & Postage	1 101 421	1 212 067
Publicity	782 819	752 808
Refreshments	283 453	297 818
Rent - Plant and vehicles	3 103 783	3 218 566
Rent office	62 733	72 137
Skills development levy	822 339	700 841
Small tools	34 167	55 508
Staff medical examinations	189 012	165 189
Stores and material	57 002	43 041
Subsistence & travelling	1 062 242	895 744
Telephone	1 480 471	1 353 235
Training costs	1 076 517	1 179 101
Workmen's compensation	526 743	826 494
	144 778 796	120 190 307

The comparative figure for general expenses has been re-stated by an amount of R 389 765. Refer to note 39

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
31. Cash generated from operations		
Surplus	186 335 355	227 220 532
Adjustments for:		
Depreciation and amortisation	50 492 908	36 542 829
(Surplus)/Loss on sale of property, plant and equipment	265 025	419 223
Fair value adjustments	(523 775)	-
Debt impairment	4 189 974	8 023 573
Movements in retirement benefit assets and liabilities	4 283 065	756 194
Movements in provisions	3 928 887	4 281 219
Other non-cash items	-	(275 239)
Changes in working capital:		
Inventories	(1 147 054)	946 807
Accounts receivable from non exchange transactions	10 553 840	(10 493 976)
Accounts receivable from exchange transactions	(8 383 364)	(10 652 978)
Payables from exchange transactions	9 452 472	9 131 657
VAT	(10 627 928)	(4 836 240)
Unspent conditional grants and receipts	5 960 777	(16 997 530)
Consumer deposits	884 573	984 899
MIG VAT transferred to revenue	-	(20 691 429)
Accruals for environmental health and workmen's compensation	-	1 475 436
Other non-cash items: Accruals	(6 261 023)	(12 948 047)
	249 403 732	212 886 930

The comparative surplus and changes in working capital have been re-stated. Refer to note 39.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
32. Commitments		
Authorised capital expenditure		
Approved and contracted for		
• Infrastructure	<u>125 303 155</u>	<u>176 330 686</u>
This expenditure will be financed from:		
Government Grants	117 047 996	174 570 924
Own Resources	<u>8 255 159</u>	<u>1 759 762</u>
	<u>125 303 155</u>	<u>176 330 686</u>

The outstanding commitments relate to capital projects and other assets that have been committed by order, by the Bid Adjudication Committee and Executive Committee prior to 30 June 2013. The majority of the capital projects include water infrastructure.

33. Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	863 403	2 879 744
- in second to fifth year inclusive	184 409	485 596
	<u>1 047 812</u>	<u>3 365 340</u>

Operating lease payments represent payments for the leasing of vehicles by the municipality. Lease contracts are entered into for a three year period and the lease payments are fixed for the lease period with no escalation. Lease agreements were entered into by the municipality in the 2010/2011 financial year and a further new lease agreement was entered into in 2012/2013. An amount of R 3 002 994 has been recognised in the Statement of Financial Performance.

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

34. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports the said deviations to the next meeting of Council and includes a note to the annual financial statements. All deviations are reported to Council on a quarterly basis with a detailed schedule and reasons thereto.

The deviations greater than R 200 000.00 are listed individually below for the year ended 30 June 2013.

Project description

Catering for athletes attending camp for Salga games	R 292 561
Hire of marquees and accessories for the Women's day event	R 223 668
Women's day celebrations - street parade	R 208 300
Provision of transport for athletes attending Salga games	R 253 500
Hire of marquees and accessories for SMME fair	<u>R 231 500</u>
	R 1 209 529

Various deviations less than R 200 000	<u>R11 133 760</u>
	<u>R12 343 289</u>

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

35. Awards to close family members of persons in the service of the state

Paragraph 45 of the Municipal Finance Management Act, 2003(Act no. 56 of 2003); Municipal Supply Chain Management Regulations states that the particulars of any award more than R 2000 made to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve(12) months must be disclosed as a note in the financial statements.

The details are listed below for the period ending 30 June 2013;

Name of person	T. Jordan
Capacity	Deputy Manager; Development Administration(uMhlathuze municipality)
Service provider	Audio computer world
Number of transactions	26
Total amount	R 587 579

Name of person	R. Pillay
Capacity	Educator - Department of Education
Service provider	KDM Sports cc
Number of transactions	7
Total amount	R 190 363

Name of person	P.V Dube & E.N. Dube
Capacity	Educators - Department of Education
Service provider	Ziphozovela Multiservices cc
Number of transactions	20
Total amount	R 231 084.80

Name of person	T.B. Khoza
Capacity	Superintendent - Umhlathuze Municipality
Service provider	Phenomenics holdings
Number of transactions	1
Total amount	R 117 997.00

Name of person	N. Reddy
Capacity	Prosecutor - NPA Verulam Court
Service provider	Fana Manufacturing cc
Number of transactions	2
Total amount	R 165 300.00

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
36. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	-	(674 157)
Current year membership fee	969 928	674 157
Amount paid - current year	(969 928)	-
	<u>-</u>	<u>-</u>
Audit fees		
Current year fee	2 295 406	2 246 605
Amount paid - current year	(185 793)	(291 362)
Amount paid - previous years	(2 109 613)	(1 955 243)
	<u>-</u>	<u>-</u>
PAYE and UIF		
Current year subscription / fee	15 850 813	14 242 854
Amount paid - current year	(15 850 813)	(14 242 854)
	<u>-</u>	<u>-</u>
Pension and Medical Aid Deductions		
Current year subscription / fee	14 556 216	10 452 681
Amount paid - current year	(14 556 216)	(10 452 681)
	<u>-</u>	<u>-</u>
VAT		
VAT receivable	<u>20 739 529</u>	<u>10 111 601</u>

All VAT returns have been submitted by the due date throughout the year. The municipality has submitted a Voluntary Disclosure programme application to SARS amounting to R3 723 130 and the process has not been finalised.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
37. Contingencies		
Future legal fees and other		
1. Ex-employee 1 - legal action pending	600 000	600 000
2. Contractor 1 - legal matter pending	140 000	140 000
3. Consulting Engineers 2 - legal matter pending	140 000	140 000
4. Contractor 2 - legal matter pending	100 000	100 000
5. Service provider - legal action pending	40 000	40 000
6. Employee 3 - a case of theft of money	27 429	42 561
7. Labour Court Judgement - Task pay scales	2 500 000	2 500 000
8. Employee 4 - a case of alleged theft of money	8 170	8 170
9. Employee 5 - legal matter pending	60 000	-
10. Employees 6 & 7 - legal matter pending	90 000	-
	3 705 599	3 570 731

1. The municipality has taken legal action against an ex-employee that made an illegal investment. The matter is being dealt with by the high court. The appointed legal team has commenced with pre-trial preparations with the appointed advocate. New trial dates are pending.
2. This is a contractor's liability claim by the municipality against a contractor for non performance and is a high court claim. The legal team appointed on the matter are awaiting trial dates to be set down on the roll.
3. This matter refers to a dispute with a consulting engineering firm and relates to the consultant increasing the scope of work of a project without obtaining prior approval from the municipality. The matter is a high court claim and the matter is ready for trial and on the trial awaiting list.
4. The municipality has legal action against a contractor for non performance and relates to the claim referred to in point 3 above. The matter is with the high court.
5. This is a high court claim in which an order of re-payment was obtained against the service provider.
6. This matter refers to a case of theft of money by an employee. A criminal case has being opened at the SAPS and attempts are being made to recover the monies, furthermore disciplinary action was taken and the said employee was subsequently found guilty and dismissed .
7. This matter refers to a judgement handed down by the Labour court of South Africa(Case no. J1255/2010) wherein municipalities have been ordered to effect a 8.48% salary adjustment in the Job evaluation wage curve. The matter has been taken on appeal by SALGA and is considered sub-judicae.
8. This matter refers to a case of theft of money by an employee. A criminal case has been opened at SAPS and the employee has been dismissed through the disciplinary processes's.
9. This matter refers to an application that has been brought by an employee against the municipality regarding employee matters. The matter has been opposed by the municipality and the relevant papers have been lodged with the court.
10. This matter refers to an application for a review of an arbitration award made in favour of the municipality. The municipality is in the process of opposing the application for review.

The latter contingent liabilities is generally costs associated with the litigation process and any resultant claims cannot be quantified.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
38. Related parties		
		The uThungulu Financing Partnership uThungulu House Development Trust
Related party balances		
Investments in municipal entities		
The uThungulu Financing Partnership	19 307 088	19 498 698
uThungulu House Development Trust	5 365 733	5 708 098
Income received from related parties		
The uThungulu Financing Partnership	3 355 457	3 060 734
uThungulu House Development Trust	2 734 504	2 896 275
Balances outstanding from related parties		
The uThungulu Financing Partnership	24 016 912	24 564 331
% Interest in municipal entities		
The uThungulu Financing Partnership	99	99
uThungulu House Development Trust	100	100
Related party transactions		
Sub-lease payments		
The uThungulu Financing Partnership	5 884 907	5 642 391

The uThungulu Financing Partnership is a partnership between uThungulu District Municipality, NIB9810 trust and Nedcor. uThungulu District Municipality as at 30 April 2008 holds 99% and Nedcor and NIB9810 holds the balance of 1%. The uThungulu Financing Partnership was formed to facilitate the purchase of uThungulu House in order to provide offices for uThungulu District Municipality. In order to finance the purchase of uThungulu House, the partnership entered into a loan agreement with Nedcor. In terms of the sub-lease agreement, uThungulu District Municipality is obliged to make bi-annual sub payments to the partnership to reimburse uThungulu Financing Partnership for loan repayments made to Nedcor. The loan is payable over a 20 year period (starting in 1998 and ending in 2017).

uThungulu House Development trust leases immovable property to the uThungulu Financing Partnership, in terms of a financing lease. The original lease period expires on 31 October 2017.

Both of the above mentioned entities are incorporated in South Africa.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

39. Prior year adjustments

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice and the aggregate affect of the prior year adjustments in the annual financial statements for the period ended 30 June 2013 is as follows:

1) MIG vat transferred to own revenue

Effect on current liabilities - Unspent conditional grants & receipts - Refer to note 16:

Movement in unspent conditional grants & receipts

Previously reported balance	R	74 248 965
Adjustment MIG vat transferred to own revenue prior years	(R)	27 057 862
Adjustment MIG vat transferred to own revenue for 2011/2012	<u>(R)</u>	<u>20 691 429</u>
Re-stated	R	26 499 674

Movement in MIG unspent conditional grants & receipt - Refer to note 20:

Previously reported balance	R	47 749 291
Adjustment	(R)	<u>47 749 291</u>
Re-stated	R	-

Effect on revenue

Movement in government grants and subsidies -refer to note 20

Previously reported balance	R	533 234 090
Adjustment for MIG vat transferred to revenue for 2011/2012	<u>R</u>	<u>20 691 429</u>
Re-stated	R	553 925 519

2)Accrual - Environmental Health Services & Workmen's compensation

Effect on Current liabilities - Payables from exchange transactions -Refer to note 13

Movement in payables from exchange transactions

Previously reported balance	R	125 481 694
Adjustment accrual environmental health services	R	1 085 671
Adjustment accrual workmen's compensation	<u>R</u>	<u>389 765</u>
Re-stated	R	126 957 130

Effect on expenditure

Movement in grants and subsidies paid - refer to note 29

Previously reported balance	R	9 244 434
Adjustment accrual for environmental health services	<u>R</u>	<u>1 085 671</u>
Re-stated	R	10 330 105

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

39. Prior year adjustments (continued)

Movement in general expenses - refer to note 30

Previously reported balance	R 119 800 542
Adjustment accrual for workmen's compensation	<u>R 389 765</u>
Re-stated	R 120 190 307

3) Adjustment to 2011/2012 surplus and accumulated surplus

Movement in surplus for 2011/2012

Previously reported balance	R 208 004 539
Adjustment for MIG vat transferred to revenue	R 20 691 429
Adjustment accrual for environmental health services	(R 1 085 671)
Adjustment accrual for workmen's compensation	<u>(R 389 765)</u>
Re-stated	R 227 220 532

Movement in accumulated surplus

Adjustment

Accumulated Surplus as at the 1st of July 2011 as previously reported	R 905 538 331
Change in accounting estimates	(R 275 236)
Prior year adjustment - VAT transferred to own revenue in accordance with National Treasury budget directive	R 27 057 862
Surplus 2011/2012 restated	<u>R 227 220 532</u>
	R 1 159 541 489

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

40. Budget and Actual amount variances

Variances greater than 10 % with a value not less than R500 000 as referenced on The Statement of Comparison of Budget and Actual amounts, as reflected on page 8 to page 10 are set out below:

Statement of financial performance

40.1 Service charges:

The three dominant factors which contributed to the increase in service charges is the higher than expected reliance on portable water usage by consumers, the above inflationary increases in property values wherein our sanitation tariffs are based and the increased usage of our landfill site.

40.2 Other income:

The variance between the final budget and actual amounts are attributable to the unexpectedly higher Seta refund and the related inflationary increases on other income.

40.3 Government grants and subsidies:

The variance pertains to certain multi-year grant funded projects which were still in progress as at close of the financial year and expenditure relating to the said projects would be recognised on completion thereof.

40.4 Employee related costs:

The final budget is based on the approved organogram and related salary scales, however positions were vacant during the year under review with recruitment for certain senior management positions being finalised in the latter part of the year, thus contributing to a savings. Furthermore the budget includes allocations for the full package of benefits, which were not fully utilised by staff.

40.5 Finance costs:

The final budget amount of R 15 225 293 includes both capital redemption and interest costs, while the actual amount of R 13 490 296 is exclusive of capital redemption which is accounted for in long term liabilities per the Statement of Financial Position.

40.6 Repairs and maintenance:

The final budget is based on the premise that certain water schemes would have become operational during the financial year, however due to unforeseen circumstances in project implementation this could not be attained, resulting in the savings.

40.7 Bulk purchases:

The final budget is based on the premise that certain water schemes would become operational during the financial year, however due to unforeseen circumstances in project implementation this could not be attained, resulting in the savings, furthermore agreements with the Department of Water Affairs and uMhlathuze Water Board have not been finalised regarding water extraction levies.

40.8 Contracted services:

The major component of the final budget is for the support service agent fees for operations of water schemes. The budget is based on the premise that certain water schemes would become operational during the financial year, however due to unforeseen circumstances in project implementation this could not be attained as well as the impending new support service agent tender; resulting in the savings.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

40. Budget and Actual amount variances (continued)

40.9 General expenses:

The variance is mainly attributable to certain multi-year projects that were in the planning stage, in progress and or held in abeyance pending regulatory outcomes and furthermore operational efficiencies on the various sub-votes.

Statement of financial position

40.10a Account receivable from non exchange transactions:

The final budget of R 20 536 000 is inclusive of vat , while the actual amount of R 14 501 684 is exclusive of vat. The vat receivable as per the Statement of Financial Position amounts to R 20 739 529 (refer to note 4) and is included in accounts receivable from exchange transactions; therefore the comparison of final budget and actual's indicates a variance of R 14 705 213 (R 20 739 529 - R 6 034 316) which is mainly due to the input vat on the capital projects spending.

40.10b Accounts receivable from exchange transactions:

The final budget of R 11 870 000 is exclusive of vat, while the actual amount of R 37 791 179 is inclusive of vat. The vat receivable as per the Statement of Financial Position amounts to R 20 739 529 (refer to note 4); therefore the comparison of final budget and actual's indicates a variance of R 5 181 650 (R 25 921 179 - R 20 739 529) which is mainly due to revenue generated from service charges increasing , as a result of increased consumption's. Furthermore the current harsh economic climate is negatively impacting indigent and poor consumers which is contributing to outstanding debtors.

40.11 Cash and cash equivalents:

The budgeted investment portfolio holding as at 30 June 2013 was anticipated to be R325 000 000, however due to cash flow requirements and surplus cash available from spending trends, the portfolio as at the 30 June 2013 increased to R 370 000 000. Therefore, the budget against actual variance amounting to R 99 743 491 is due to investment holdings increasing by R45 000 000 and cash book balance being R 78 million.

40.12 Property, plant and equipment; and intangible assets:

The final budget of R 1 333 806 000 is inclusive of intangible assets, while the actual amount of R 1 174 251 299 is exclusive of intangible assets. The intangible assets as per the Statement of Financial Position amounts to R 1 077 033 (refer to note 9); therefore the comparison of budget and actual's indicates a variance of R 158 477 668 (R 159 554 701 - R 1 077 033). The variance is mainly attributable to budgeted certain multi-year capital projects not yet completed due to unforeseen circumstances.

40.13 Investments in municipal entities:

The final budget includes long term investments. A long term investment was placed with ABSA on 15 July 2011 with a maturity date of 30 December 2015. The investment was recalled on 2 January 2013 to settle the Zero coupon held by INCA.

The early settlement of the Inca zero coupon loan of R 21 000 000 was originally anticipated to be settled in the 2014/2015 financial year, however favourable market conditions on the zero coupon coupled with an attractive early settlement term, contributed to the decision to settle the loan in the current financial year.

40.14 Long term liabilities:

The variance of R 20 999 889 (R23 382 999 - R 2 383 110) is directly attributable to the early settlement of the Inca zero coupon of R 21 000 000, as explained in 40.13 above.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

40. Budget and Actual amount variances (continued)

40.15 Payables from exchange transactions:

The final budget of R 131 317 000 is inclusive of unspent conditional grants and receipts, while the actual amount of R 136 409 601 is exclusive of unspent conditional grants and receipts. The unspent conditional grants and receipts as per the Statement of Financial Position amounts to R 32 460 451 (refer to note 16); therefore the comparison of budget and actual's indicates a variance of R 37 553 052 (R 32 460 451 + R 5 092 601). The variance is attributable to an increase in accounts payables from exchange transactions as a result of retenions increasing.

40.16 Consumer deposits:

Deposits are based on the average consumption of consumers. The increased consumption trends has inadvertently contributed to the higher than anticipated deposit holding.

40.17 Provisions and Defined benefit oblaigions:

The final budget of R 103 810 000 (R 101 588 000 + R 2 222 000) is inclusive of defined benefit obligations, while the actual amount of R 74 095 901(R 57 605 107 + R 16 490 794) is exclusive of defined benefit obligations. Defined benefit obligations as per the Statement of Financial Position amounts to R 18 464 000 (R 18 029 000 + R 435 000) (refer to note 15); therefore the comparison of budget and actual's indicates a variance of R 11 250 099 (R-43 982 893 + R 14 268 794 +R 18 464 000). The variance is attributable to assumed variables and demographic profiles of membership which actuarial valuations are based on and the inflationary related costs when determining rehabilitation of the landfill site.

Cash flow statement:

40.18 Receipts from consumers and other debtors:

The variance is mainly attributable to the decrease in outstanding debts raised in the previous year.

40.19 Prior year cash utilised to fund current expenditure:

The variance is attributable to previous years surpluses which were invested and used to fund current year expenditure, which was not utilised.

40.20 Employee costs and suppliers:

The final budget of R 470 524 000 is inclusive of supplier costs, while the actual amount of R 108 015 259 is exclusive of supplier costs. The suppliers costs as per the Cash flow statement amounts to R 294 115 187; therefore the comparison of budget and actual's indicates a variance of R 68 393 554(R 362 508 741 - R 294 115 187) . Refer to 40.4 to 40.9 above for further explanation to the variance.

40.21 Finance costs:

The variance in attributable to the early settlement of the Inca zero coupon of R 21 000 000.

40.22 Purchase of property,plant and equipment and intangibles:

The final budget for property, plant and equipment included the purchase of intangible assets. The variance is mainly due to unspent capital budgets. Refer to 40.12 above for further explanation to the variance.

40.23 Movement in non current investments:

The variance is attributable to the early settlement of the Inca zero coupon and the subsequent withdrawal of the related investment. Refer to 40.13 and 40.14 above for further explanation to the variance.

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Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

40. Budget and Actual amount variances (continued)

40.24 Movement in investment in municipal entities:

The movement in municipal entity investment is determined at year end and therefore could not be determined at budget stage.

40.25 Repayment of long term liabilities:

The variance is attributable to the early settlement of the Inca zero coupon of R 21 000 000. Refer to 40.14 above for further explanation to the variance.

uThungulu District Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2013 R	2012 R
41. Unauthorised, Fruitless & Wasteful and Irregular expenditure			
<p>There is expenditure resulting from leave payments made to the former Municipal Manager, Executive Director Corporate Services and Deputy Municipal Managers, as they were not able to take leave due to work commitments; as well as long service awards were paid to Deputy Municipal Manager Finance. Council will deliberate and resolve on these payments once an item has served before them. Refer to note 22 which outlines remuneration paid to section 56 and 57 managers.</p>			
42. Risk management			
Capital risk management			
<p>The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns and benefits for all stakeholders, while delivering sustainable services and to maintain an optimal capital structure to reduce the cost of capital.</p> <p>The capital structure of the municipality consists of debt, which includes the long-term liabilities as disclosed in note 12, cash and cash equivalents disclosed in note 7, and equity as disclosed in the statement of financial position.</p>			
Gearing ratios			
<p>The gearing ratio as at 2013 and 2012 restated respectively were as follows:</p>			
Total borrowings			
Long-term liabilities	12	89 469 111	113 911 219
Less: Cash and cash equivalents	7	445 848 491	366 716 903
Net cash		(356 379 380)	(252 805 684)
Total equity		1 345 876 847	1 159 541 489
Total capital		989 497 467	906 735 805
		9,04%	12,56%

The comparative figure for total equity has been re-stated by an amount of R 46 273 555.

Financial risk management

Financial Risk Management Objectives

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.

The municipality's financial services function monitors and manages the financial risks relating to the operation of the municipality. These risks include credit risk and liquidity risk.

Liquidity risk

Liquidity risk refers to the ability of an entity to meet its obligations associated with financial liabilities.

The municipality's liquidity risk pertains to whether funds are available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit obligations.

uThungulu District Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012
	R	R

42. Risk management (continued)

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The liquidity ratio is outlined below:

Current Assets	505 448 446	420 899 226
Current Liabilities	205 504 791	172 523 734
Liquidity ratio	2,46:1	2,44:1

The comparative figures for current liabilities has been re-stated by an amount of R 46 273 555. Refer to note 39

Interest rate risk

The municipality limits its exposure to interest rate fluctuations by only dealing with well-established institutions and opting for fixed interest rates rather than variable rates.

Credit risk

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

Debtors comprise of mainly water and sanitation users, dispersed across different industries and geographical areas. Ongoing evaluations are performed on the financial condition of these debtors and have been presented in these financial statements 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", which ever procedure is applicable in terms of Councils credit control and debt collection policy.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument		
Investments	370 000 000	280 000 000
Cash and cash equivalents	75 848 491	86 716 903
Accounts receivable from exchange and non exchange transaction	52 292 863	48 025 385

43. Going concern

We draw attention to the fact that at 30 June 2013, the municipality had accumulated surplus of R 1 345 876 847 and that the municipality's total assets exceed its total liabilities by R 1 345 876 847.

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, dependant on the receiving of equitable share allocations.

44. Events after the reporting date

At the date of submission of the annual financial statements there were no known events.

APPENDIX A
 UTHUNGULU DISTRICT MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2013

	Redeemable Date	Balance at 30 June 2012 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2013 Rand
LONG-TERM LOANS					
INCA @ 13.95%	2014/12/31	21 000 000	-	21 000 000	-
		21 000 000			
ANNUITY LOAN					
INCA @ 11.95%	2023/06/30	26 314 519		1 253 887	25 060 631
ABSA @ 12.6%	2024/06/30	42 032 371		1 640 802	40 391 568
		68 346 890	-	2 894 689	65 452 199
LEASE LIABILITY					
Leased Property @ 23.81%	2017/03/31	24 564 331		547 419	24 016 912
		24 564 331	-	547 419	24 016 912
TOTAL EXTERNAL LOANS					
LONG -TERM LOANS		21 000 000		21 000 000	-
ANNUITY LOAN		68 346 890		2 894 689	65 452 199
LEASE LIABILITY		24 564 331		547 419	24 016 912
		113 911 221	-	24 442 108	89 469 111

APPENDIX B
 UTHUNGULU DISTRICT MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2013

	Cost/Revaluation				Accumulated Depreciation & Impairment				Carrying Value		
	Opening Balance	Transfer - Capital projects released	Additions	Disposal	Closing Balance	Opening Balance	Current	Disposals		Net Impairment adjustments	Closing Balance
Land	12 474 983	-	-	-	12 474 983	-	-	-	-	-	12 474 983
Developed Land	12 474 983	-	-	-	12 474 983	-	-	-	-	-	12 474 983
Buildings	53 149 498	-	124 675	-	53 274 173	-7 541 323	-1 727 555	-	-	-9 268 878	44 005 295
Buildings - In Construction	53 149 498	-	124 675	-	53 274 173	-7 541 323	-1 727 555	-	-	-9 268 878	44 005 295
Water Mains and purification	426 385 399	-88 048 215	167 310 675	-	505 647 859	-	-	-	-	-	505 647 859
Infrastructure	426 385 399	-88 048 215	167 310 675	-	505 647 859	-	-	-	-	-	505 647 859
Infrastructure land servitudes	32 333 001	12 969 866	-	-	45 302 867	-6 973 697	-935 396	-	143 726	-7 765 368	37 537 500
Infrastructure plant & equipment	27 033 789	1 193 552	-	-	28 227 342	-11 880 796	-1 693 216	-	-205 849	-13 779 863	14 447 479
Infrastructure sewage services	32 827 071	67 244	-	-	32 894 315	-6 012 443	-632 062	-	-3 507 507	-10 152 011	22 742 303
Infrastructure solid waste services	60 495 831	-	-	-	60 495 831	-21 796 688	-5 945 652	-	-	-27 742 320	32 753 511
Infrastructure water services	560 397 282	74 033 207	-	-1 724 571	632 705 918	-119 701 373	-23 021 269	1 645 762	-8 662 137	-149 739 017	482 966 901
Infrastructure water services	560 397 282	74 033 207	-	-1 724 571	632 705 918	-119 701 373	-23 021 269	1 645 762	-8 662 137	-149 739 017	482 966 901
Other assets in construction	2 350 772	-215 654	3 276 383	-	5 411 502	-	-	-	-	-	5 411 502
Other assets in construction	2 350 772	-215 654	3 276 383	-	5 411 502	-	-	-	-	-	5 411 502
Other assets	7 916 205	-	872 376	-356 354	8 432 227	-3 104 412	-1 208 352	233 830	-22 034	-4 100 968	4 331 259
Computer Equipment	3 614 652	-	389 832	-4 692	3 999 792	-1 474 852	-352 748	3 591	-1 333	-1 825 342	2 174 450
Furniture	9 385 098	-	1 264 100	-	10 649 198	-4 974 791	-967 269	-	-	-5 942 060	4 707 137
Motor Vehicles	5 078 600	-	408 835	-413 129	5 074 306	-2 349 655	-746 373	369 300	-10 403	-2 737 131	2 337 175
Office Equipment	4 068 792	-	461 796	-40 919	4 489 669	-1 292 849	-505 028	22 155	-	-1 775 722	2 713 947
Plant and Equipment	4 068 792	-	461 796	-40 919	4 489 669	-1 292 849	-505 028	22 155	-	-1 775 722	2 713 947
Total carried forward	1 237 510 974	-	3 396 939	-815 093	32 645 192	-13 196 560	-3 779 770	628 877	-33 770	-16 381 223	16 263 969
Total carried forward	1 237 510 974	-	3 396 939	-815 093	32 645 192	-13 196 560	-3 779 770	628 877	-33 770	-16 381 223	16 263 969
INTANGIBLE ASSETS	2 749 263	-	92 800	-	2 842 063	-1 272 580	-492 450	-	-	-1 765 030	1 077 032
TOTAL	1 240 260 236	-	174 201 471	-2 539 664	1 411 922 044	-1 883 375 440	-3 827 272	2 274 639	-12 265 537	-236 593 710	1 175 328 334

APPENDIX C
 UTHUNGULU DISTRICT MUNICIPALITY : SEGMENTAL ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2013

	Cost/Revaluation				Accumulated Depreciation							Carrying Value
	Opening Balance	Transfer - Capital projects released	Additions	Disposal	Closing Balance	Opening Balance	Current	Disposals	Net Impairment adjustments	Closing Balance		
Executive & Council	12 134 486	-	133 240	-17 308	12 310 417	-1 843 490	-791 735	10 815	-	-2 624 410	9 686 007	
Finance & Admin	108 143 735	-	6 121 550	-621 883	113 643 401	-15 784 927	-4 721 655	466 885	-3 599 722	-23 609 430	90 033 971	
Planning & Development	11 109 451	-	-	-3 745	11 105 706	-1 387 147	-480 848	3 148	-2 784	-1 867 431	9 238 275	
Community & Social Services	6 635 091	-215 654	387 996	-7 318	6 820 115	-777 747	-198 200	3 510	-3 595	-976 033	5 844 083	
Public Safety	5 400 066	-	16 405	-38 420	5 378 051	-2 393 285	-678 343	33 652	-	-3 037 976	2 340 074	
Waste Management	151 119 683	-	-	-4 313	151 115 371	-28 942 518	-9 110 786	2 287	-181 138	-38 232 156	112 883 215	
Water	886 885 204	126 242	159 844 257	-1 846 675	1 045 009 027	-135 230 020	-21 659 531	1 724 343	-8 478 298	-163 643 506	881 365 521	
Waste Water	56 063 258	89 412	7 545 223	-	63 697 893	-743 725	-94 013	-	-	-837 738	62 860 156	
	1 237 510 974	-0	174 108 671	-1 846 675	1 409 079 982	-187 102 860	-37 734 922	2 274 639	-12 265 537	-234 828 680	1 174 251 302	
INTANGIBLE ASSETS												
Finance & Admin	2 742 953	-	92 800	-	2 835 753	-1 269 426	-491 399	-	-	-1 760 824	1 074 928	
Planning & Development	6 310	-	-	-	6 310	-3 155	-1 052	-	-	-4 206	2 104	
	2 749 263	-	92 800	-	2 842 063	-1 272 580	-492 450	-	-	-1 765 030	1 077 032	

APPENDIX D

UTHUNGULU DISTRICT MUNICIPALITY: SEGMENTAL STATEMENT OF
FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

MUNICIPALITY

	Restated 2012 Actual Income Year to date Rand	Restated 2012 Actual Expenditure Year to date Rand	Restated 2012 Surplus / (Deficit) Rand
Executive & Council	441 330 598	35 242 013	-35 242 013
Finance & Admin	-	45 061 320	396 269 278
Planning & Development	216 751	8 990 411	-8 990 411
Community & Social Services	-	8 952 309	-8 735 558
Public Safety	-	6 803 024	-6 803 024
Environmental Protection	14 388 953	6 770 060	7 618 893
Waste Management	8 444 903	29 741 095	-21 296 192
Waste Water	3 740 114	42 816 159	-39 076 044
Water	169 595 942	226 220 339	-56 624 396
	637 717 261	410 496 730	227 220 532

	2013 Actual Income Year to date Rand	2013 Actual Expenditure Year to date Rand	2013 Surplus / (Deficit) Rand
Executive & Council	385 894 166	29 408 004	-29 408 004
Budget and Treasury Office	270 030	34 271 940	351 622 226
Planning and Development	-	12 178 304	-12 178 304
Community and Social Services	-	15 611 835	-15 341 805
Public Safety	15 930 421	5 278 997	-5 278 997
Environmental Protection	11 722 007	7 140 671	8 789 750
Waste Management	61 975 135	26 714 270	-14 992 263
Waste Water	181 625 235	59 426 395	2 548 740
Water	-	245 277 970	-63 652 735
Corporate Services	-	35 773 252	-35 773 252
	657 416 994	471 081 639	186 335 355

APPENDIX E

UTHUNGULLU DISTRICT MUNICIPALITY: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED
30 JUNE 2013

Property, Plant & Equipment	Order		Total Additions Rand	Budget Rand	Variance Rand	Variance %	Explanation of Significant Variances greater than 20% versus Budget
	Additions Rand	Construction Rand					
Executive & Council	183 293	-	183 293	282 500	99 207	35%	Work in Progress
Finance and Admin	2 813 541	2 919 547	5 733 088	12 096 544	6 363 456	53%	Work in Progress
Planning & Development	-	-	-	483 500	483 500	100%	Work in Progress
Community & Social Services	1 403	372 654	374 057	7 541 699	7 167 642	95%	Work in Progress
Public Safety	5 400	-	5 400	896 467	891 067	99%	Work in Progress
Environmental Protection	-	-	-	120 000	120 000	100%	Devolution of Environmental Health Services not yet finalized.
Waste Management	-	-	-	17 707 518	17 707 518	100%	Work in Progress
Water	71 184	159 765 452	159 836 636	253 473 956	93 637 320	37%	Work in Progress
Waste Water	-	7 545 223	7 545 223	8 586 337	1 041 114	12%	
	3 074 821	170 602 876	173 677 697	301 188 521	127 510 824	42%	

APPENDIX F
 UTHUNGULU DISTRICT MUNICIPALITY : DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 2003

Name of Grants & Vote	Name of provider state or municipal entity	RECEIPTS				CONDITIONS MET			
		Sept 12	Dec 12	March 13	June 13	Sep 12	Dec 12	Mar 13	June 13
MISG (Asset Care, Clean Audit, Ward Programme, Batho Pele) Restriction Program Grant	COGTA	1 000 000	-	-	-	14 400	257 028	148 813	474 878
Water Reduction Strategy	COGTA	-	8 000 000	-	-	-	321 061	18 630	1 437 137
Growth and Development Summit	COGTA	-	400 000	-	-	-	-	131 327	-
BIOGAS	COGTA	-	300 000	-	-	(23 400)	-	-	183 701
Performance Management System	COGTA	-	-	-	200 000	-	-	-	43 746
Water quality Evaluation (BlueGreen Drop)	COGTA	-	-	-	-	-	-	-	29 293
Tanker Reduction Strategy	COGTA	-	-	-	-	-	-	-	-
Councillor Training Programme	COGTA	1 000 000	8 700 000	-	-	(8 000)	578 089	298 271	2 168 225
Rural Transport Services & Infrastructure	DOT	1 776 000,00	-	-	200 000	141 655	436 776	267 445	1 094 234
Subtotal DOT		1 776 000,00	-	-	200 000	141 655	436 776	267 445	1 094 234
Disaster Management Grant	DTLGA	-	-	-	-	-	-	-	-
Development Planning Shared Services	DTLGA	-	-	-	-	-	-	-	-
Corridor Development	DTLGA	-	-	-	-	-	-	-	-
Consolidate prior Grants (Planning 07/08)	DTLGA	-	-	-	-	-	238 805	-	97 000
Planning - Umungulu Regional Council	DTLGA	-	-	-	-	-	-	-	69 656
Regional Bulk Water Scheme	DTLGA	-	-	-	-	-	-	-	227 603
Planning Shared Services (T 84)	DTLGA	-	-	-	-	529	10 889	8 919	44 468
Internal Fixed Assets	DTLGA	-	-	-	-	-	-	(3 569)	116 514
Municipal development Info Services (GIS)	DTLGA	-	-	-	-	-	371 319	-	69 656
Town Planning (Development Administration)	DTLGA	-	-	-	-	-	88 153	-	-
Implementation of Fresh Produce	DTLGA	-	-	-	-	-	68 437	277 622	194 654
Subtotal DTLGA		-	-	-	-	529	797 602	283 872	819 551
Issue Manager	DVAFF	-	-	-	(2 079 583)	-	-	-	-
Greater Metropolitan Reduction	DVAFF	1 133 919	8 911 541	30 899 425	2 079 583	2 044 391	8 713 392	17 619 793	13 582 930
ACP Programme	DVAFF	-	-	-	-	-	-	-	111 394
Subtotal DVAFF		1 133 919	8 911 541	30 899 425	2 079 583	2 044 391	8 713 392	17 619 793	13 694 324
MIG	DMAFF	69 626 000	51 442 000	67 815 562	6 339 438	14 788 400	31 609 224	70 868 499	71 888 955
Subtotal MIG		69 626 000	51 442 000	67 815 562	6 339 438	14 788 400	31 609 224	70 868 499	71 888 955
Local Government Finance Grant	National Treasury	1 250 000	-	-	-	-	303 126	40 696	454 367
Finance Items - Op Projects (Budget Cycle)	National Treasury	-	-	-	-	168 242	236 813	131 905	135 792
Equitable Share	National Treasury	61 210 342	28 493 888	57 075 704	61 210 342	61 210 342	28 493 888	57 075 704	138 695
L Levy Replacement	National Treasury	69 130 333	32 180 648	64 460 714	69 130 333	69 130 333	32 180 648	64 460 714	141 305
Environmental Health (EGS)	National Treasury	6 643 525	3 092 514	6 194 582	6 643 525	6 643 525	3 092 514	6 194 582	-
Subtotal National Treasury		138 234 000	63 767 000	127 731 000	-	137 152 292	64 306 940	127 903 601	870 159
EVMP Endowment Grant	Public Works	2 651 000	-	1 304 000	-	323 633	324 202	283 611	902 057
HIV AIDS AWARENESS/FOSKOR	FOSKOR	-	-	1 304 000	-	323 633	324 202	283 611	902 057
Subtotal FOSKOR		-	-	1 304 000	-	323 633	324 202	283 611	902 057
YOUTH PROGRAMME/ETHU ENGINEERS	ETHU	-	30 000,00	80 000,00	50 000,00	-	-	-	-
Sub Total ETHU		-	30 000,00	80 000,00	50 000,00	-	-	-	-
Sports Development- DSR	DSR	-	-	9 750	273 800	-	-	-	9 750
Sub Total DSR		-	-	9 750	273 800	-	-	-	9 750
BHP Billion/Uniforms	BHP BILLION	-	-	-	50 000	-	-	-	50 000
Sub Total BHP BILLION		-	-	-	50 000	-	-	-	50 000
BELL		-	-	-	20 000	-	-	-	-
Sub Total BELL		-	-	-	20 000	-	-	-	-
Other		-	-	-	2 372	-	-	-	-
Sub Total Other		-	-	-	2 372	-	-	-	-
		214 420 919	132 850 541	227 839 737	6 930 866	154 442 849	106 766 234	217 524 590	91 497 725