

Annual Financial Statements
for the year ended 30 June 2014

UMKHANYAKUDE DISTRICT MUNICIPALITY



UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

General Information

Executive Committee

Cllr Vilane SJ (Mayor)
 Cllr Swartz CG (Deputy Mayor)
 Cllr Mavimbela HGS (Speaker) - EX Officio
 Cllr Nxumalo SH (Exco Member)
 Cllr Moodley GP (Exco Member)
 Cllr Zungu MC (Exco Member)
 Cllr Gumbi DL
 Cllr Habisisa VF
 Cllr Khumalo LV
 Cllr Khumalo SR
 Cllr Langa ML
 Cllr Mabuyakhuju PJ
 Cllr Mabika MS (Resigned)
 Cllr Mathenjwa M
 Cllr Mathonsi ZW
 Cllr Mdaka SF
 Cllr Mkhombo S (Appointed)
 Cllr Mkwanazi LX
 Cllr Mngomezulu BZ
 Cllr Mithethwa B
 Cllr Mithethwa SP
 Cllr Mithethwa TP
 Cllr Msane S
 Cllr Msweli MCF
 Cllr Ngema TN
 Cllr Nesele (Appointed)
 Cllr Nxumalo MW
 Cllr Nyawo I F (Appointed)
 Cllr Nyawo ZE
 Cllr Sangweni MB
 Cllr Tembhe BT (Resigned)
 Cllr Zikhali AT

Councillors

Chief Financial Officer (CFO)

Diamini M S

Accounting Officer

Mzimela E M (01 April to date)

Diamini M S (01 October 2013 to 31 March 2014)
 Dubazana S N (01 July 2013 to September 2013)

Business address

Harlingen No. 13433
 Kingfisher Road
 Mkuze
 3965

Postal address

P.O. Box 449
 Mkuze

Bankers

ABSA - Investment
 First National Bank - Current & Investment
 Nedbank - Investment
 Ithala Bank - Savings

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Auditors Auditor-General South Africa
Legal Advisor Zungu S

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The reports and statements set out below comprise the Annual Financial Statements presented to the Council and the Provincial Legislature:

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Abbreviations

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
DC27	Umkhanykude District Municipality
FMG	Financial Management Grant
EPWP	Extended Public Works Programme
MSIG	Municipal Systems Infrastructure Grant
IMFO	Institute of Municipal Finance Officers
SALGA	South African Local Government Association
DORA	Division of Revenue Act
VAT	Value-Added Tax
GEFF	Government Employee Pension Fund
COGTA	Department of Co-operative Governance & Traditional Affairs
SCM	Supply Chain Management

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 31 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality and has access to adequate resources to continue in operational existence for the foreseeable future.

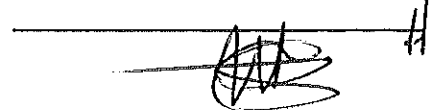
The municipality is wholly dependent on the government grant allocations through Division of Revenue Act (DORA) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that Umkhanyakude District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 7 to 58, which have been prepared on the going concern basis, were approved by Council on 29 August 2014 and were signed on its behalf by:

Municipal Manager



UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rands
2014
2013
Restated*

ASSETS				
Current Assets				
Inventories		86 841 625	42 920 312	
Receivables from exchange transactions		13 570 787	14 037 124	
Other receivables from exchange transactions		2 504 650	52 162 283	
VAT receivable		28 012 670	25 113 016	
Cash and cash equivalents		11 378 076	141 756 771	
		<u>142 307 808</u>	<u>275 989 506</u>	
Non-Current Assets				
Property, plant and equipment	7	1 474 995 592	1 241 566 559	
Intangible assets	8	327 357	29 626	
		<u>1 475 322 949</u>	<u>1 241 596 185</u>	
Total Assets		<u>1 617 630 757</u>	<u>1 517 585 691</u>	
LIABILITIES				
Current Liabilities				
Other current financial liabilities	9	9 682 103	1 787 596	
Trade and other payables from exchange transactions	10	121 894 507	75 003 467	
Consumer deposits	11	1 862 046	2 498 666	
Unspent conditional grants and receipts	12	21 851 008	77 201 965	
Non-current provisions	13	109 013	210 326	
Current portion of borrowings	14	1 557 241	821 476	
Current portion of finance lease liability	15	458 832	220 230	
		<u>157 414 750</u>	<u>157 743 726</u>	
Non-Current Liabilities				
Non-current provisions	13	4 079 987	3 259 674	
Non-current borrowings	14	8 180 507	9 732 083	
Non-current finance lease liability	15	425 193	172 771	
		<u>12 685 687</u>	<u>13 164 528</u>	
Total Liabilities		<u>170 100 437</u>	<u>170 908 254</u>	
NET ASSETS		<u>1 447 530 320</u>	<u>1 346 677 437</u>	
Accumulated surplus	46	1 447 530 320	1 346 677 437	

* See Note 33

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rands

	2014	2013	Restated*
Revenue			
Revenue from exchange transactions	16	43 573 187	41 939 959
Service charges	18	106 871	103 940
Rental of facilities and equipment	19	6 708 719	12 524 641
Interest received - investment & current bank accounts	20	4 462 481	1 538 146
Interest received - outstanding receivables	21	2 035 531	679 842
Other income	17	514 225 333	450 554 429
Government grants & subsidies			
Revenue from non-exchange transactions			
Total revenue		<u>571 112 122</u>	<u>507 340 957</u>
Expenditure			
Employee Related Costs	22	(109 914 639)	(70 538 249)
Bad Debts	23	(21 105 575)	-
Remuneration of Councillors	24	(6 953 469)	(6 243 791)
Depreciation and Amortisation	25	(28 109 220)	(21 016 200)
Impairment loss/ Reversal of Impairments	26	(15 371 559)	(34 953 792)
Finance Costs	27	(977 908)	(1 065 933)
Repairs and Maintenance	28	(36 270 006)	(21 799 371)
Bulk Purchases	29	(77 569 516)	(76 267 575)
Contracted Services	30	(34 368 877)	(7 576 847)
General Expenses	31	(139 618 456)	(88 786 088)
Total expenditure		<u>(470 259 225)</u>	<u>(328 247 846)</u>
Operating surplus		<u>100 852 897</u>	<u>179 093 111</u>
Surplus for the year		<u>100 852 897</u>	<u>179 093 111</u>

Note(s)

2014

2013

Restated*

UMKHANYAKUDE DISTRICT MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	
Accumulated surplus	Total net assets
1 263 511 606	1 263 511 606
(38 991 555)	(38 991 555)
1 224 520 051	1 224 520 051
Opening balance as previously reported	
Adjustments	
Correction of prior period errors (refer to note 33)	
Balance at 01 July 2012 as restated*	
Changes in net assets	
Surplus for the 12 months	
Correction of prior period errors (refer to note 33)	
Total changes	
Restated* Balance at 01 July 2013	
Changes in net assets	
Surplus for the year	
Total changes	
Balance at 30 June 2014	
1 447 530 320	1 447 530 320
100 852 897	100 852 897
100 852 897	100 852 897
1 346 677 423	1 346 677 423
122 157 386	122 157 386
179 093 111	179 093 111
(56 935 725)	(56 935 725)
122 157 386	122 157 386
1 346 677 423	1 346 677 423
100 852 897	100 852 897
100 852 897	100 852 897
1 447 530 320	1 447 530 320

* See Note 33

UMKHANYAKUDE DISTRICT MUNICIPALITY
Annual Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rands

Note(s) 2014 2013
Restated*

Cash flows from operating activities	
Receipts	
Sale of goods and services	43 573 187
Grants	459 773 991
Interest income	2 203 647
Other receipts	796 160
	506 346 985
Payments	
Employee costs	(108 215 481)
Suppliers	(277 786 819)
Finance costs	(977 908)
Interest paid	-
	(386 980 208)
Net cash flows from operating activities	119 366 777
Net cash flows from operating activities	119 366 777
32	
Cash flows from investing activities	
Purchase of property, plant and equipment	(262 275 158)
Proceeds from sale of property, plant and equipment	835 404
Purchase of other intangible assets	(397 523)
	(191 906 262)
Net cash flows from investing activities	(261 837 277)
Net cash flows from investing activities	(261 837 277)
6	
Cash flows from financing activities	
Repayment of other current financial liabilities	7 894 507
Movement in non-current borrowings	(815 811)
Movement in non-current finance lease liability	252 422
Movement in non-current finance lease liability	238 602
Movement in receivables from non-exchange transactions	-
Interest income	4 522 085
	4 522 085
Net cash flows from financing activities	12 091 805
Net cash flows from financing activities	12 091 805
Net (decrease)/increase in cash and cash equivalents	(130 378 695)
Cash and cash equivalents at the beginning of the year	141 756 771
Cash and cash equivalents at the end of the year	141 756 771
Net (decrease)/increase in cash and cash equivalents	64 252 800
Cash and cash equivalents at the beginning of the year	77 503 971
Cash and cash equivalents at the end of the year	141 756 771

* See Note 33

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

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		Comments	
Statement of Financial Performance													
Revenue													
Revenue from exchange transactions													
Service charges	42 434 000	-	42 434 000	43 573 187	1 139 187	Explanations of variances refer to Appendix E1.							
Rental of facilities and equipment	165 000	(35 000)	130 000	106 871	(23 129)	Explanations of variances refer to Appendix E1.							
Interest received - Outstanding Debtors	-	-	-	4 462 481	4 462 481	Explanations of variances refer to Appendix E1.							
Other income	36 270 000	9 745 000	46 015 000	2 035 531	(43 979 469)	Explanations of variances refer to Appendix E1.							
Interest received - Investment	12 870 000	(2 870 000)	10 000 000	6 708 719	(3 291 281)	Explanations of variances refer to Appendix E1.							
Total revenue from exchange transactions	91 739 000	6 840 000	98 579 000	56 886 789	(41 692 211)								
Revenue from non-exchange transactions													
Government grants & subsidies	218 530 000	250 000	218 780 000	514 225 333	295 445 333	Explanations of variances refer to Appendix E1.							
Total revenue	310 269 000	7 090 000	317 359 000	571 112 122	263 753 122								
Expenditure													
Employee Related Costs													
Employee Related Costs	(118 630 000)	11 181 000	(107 449 000)	(109 914 639)	(2 465 639)	Explanations of variances refer to Appendix E1.							
Remuneration of councillors													
Remuneration of councillors	(10 354 000)	(552 000)	(10 906 000)	(6 953 469)	3 952 531	Explanations of variances refer to Appendix E1.							
Depreciation and amortisation													
Depreciation and amortisation	(33 414 000)	(2 000 000)	(35 414 000)	(28 109 220)	7 304 780	Explanations of variances refer to Appendix E1.							
Debt Impairments													
Debt Impairments	(18 557 000)	(2 109 000)	(20 666 000)	(15 371 559)	5 294 441	Explanations of variances refer to Appendix E1.							

UMKHANYAKUDE DISTRICT MUNICIPALITY

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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		Comments	
Figures in Rand													
Finance costs	-	-	-	-	(977 908)	(977 908)	-	(977 908)	(977 908)	-	(977 908)	Explanations of variances refer to Appendix E1.	
Debt impairment	-	-	-	(29 555 000)	(36 270 006)	(21 105 575)	-	(21 105 575)	(21 105 575)	(6 715 006)	(21 105 575)	Explanations of variances refer to Appendix E1.	
Repairs and maintenance	(26 032 000)	(3 523 000)	(29 555 000)	(36 270 006)	(21 105 575)	-	(21 105 575)	(21 105 575)	(6 715 006)	(21 105 575)	Explanations of variances refer to Appendix E1.		
Bulk purchases	(51 449 000)	(2 066 000)	(53 515 000)	(77 569 516)	(24 054 516)	(24 054 516)	(77 569 516)	(24 054 516)	(24 054 516)	(24 054 516)	Explanations of variances refer to Appendix E1.		
Contracted Services	(21 660 000)	(3 291 000)	(24 951 000)	(34 368 877)	(9 417 877)	(9 417 877)	(34 368 877)	(9 417 877)	(9 417 877)	(9 417 877)	Explanations of variances refer to Appendix E1.		
Grants and Subsidies Paid	(3 169 000)	(8 867 000)	(12 036 000)	-	12 036 000	-	(12 036 000)	12 036 000	12 036 000	-	12 036 000	Explanations of variances refer to Appendix E1.	
General Expenses	(27 004 000)	(28 576 000)	(55 580 000)	(139 618 456)	(84 038 456)	(84 038 456)	(139 618 456)	(84 038 456)	(84 038 456)	(84 038 456)	Explanations of variances refer to Appendix E1.		
Total expenditure	(310 269 000)	(39 803 000)	(350 072 000)	(470 259 225)	(120 187 225)	(120 187 225)	(470 259 225)	(350 072 000)	(350 072 000)	(32 713 000)	(133 565 897)		
(Surplus)/Deficit	-	(32 713 000)	(32 713 000)	(32 713 000)	100 852 897	133 565 897	(32 713 000)	100 852 897	(32 713 000)	(32 713 000)	133 565 897		
Actual Amount on Comparable Basis as Presented in the Comparative Statement	-	(32 713 000)	(32 713 000)	(32 713 000)	100 852 897	133 565 897	(32 713 000)	100 852 897	(32 713 000)	(32 713 000)	133 565 897		

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

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	Comments
Figures in Rand						
Capital expenditure for the year ended 30 June 2014						
Capital Expenditure	241 505 000	71 321 000	312 826 000	263 819 189	(49 006 811)	Projects still committed and rolled over to the next year.
NET ASSETS	241 505 000	71 321 000	312 826 000	263 819 189	(49 006 811)	

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

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), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

Standard of GRAP

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash flow statements
GRAP 3	Accounting policies, changes in accounting estimates and errors
GRAP 5	Borrowing costs
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after reporting date
GRAP 17	Property, plant and equipment
GRAP 19	Provisions, contingent liabilities and contingent assets
GRAP 21	Impairment of non-cash generating assets
GRAP 23	Revenue from non-exchange transactions
GRAP 24	Presentation of budget information in financial statements
GRAP 26	Impairment of cash-generating assets
GRAP 104	Financial instruments
GRAP 102	Intangible Assets

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

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been nearly adopted by the Municipality:

Standard of GRAP

GRAP 18	Segment Reporting	None	Qualitative	Impact
GRAP 20	Related party Disclosures	None	None	None
GRAP 25	Employee Benefits	None	None	None
GRAP 27	Agriculture	None	None	None
GRAP 31	Intangible Assets	None	None	None
GRAP 32	Service Concession Arrangements: Grantor	None	None	None
GRAP 105	Transfers of functions between entities under common control	None	None	None
GRAP 106	Transfer of functions between entities not under common control	None	None	None
GRAP 107	Mergers	None	None	None
GRAP 108	Statutory Receivables	None	None	None
IGRAP 1	Applying the Probability Test on Initial Recognition	None	None	None
IGRAP 16	Website Costs	None	None	None

1.1 Presentation currency

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

Accounting Policies

1.2 Going concern assumption

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

1.3 Significant judgments and sources of estimation uncertainty

In preparing the annual financial statements, management may be 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 judgments include:

- Impairment of assets.
- Provision for long service awards.
- Useful lives and residual values of property, plant, and equipment.
- Water and electricity losses.
- Impairment of assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, 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 and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land shall be recorded in the municipality's fixed asset register at its carried at cost

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

Item	Average useful life
Infrastructure	25 – 50
Electricity	25 – 55
Water	25 – 60
Sewerage	30
Buildings	20
Airport	5
Security measures	3 – 5
Inangible Assets	
Computer software	5
Other Assets	
Emergency equipment	15
Furniture and fittings	7 – 10
Computer equipment	5
Motor vehicles	7 – 10
Plant and equipment	2 – 10
Office equipment	5
Office machines	3 – 5
Telecommunication	5

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

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

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

Accounting Policies

1.5 Intangible assets

Intangible assets are initially recognised at cost.

- is separable, i.e. 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, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

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.

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

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

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.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

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	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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.

1.6 Financial Instruments

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probably that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Trade and other receivables are classified as loans and receivables.

Accounting Policies

1.6 Financial instruments (continued)

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

1.7 Leases

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.8 Capital Expenditure

Capital Expenditure are initially measured at cost except where capital expenditure are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently capital expenditure are measured at the lower of cost and net realisable value.

Capital Expenditure are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

The cost of capital expenditure 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.

Accounting Policies

1.8 Capital Expenditure (continued)

The cost of capital expenditure is assigned using the weighted average cost formula. The same cost formula is used for all capital expenditure having a similar nature and use to the municipality.

When capital expenditure are sold, the carrying amounts of those capital expenditure 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 capital expenditure to net realisable value or current replacement cost and all losses of capital expenditure are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of capital expenditure, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of capital expenditure recognised as an expense in the period in which the reversal occurs.

As at 30 June 2014 the municipality have inventory comprised of materials (i.e. water pipes not underground as yet); and water (i.e. quantity of water on hand as at 30 June 2014).

1.9 Impairment of 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.

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.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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 amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

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

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

Respective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable 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 was tested for impairment before the end of the current reporting period.

1.10 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.

Accounting Policies

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

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.

Irrespective of whether there is any indication of impairment, the entity 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 was tested for impairment before the end of the current reporting period.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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 either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.¹

1.11 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

Accounting Policies

1.11 Employee benefits (continued)

Defined contribution plans

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

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

Pension Obligations

Umkhanyakude District Council and its employees contribute to the Natal Joint Municipal Pension Fund, Kwazulu-Natal Joint Municipal Provident Fund and GEPF which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956 Current contributions are charged against operating income on the basis of current service costs.

1.12 Provisions, contingencies and commitments

Provisions are recognised when:

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

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

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

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

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. Contingent assets and contingent liabilities are not recognised.

Accounting Policies

1.12 Provisions, contingencies and commitments (continued)

Contingencies are disclosed in note 40.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are

subsequently measured at the higher of:

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

Commitment is referred to as the intention to commit to an outflow from the municipality's resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules.

These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. A municipality may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

1.13 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, other than increases relating to contributions from owners.

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 volume rebates.

Rendering of services

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

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

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

1.14 Revenue from non-exchange transactions

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

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

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 volume rebates.

Government grants

Government grants are recognised as revenue when:

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

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government grants on a re-imbursment basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

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

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

1.17 Comparative figures

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

1.19 Fruitless and wasteful expenditure

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

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

1.20 Irregular expenditure

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

Accounting Policies

1.20 Irregular expenditure (continued)

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

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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.

1.21 Conditional grants and receipts

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.

1.22 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.23 Offsetting

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

1.24 Budget information

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

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

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01 July 2013 to 30 June 2014.

The budget for the economic entity includes all the entities approved budgets under its control.

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.

Accounting Policies

1.25 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 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.

1.26 Changes accounting estimates and judgements

The municipality makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1.26.1 Assets Useful Lives

Plant and equipment is depreciated over its useful life. The actual useful lives of the assets are assessed annually and vary depending on a number of factors. In reassessing the assets' useful lives, factors such as technological innovation and maintenance programmes are taken into account.

1.27 Presentation of currency

These annual financial statements are presented in South African Rand.

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

	2014	2013
2. Inventories		
Materials	86 736 472	42 857 798
Water	105 153	62 514
	86 841 625	42 920 312
3. TRADE & OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Gross balances		
Electricity	2 812 135	2 629 037
Water	147 479 800	134 393 306
Sewerage	9 236 273	8 007 385
	159 528 208	145 029 728
Less: Allowance for impairment		
Electricity	(2 559 252)	(1 787 468)
Water	(140 411 354)	(126 682 140)
Sewerage	(8 392 603)	(7 522 042)
	(151 363 209)	(135 991 650)
Net balance		
Electricity	252 883	841 569
Water	7 068 446	7 711 166
Sewerage	843 670	485 343
Debtors Prepayments	5 405 788	4 999 046
	13 570 787	14 037 124
Electricity, Water and Sewerage: Ageing		
Current (0-30 days)	2 341 488	(2 735 823)
31 - 60 days	5 344 529	2 733 941
61 - 90 days	6 086 495	2 396 802
91 - 120 days	3 496 196	2 424 174
121+ days	141 809 502	140 210 634
	159 078 210	145 029 728
Electricity		
Current (0-30 days)	245 642	239 988
31 - 60 days	77 632	75 845
61 - 90 days	77 771	75 981
91 - 120 days	39 196	38 294
121+ days	2 371 894	2 198 929
	2 812 135	2 629 037
Water		
Current (0-30 days)	5 198 598	2 591 369
31 - 60 days	5 943 553	2 257 150
61 - 90 days	3 391 118	2 321 513
91 - 120 days	131 546 457	129 796 998
121+ days	950 076	(2 573 725)
	147 029 802	134 393 305

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

	2014	2013
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3. TRADE & OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

	2014	2013
Sewerage	411 559	(402 086)
Current (0-30 days)	68 299	66 727
31 - 60 days	65 171	63 671
61 - 90 days	65 882	64 366
91 - 120 days	8 625 362	8 214 708
121+ days	9 236 273	8 007 386

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

2014 2013

3. TRADE & OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

Summary of debtors by customer classification

	2014	2013
Consumers	406 660	406 951
Current (0 -30 days)	2 720 391	2 749 384
31 - 60 days	1 623 174	1 640 473
61 - 90 days	1 541 191	1 557 616
91 - 120 days	124 647 993	111 020 000
121+ days	130 935 409	117 374 424
Less: Allowance for impairment	(130 589 301)	(116 075 013)
	346 108	1 299 411
Industrial/commercial	(465 851)	(470 816)
Current (0 -30 days)	1 566 808	1 583 506
31 - 60 days	338 420	342 027
61 - 90 days	257 021	259 760
91 - 120 days	19 934 780	20 147 236
121+ days	21 631 178	21 861 713
Less: Allowance for impairment	(20 773 908)	(19 916 637)
	857 270	1 945 076
National and provincial government	326 946	(330 430)
Current (0 -30 days)	1 309 942	1 323 903
31 - 60 days	409 934	414 303
61 - 90 days	600 398	606 797
91 - 120 days	3 864 403	8 778 062
121+ days	6 511 623	10 792 635
Total Debtors	2 341 488	(394 295)
Current (0 -30 days)	5 344 529	5 656 794
31 - 60 days	6 086 495	2 396 802
61 - 90 days	3 496 196	2 424 174
91 - 120 days	141 809 502	139 945 299
121+ days	159 078 210	150 028 774
Less: Allowance for Impairment	(1 999 763)	(2 291 979)
Current (0 -30 days)	(1 895 553)	(2 478 146)
31 - 60 days	(3 496 196)	(2 172 550)
61 - 90 days	(141 809 502)	(129 048 975)
91 - 120 days	(151 363 209)	(135 991 650)
121+ days	341 725	3 857 242
Current (0 -30 days)	3 182 334	10 179 882
31 - 60 days	4 190 934	-
61 - 90 days	7 714 993	14 037 124
Total		

UMKHANYAKUDE DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

	2014	2013
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3. TRADE & OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

	2014	2013
Reconciliation of allowance for impairment	135 991 650	124 907 693
Balance at beginning of the year	31 083 436	28 422 206
Contributions to allowance	(15 711 876)	(17 338 249)
Debt impairment written off against allowance	151 363 210	135 991 650

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due (2014) 1 month past due (2013) are not considered to be impaired. At 30 June 2014, R 10 179 882 (2013: R 10 179 882) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

	2014	2013
1 month past due	341 725	3 857 242
2 months past due	3 182 334	10 179 882
3 months past due	4 190 934	-

Consumer debtors impaired

As of 30 June 2014, consumer debtors of R 159 078 210 - (2013: R 150 028 774) were impaired and provided for. The amount of the provision was R 151 363 210 as of 30 June 2014 (2013: R 135 991 650).

4. Loan to Umhlabuyalingana

	2014	2013
Avis loan - Mithombeni LM	242 792	242 792
Debtor Fraud	3 805 917	3 805 917
Debtor Shenula	2 730	2 730
Housing loans	-	-
Loan to Umhlabuyalingana	108 762	108 762
Oclwane Water	1 553 317	1 553 317
Other Debtors	1 222 797	1 222 797
Pre - Paid Expense	9 248 582	51 735 370
Public contributions and subsidies	1 166 289	1 166 289
Sundry Debtors - Water Mithu	4 022 951	4 022 951
Sundry Debtors - Umhathuze Water	345 633	345 633
Vehicle loans	69 939	69 939
Provision for Bad Debts	(19 285 059)	(13 891 360)
	2 504 650	52 162 283

Concessionary Loans

Vehicle Loan

A vehicle was bought by the municipality on behalf of a councillor. The agreement was the instalment would be deducted on the salary. Mr Sibanda failed to settle the balance of R69 939.34 that is still reflecting in the municipality's financial statements.

Avis Loan LM Mithombeni

A vehicle was bought by the municipality on behalf of a councillor. The agreement was the instalment would be deducted on the salary. Mr LM Mithombeni failed to settle the balance of R242 792 that is still reflecting in the municipality's financial statements.

Other Loan Disclosure

Loan to Umhlabuyalingana

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4. Loan to Umhlabuyalingana (continued)

The loan was granted by the UMKhanyakude council to Umhlabuyalingana Local Municipality under the local authorities loan fund act, 1984 act no 67 of 1984. This was granted for the period of two years starting on the 02/12/2009 to the 30/11/2011. The loan was granted for the purpose of re-instatement of Disaster services contract. The capital portion of the loan from time to time will bear interest at the prime bank rate. The balance of R 108 672 disclosed in the financial statement of UMKhanyakude is the interest portion that has been carried forward for the past five years where as the capital portion was settled at prescribed period of time.

5. VAT receivable

VAT	28 012 670	25 113 016
-----	------------	------------

VAT claimed to SARS is on payments basis. Amount claimable to SARS is disclosed in the VAT control account where the VAT 201s and VAT refunds are offset and the amount due or payable to SARS is disclosed.

VAT Input Accrual represents VAT that is receivable that accrued during the period and is transferred to the VAT control account once a VAT 201 is raised and submitted to SARS. VAT Output Accrual represents VAT payable accrued during the period and is transferred to the VAT control account once a VAT 201 is raised and submitted to SARS which is VAT payable.

VAT	25 820 959	25 113 016
VAT Control	9 652 186	-
VAT Input Accrual	(7 460 474)	-
VAT Output Accrual	28 012 671	25 113 016

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	19 494	13 526
Bank balances	10 709 113	11 600 969
Other cash and cash equivalents	649 469	130 142 276
	<u>11 378 076</u>	<u>141 756 771</u>

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6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description

Bank statement balances

Cash book balances

30 June 2014 30 June 2013 30 June 2012 30 June 2014 30 June 2013 30 June 2012

ABSA BANK - Mkuze Branch	6 845 143	154 281	23 100 171	6 845 143	154 281	23 100 171
Account Number : 4053107423						
First National Bank - Mkuze	2 747 271	10 432 174	27 402 772	2 747 271	10 432 174	27 402 772
Branch Account Number :						
62026865321						
First National Bank - Mkuze	539 141	520 440	505 714	539 141	520 440	505 714
Branch Account Number :						
62092993809						
First National Bank - Mkuze	84 366	82 207	81 043	84 366	82 207	81 043
Branch Account Number :						
62027696478						
Nedbank Fixed Deposit - Branch	-	96 627 046	-	-	96 627 046	-
Account Number 7881085762						
Ilhala Bank - Mkuze Branch	480 047	411 844	324 453	480 047	411 844	324 453
Account Number - 23247671						
ABSA BANK - Call Account	380 805	346 989	-	380 805	346 989	-
Number : 91-1531-5268						
First National Bank - Call	240 848	2 879 352	-	240 848	2 879 352	-
Account Number :						
62309788498						
FNB Business Fixed Maturity -	-	30 261 370	-	-	30 261 370	-
74298425031						
FNB Money Market Transactor -	27 816	27 542	27 270	27 816	27 542	27 270
62263733258						
Call Investments	-	-	26 049 520	-	-	26 049 520
Total	11 345 437	141 743 245	77 490 943	11 345 437	141 743 245	77 490 943

7. Property, plant and equipment

	2014		2013	
	Cost / Accumulated depreciation and impairment	Carrying value	Cost / Accumulated depreciation and impairment	Carrying value
Land	1 157 250	1 157 250	1 157 250	1 157 250
Buildings	35 875 018	26 981 903	35 878 244	(7 494 131)
Infrastructure	748 837 733	667 936 101	740 596 995	(58 854 155)
Other property, plant and equipment	37 190 141	(14 715 133)	31 145 604	(11 083 120)
Assets Under Construction	755 422 685	755 422 685	509 882 714	-
Leased Assets	1 737 323	(714 678)	887 714	(550 556)
Total	1 580 220 150	(105 224 558)	1 474 995 592	(77 981 962)

Fixed assets register is held at the municipal premises (refer to Appendix B for more detail on property, plant and equipment). During 2013/14 financial year, the following assets were not found during the physical verification exercise which were subsequently written-off and removed from our fixed assets register and property, plant and equipment:

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7. Property, plant and equipment (continued)

	2014	2013
Infrastructure Assets	1 410 221	-
Movable	403 801	-
	<u>1 814 022</u>	<u>-</u>

There is a Council Resolution in this regard.

During physical verification of fixed assets exercised for 2013/14 financial year, movable and immovable assets amounted to R5 310 405.16 were discovered on site and included in the fixed assets register and property, plant and equipment at fair value by Council Resolution. Subsequently, the fair value adjustment was processed as income in the Statement of Financial Performance.

Change in Accounting Estimate

GRAP 17: Property, Plant and Equipment requires that the review of the remaining useful life of an item of property, plant and equipment to be conducted at least each financial year end. Such review has been completed and the following results were achieved:

Based on the condition assessment carried out during the physical verification, the remaining useful lives of 14 237 assets were adjusted in accordance with the "Local Government Capital Asset Management Guideline" as issued by National Treasury.

The impact of the adjustment is that depreciation charges on Property, Plant and Equipment for the 2014 financial period has increased by R5,268,449.25 from R20,508,004.00 to R25,776,453.26, should circumstances remain unchanged, the effect on future period's depreciation will be an estimated increase of R5,268,449.25 per annum.

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7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Newly identified assets at fair value	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	1 157 250	-	-	-	-	-	-	1 157 250
Buildings	28 384 113	-	-	(2 574)	-	(1 351 927)	(47 709)	26 981 903
Infrastructure	681 742 840	-	-	(730 943)	9 647 734	(20 680 219)	(2 043 311)	667 936 101
Other property, plant and equipment	20 062 484	-	1 239 371	1 292	-	(3 490 058)	(1 143 247)	22 475 008
Assets Under Construction	509 882 714	255 187 705	-	-	(9 647 734)	-	-	755 422 685
Leased Assets	337 158	1 042 916	-	(103 179)	-	(254 250)	-	1 022 645
	1 241 566 559	261 035 787	1 239 371	(835 404)	-	(25 776 454)	(2 234 267)	1 474 995 592

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	1 157 250	-	-	-	1 157 250
Buildings	29 636 324	-	(1 252 211)	-	28 384 113
Infrastructure	697 022 738	1 166 986	(15 259 144)	(1 187 740)	681 742 840
Other property, plant and equipment	8 537 294	14 578 742	(2 361 681)	(691 871)	20 062 484
Assets Under Construction	333 722 180	176 160 534	-	-	509 882 714
Leased Assets	593 229	-	(256 071)	-	337 158
	1 070 669 015	191 906 262	(19 129 107)	(1 879 611)	1 241 566 559

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8. Intangible assets

2014	2013
Cost / Accumulated Carrying value	Cost / Accumulated Carrying value
and	and
accumulated	accumulated
impairment	impairment
434 957	(107 600)
327 357	37 434
(7 808)	29 626
Computer software	Computer software

Reconciliation of Intangible assets - 2014

Opening balance	29 626	397 523	(99 792)	327 357
Additions				
Amortisation				
Total				

Reconciliation of Intangible assets - 2013

Opening balance	37 108	(7 482)	29 626
Amortisation			
Total			

9. Other financial liabilities

At amortised cost	431 638	(18 603)
Other financial liabilities	5 405 788	-
Debtors Prepayments	3 844 677	1 806 199
Terms and conditions		
Other Accruals	9 682 103	1 787 596
Total other financial liabilities	9 682 103	1 787 596

10. Trade and other payables from exchange transactions

Trade creditors	86 088 837	29 094 585
Accrued expenses	192 803	34 396 298
13th Cheque Accrual	2 371 083	3 944 436
Leave Pay Accrual	10 065 916	7 568 148
Retentions	23 175 868	-
Total creditors	121 894 507	75 003 467

The fair value of trade and other payables approximate their carrying amounts.

11. Consumer deposits

Electricity and Water	1 844 883	1 350 634
Unallocated Deposits	17 163	1 148 032
Total consumer deposits	1 862 046	2 498 666

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12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

2014	2013
756 400	153 814
1 948 550	269 717
200 000	420 907
11 300	4 790 878
-	800 268
405 600	1 164 094
2 164 094	458 944
-	941 043
101 506	77 520
-	578 891
578 891	787 880
-	915 000
-	122 667
-	915 000
-	122 667
-	915 000
267 001	267 001
166 667	166 667
4 172 492	18 043 888
-	17 917 362
-	13 197
-	524 310
-	800 000
1 562 945	-
166 666	166 666
749 347	2 000 000
9 019 417	19 473 262
303 570	303 570
254 290	911 670
300	300
750 000	-
908 690	908 690
-	258 244
145 565	145 565
21 851 008	77 201 965

Cash backing of 2013/14 conditional grants

Grant funds used for other purposes:

-	578 891
-	267 001
-	303 750
-	908 690
-	8 538 474
-	10 596 806

During the financial year ended 30 June 2014, the municipality had retentions amounting to R8 538 473.79 which will be settled in the next year when they are due.

Grants valued at R2 058 152 disclosed above were not used for intended purposes in the previous years and an investigation is in progress and the findings will be tabled to Council.

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13. Non-current provisions

Reconciliation of non-current provisions - 2014

	Opening Balance	Additions	Reversed during the year	Total
Transfer to Current Portion of Long Service Award	210 326	-	(101 313)	109 013
Provision for long service awards	3 259 674	1 030 639	(210 326)	4 079 987
	3 470 000	1 030 639	(311 639)	4 189 000

Reconciliation of non-current provisions - 2013

	Opening Balance	Additions	Total
Transfer to Current Portion of Long Service Award	-	210 326	210 326
Non-current Provision for long service awards	1 724 000	1 535 674	3 259 674
	1 724 000	1 746 000	3 470 000

Long Service Awards

The municipality carries out a statutory valuation on an annual basis. ZAQEN Actuaries (Pty) Ltd performed an actuarial valuation of the liability in respect of the long service awards for the financial year ended 30 June 2014. The previous valuation was conducted by One Pangaea Financial as at 30 June 2013. The principal actuarial assumptions were used as follows:

Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

Completed Years of Service	Total Long Service Benefit Award (% of Annual Salary)	Formula used to calculate Total Long Service Benefit Award
10	4%	(10/250)*Annual Salary
15	8%	(20/250)*Annual Salary
20,25,30,35,40 and 45	12%	(30/250)*Annual Salary

Valuation Assumptions - Key Financial Variables

Valuation Assumptions - Key Financial Variables	SA 85-90	SA 85-90
Discount rate per annum	7.96%	7.96%
General inflation	6.25%	6.33%
Salary inflation	7.15%	7.33%
Real rate	0.09%	0.59%
Examples of mortality rates used were as follows:		
Average retirement age	63	63
Mortality during employment	63	63
Members withdrawn from services: (Average for males and females)		
Age 20 - 24	16.5%	20%
Age 25 - 29	6.6%	15%
Age 30 - 34	5.1%	12.5%
Age 35 - 39	3.6%	9%
Age 40 - 44	2.6%	6%
Age 45 - 49	1.8%	4%
Age 50 - 54	1.1%	2%
Age 55 - 59		1%
Age 60+	0%	0%

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13. Non-current provisions (continued)

The amounts recognised in the Statement of Financial Position were determined as follows:

Present value of funded obligations	4 189 000	3 470 000
Fair value of plan assets	-	-
Liability in the Statement of Financial Position	4 189 000	3 470 000

Movements in the defined benefit obligation is as follows:

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

Balance at beginning of the year	3 470 000	1 724 000
Current service & interest cost	846 000	423 000
Benefit payments	(210 326)	(64 000)
Actuarial (gains)/losses	83 326	1 387 000
Balance at end of year	4 189 000	3 470 000

In conclusion:

If we assume that the long service award benefit policy of the Municipality remains unchanged over the next 36 months, a projection of the Municipality's unfunded accrued liability and future service cost can be seen as follows:

Statement of Financial Position obligation for:

Long Service Award	4 189 000	3 470 000
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Statement of Financial performance obligation for:

Long Service Award (Loss/ Gain)	83 326	1 387 000
---------------------------------	--------	-----------

14. Non-current borrowings

DBSA Loans
Opening Balance
Amount Due
Amount Paid

10 553 559	10 553 559
783 285	713 756
(1 627 256)	(1 529 567)
<u>10 553 559</u>	<u>9 737 748</u>

Statement of Financial Performance
Non-current portion of borrowings
Current portion of borrowings

9 732 083	8 180 507
821 476	1 557 241
<u>10 553 559</u>	<u>9 737 748</u>

The loans from Development Bank South Africa are subject to interest at the average rate of 6.75% and are repayable over an average period of 13 years.

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15. Non-current finance lease liability

	2014	2013
Minimum lease payments	970 165	970 165
Future Finance Charges	(62 580)	(66 140)
Present Value of minimum lease payments	458 832	884 025
Within one year	521 412	458 832
Within two to five years	448 753	425 193

The average lease term is 5 years and the average effective borrowing rate is 9% (2014) 3.3% (2014). Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

	2014	2013
Minimum lease payments	446 800	446 800
Future Finance Charges	(53 799)	(53 799)
Present Value of minimum lease payments	393 001	393 001
Within one year	263 052	263 052
Within two to five years	183 748	183 748
16. Service charges		
Sale of electricity	5 669 415	5 669 415
Sale of water	36 646 758	36 646 758
Sewerage and sanitation charges	1 257 014	1 257 014
Total Services Charges	43 573 187	43 573 187
	4 398 483	4 398 483
	36 454 062	36 454 062
	1 087 414	1 087 414
	41 939 959	41 939 959

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	2014	2013
17. Government grants and subsidies		
Operating grants	193 756 000	174 928 000
Equitable share	87 254 971	39 322 626
Other Grants		
Capital grants	281 010 971	214 250 626
MIG	233 214 362	236 303 803
	233 214 362	236 303 803
	514 225 333	450 554 429
Public Participation & Customer Satisfaction Survey		
Balance unspent at beginning of year	-	-
Current-year receipts	750 000	-
Conditions met - transferred to revenue	-	-
	750 000	-
	-	-
	-	-
	-	-
	750 000	-
	-	-
	750 000	-
PIMMS / NDT Operational		
Balance unspent at beginning of year	(300)	(300)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	(300)	(300)
FMG		
Current-year receipts	(1 250 000)	(1 250 000)
Conditions met - transferred to revenue	1 250 000	1 250 000
	-	-
	153 813	(438 028)
Balance unspent at beginning of year	(153 813)	(438 028)
Current-year receipts	-	-
Conditions met - transferred to revenue	153 813	284 215
	-	(153 813)
Capacity Building: Asset Management		
Balance unspent at beginning of year	(17 748 000)	(17 748 000)
Current-year receipts	-	(17 127 000)
Conditions met - transferred to revenue	13 871 396	16 831 112
	(4 172 492)	(18 043 888)
Massification Grant		
Balance unspent at beginning of year	(420 908)	(420 908)
Current-year receipts	-	-
Conditions met - transferred to revenue	420 908	-
	-	(420 908)
Debt Management Grant		
Balance unspent at beginning of year	(420 908)	(420 908)
Current-year receipts	-	-
Conditions met - transferred to revenue	420 908	-
	-	(420 908)
Umqobokazi		

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17. Government grants and subsidies (continued)		
Balance unspent at beginning of year	(258 244)	(258 244)
Current-year receipts	-	-
Conditions met - transferred to revenue	258 244	-
	<u>-</u>	<u>(258 244)</u>
Kwazibti National Lottery		
Balance unspent at beginning of year	(122 667)	(166 667)
Current-year receipts	-	44 000
Conditions met - transferred to revenue	(122 667)	(122 667)
	<u>(122 667)</u>	<u>(122 667)</u>
Mqobela National Lottery		
Balance unspent at beginning of year	(166 666)	(166 666)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>(166 666)</u>	<u>(166 666)</u>
Mabidi National Lottery		
Balance unspent at beginning of year	(166 667)	(166 667)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<u>(166 667)</u>	<u>(166 667)</u>
Mtuba Water Conservation and Demand Management		
Balance unspent at beginning of year	(524 309)	(524 309)
Current-year receipts	-	-
Conditions met - transferred to revenue	524 309	-
	<u>-</u>	<u>(524 309)</u>
Kwazibti Water Purification		
Balance unspent at beginning of year	(915 000)	(915 000)
Current-year receipts	-	-
Conditions met - transferred to revenue	915 000	-
	<u>-</u>	<u>(915 000)</u>
Kwajobe Cezwane Water Purification		
Balance unspent at beginning of year	(787 880)	(787 880)
Current-year receipts	-	-
Conditions met - transferred to revenue	787 880	-
	<u>-</u>	<u>(787 880)</u>
Kwajobe Nongwoza Water Purification		
Balance unspent at beginning of year	(915 000)	(915 000)
Current-year receipts	-	-
Conditions met - transferred to revenue	915 000	-
	<u>-</u>	<u>(915 000)</u>

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17. Government grants and subsidies (continued)

Bazanele River Water Purification

Balance unspent at beginning of year	(756 400)	(756 400)
Current-year receipts	-	-
Conditions met - transferred to revenue	756 400	-
	(756 400)	(756 400)

Disaster Management

Balance unspent at beginning of year	(4 790 878)	(4 790 878)
Current-year receipts	-	-
Expenditure claimed in accordance with grant conditions	4 790 878	6 722 161
	(4 790 878)	(4 790 878)

Growth and Development Summit Grant

Balance unspent at beginning of year	(458 944)	(458 944)
Current-year receipts	-	-
Conditions met - transferred to revenue	458 944	41 056
	(458 944)	(458 944)

Corridor Development

Balance unspent at beginning of year	(269 717)	(269 717)
Current-year receipts	-	-
Conditions met - transferred to revenue	269 717	433 200
	(269 717)	(269 717)

MSIG

Balance unspent at beginning of year	-	(189 771)
Current-year receipts	(890 000)	(1 000 000)
Conditions met - transferred to revenue	890 000	622 987
Unspent portion forfeited by National Treasury	-	566 784
	-	-

Intergovernmental Relations Implementation Grant

Balance unspent at beginning of year	(77 520)	(917 000)
Current-year receipts	-	-
Conditions met - transferred to revenue	77 520	839 480
	(77 520)	(77 520)

Ndumo Groundnuts

Balance unspent at beginning of year	(2 000 000)	-
Current-year receipts	-	(2 000 000)
Conditions met - transferred to revenue	1 250 653	-
	(749 347)	(2 000 000)

Expanded Public Works Programme (EPWP)

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17. Government grants and subsidies (continued)		
Balance unspent at beginning of year	(1 164 094)	(82 094)
Current-year receipts	(1 000 000)	(1 082 000)
Conditions met - transferred to revenue	-	-
Balance unspent at beginning of year	(2 164 094)	(1 164 094)
Lake Tete		
Balance unspent at beginning of year	(267 001)	(267 001)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Balance unspent at beginning of year	(267 001)	(267 001)
Kwadapha		
Balance unspent at beginning of year	(578 891)	(578 891)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Balance unspent at beginning of year	(578 891)	(578 891)
Nyezi Community Hiv Centre		
Balance unspent at beginning of year	(303 570)	(303 570)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Balance unspent at beginning of year	(303 570)	(303 570)
Umkhombe Tours		
Balance unspent at beginning of year	(908 690)	(908 690)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Balance unspent at beginning of year	(908 690)	(908 690)
Waste Management Grant		
Balance unspent at beginning of year	(145 565)	(145 565)
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Balance unspent at beginning of year	(145 565)	(145 565)
Environmental Management Grant		
Balance unspent at beginning of year	(800 268)	(1 308 991)
Current-year receipts	-	-
Conditions met - transferred to revenue	394 668	508 723
Balance unspent at beginning of year	(405 600)	(800 268)
Rural Transport Infrastructure and System Grant		
Balance unspent at beginning of year	-	(1 687 000)
Current-year receipts	(2 101 000)	(1 776 000)
Conditions met - transferred to revenue	2 100 709	1 776 000
Unspent portion forfeited by National Treasury	-	1 687 000

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17. Government grants and subsidies (continued)

	(291)	-
Municipal Government Administration		
Balance unspent at beginning of year	(600 000)	-
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
Amount recalled by National Treasury	800 000	-
	-	-
	-	(800 000)
	-	-
	-	-
	-	(800 000)
Ndumo Learners Shelter		
Balance unspent at beginning of year	(19 473 271)	-
Current-year receipts	-	-
Conditions met - transferred to revenue	10 453 845	(35 000 000)
	-	15 526 729
	(9 019 426)	(19 473 271)
MIG Grant		
Balance unspent at beginning of year	(17 917 372)	(27 448 175)
Current-year receipts	(215 297 000)	(226 773 000)
Conditions met - transferred to revenue	233 214 372	236 303 803
	-	(17 917 372)
Councillors Training		
Balance unspent at beginning of year	(200 000)	-
Current-year receipts	-	-
Conditions met - transferred to revenue	188 700	(200 000)
	(200 000)	-
Ingwavuma Prison Electrical Upgrade		
Balance unspent at beginning of year	(941 043)	(941 043)
Conditions met - transferred to revenue	839 537	-
	(101 506)	(941 043)
Municipal Water Infrastructure Grant		
Current-year receipts	(27 074 001)	-
Conditions met - transferred to revenue	25 511 056	-
	(1 562 945)	-
Mtuba Bulk Water Supply		
Balance unspent at beginning of year	(13 197)	(13 197)
Conditions met - transferred to revenue	13 197	-
	-	(13 197)
Other Grants		
Balance unspent at beginning of year	(911 670)	(911 670)
Mbazwana Tusong Centre	(250 000)	-
	-	(911 670)

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17. Government grants and subsidies (continued)		
Rural Households Infrastructure Grant	(4 000)	-
Conditions met - transferred to revenue	911 670	-
Total Conditional And Other Grants	(254 000)	(911 670)
Balance unspent at beginning of year	(77 201 956)	(97 908 864)
Current-year receipts	(266 017 991)	(257 549 043)
Conditions met - transferred to revenue	320 568 945	275 519 018
Other Adjustment	800 000	2 736 933
Equitable Share	(21 851 002)	(77 201 956)
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
18. Rental of facilities		
Rental of Buildings	106 871	103 940
19. Interest Earned		
Investments	4 495 735	9 642 336
Other Bank Balances	2 212 984	2 882 305
Total Interest	6 708 719	12 524 641
20. Interest Earned - Outstanding Receivables		
Interest received - outstanding receivables	4 462 481	1 538 146
21. Other Income		
Connection Fees	17 665	99 623
Fair Value Adjustment	1 239 371	-
Tender Sales	69 603	113 445
Other Income	708 892	466 774
Total Other Income	2 035 531	679 842

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22. Employee related costs

Employee related costs- Salaries and Wages	81 426 389	48 726 984
Contributions for UIF, pensions and medical aids	14 475 466	10 327 108
Travel, motor car, accommodation, subsistence and other allowances	6 817 552	6 534 667
Housing benefits and allowances	1 159 981	641 056
Overtime payments	3 084 406	2 671 157
Other employee related costs	2 950 845	1 637 277
	109 914 639	70 538 249

During the year under review salaries for employees were reviewed upwards through a Council Resolution due to disparities that were noted.

Remuneration of Municipal Manager

Annual Remuneration	455 885	917 343
Travel, motor car, accommodation, subsistence and other allowances	152 068	77 309
Contributions to UIF, Medical and Pension Funds	6 721	11 926
Backpay	11 517	-
Lumpsum Payout	820 000	75 899
	1 446 191	1 082 477

Mr P.S. Gwacela (former Acting Municipal Manager) received a lumpsum payout of R820 000.00. Mr S.N. Dubazana earned R341 862.73 from July 2013 to October 2013. Mr M.S. Dlamini was acting Municipal Manager for the period 01 October 2013 to 31 March 2014. Mr E.M. Mzimela was appointed on 01 April 2014 and earned R284 328.38 and is the Municipal Manager.

Remuneration of the Chief Finance Officer

Annual Remuneration	449 832	440 580
Travel, motor car, accommodation, subsistence and other allowances	556 935	548 813
Contributions to UIF, Medical and Pension Funds	41 414	10 612
	1 048 181	1 000 005

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22. Employee related costs (continued)

Remuneration of General Manager - Corporate Services

Annual Remuneration	587 578	490 376
Travel, motor car, accommodation, subsistence and other allowances	343 688	84 227
Contributions to UIF, Medical and Pension Funds	10 087	85 485
Leave Payout	-	150 577
Acting Allowance	-	136 121
Back Pay	20 000	-
Total	961 353	946 786

Remuneration of General Manager - Community Services

Annual Remuneration	662 285	360 979
Travel, motor car, accommodation, subsistence and other allowances	266 252	97 083
Contributions to UIF, Medical and Pension Funds	10 128	8 296
Acting Allowance	-	59 102
Total	938 665	525 460

Remuneration of General Manager - Technical Services

Annual Remuneration	838 723	300 181
Travel, motor car, accommodation, subsistence and other allowances	146 786	59 102
Contributions to UIF, Medical and Pension Funds	10 684	42 323
Acting Allowance	-	39 625
Leave payout	-	106 615
Backpay	76 053	-
Total	1 072 246	547 846

Remuneration of General Manager - Planning & Economic Development (formerly SED)

Annual Remuneration	744 630	247 881
Leave Payout	-	9 195
Travel, motor car, accommodation, subsistence and other allowances	213 157	40 463
Contributions to UIF, Medical and Pension Funds	10 532	8 455
Acting Allowance	-	93 620
Total	968 319	399 614

23. Bad Debts

Bad debts written off

21 105 575	-
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During the financial year long outstanding debtors amounting to R21 105 575 were written off after being tabled to Council for approval.

24. Remuneration of councillors

Mayor	512 400	655 561
Deputy Mayor	681 955	714 257
Speaker	717 283	764 192
Executive Committee Members	1 149 637	1 581 374
Councillors	1 774 939	969 353
Allowances	2 117 256	1 559 054
Total	6 953 470	6 243 791

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24. Remuneration of councillors (continued)

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. The Mayor and the Speaker are provided with offices and secretarial support at the cost of the Council.

All Councillors are re-imbursed for kilometres travelled on official duties with the exception of the Mayor.

The Deputy Mayor and other Executive Committee Members each have an office and share secretarial support at the cost of the Council.

Only the Mayor has the use of Council owned vehicle for official duties.

The Mayor has two full-time bodyguards and 1 relief bodyguard.

25. Depreciation and amortisation

Property, plant and equipment	28 109 220	21 016 200
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26. Impairment loss/ Reversal of Impairments

Provision For Bad Debts	15 371 559	34 953 792
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27. Finance costs

Current borrowings	977 908	1 065 933
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28. Repairs and Maintenance

Repairs and Maintenance	36 270 006	21 799 371
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29. Bulk purchases

Electricity	27 593 001	19 428 214
Water	49 976 515	56 839 361

Total Bulk Purchases

	77 569 516	76 267 575
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30. Contracted services

Specialist Services	34 368 877	7 576 847
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31. General expenses

83 495	105 097	Audit Committee fees
2 841 084	2 704 138	Audit Fees
2 350 206	2 469 870	Accommodation
-	379 199	Advertising
451 026	756 285	Arts & Culture
555 717	464 313	Bank charges
-	3 869	Business Plans
-	78	Civic Receptions
271 057	145 878	Cleaning
914 056	1 071 467	Community development and training
6 857 617	6 710 713	Consulting and professional fees
488 014	448 729	Disability
421 125	467 931	Entertainment
2 649 745	13 619 945	Esicabazini Development Youth Academy
-	1 927 761	Internal Audit Fees
-	72 950	Fleet
786 084	2 078 818	Fuel and oil
1 208 438	484 736	Gender, Youth, Children & Senior Citizen
16 632 863	7 145 841	Grant Funded Expenditure
23 005 327	14 441 592	Hire of Plant & Equipment
226 039	1 205 943	HIV & AIDS Prevention
946 515	-	Business Development & Support
-	137 608	Insurance
1 139 925	-	Inter-Governmental Relations
-	1 719 365	Lease rentals on operating lease
-	2 252 570	Legal Fees
-	742 807	Levies
618 929	311 004	Licences
-	30	Mayor's Descretionary Fund
67 583	35 051	Medical expenses
500 812	9 490	Municipal Health
-	1 253 775	Nordale Extensions
-	161 507	Old Age Pensioners
2 014 376	121 575	Operation Turn Around
2 552 372	4 380 284	Other expenses
4 160	2 593	Postage and courier
326 769	181 328	Printing and stationery
5 130 010	3 887 631	Publicity
-	3 730	Purchase of books
512 180	9 519 714	Disaster Management
65 938	109 267	Small tools
3 271 648	2 948 034	Sports DC27
1 916 836	1 366 688	Systems Support
202 399	863 269	Telephone and fax
91 248	756 823	Team Building
1 325 837	639 397	Training
173 537	54 000	Uniforms
51 258 544	-	VIP Toilets
-	5 000	Water Analysis
6 940 242	-	Water Operations Subsidy
816 703	618 395	Tourism Projects
139 618 456	88 786 088	

Further disclosure was made for other expenses line note as a result the prior balances were restated.

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32. Cash generated from operations

	2014	2013
Surplus	100 852 897	179 093 111
Adjustments for:		
Depreciation and amortisation	28 109 220	21 016 200
Interest income	(4 522 085)	-
Debt impairment	21 105 575	-
Movements in provisions	719 000	1 746 000
Other non-cash items	1 293	26 370 700
Changes in working capital:		
Capital Expenditure	(43 921 313)	(42 858 498)
Other receivables from exchange transactions	(20 639 251)	87 041 076
Other receivables from non-exchange transactions	49 657 633	10 768 742
Trade and other payables from exchange transactions	46 891 039	60 883 901
VAT Payable	(2 899 654)	7 357 990
Current portion of unspent conditional grants and receipts	(55 350 957)	(37 066 966)
Consumer deposits	(636 620)	1 602 935
	119 366 777	350 908 983

33. Correction of Errors

Correction of unallocated deposits amounting to R2 326 663. During the 2012/13 financial year the unallocated deposits account was not cleared and further investigation showed that they were previous years revenue that had not been accounted for therefore the accumulated surplus was adjusted to correct errors in the previous periods.

Correction of misallocations to the payroll suspense accounts amounting to R62 962. During the year 2012/13 financial year there was unallocated payroll suspense/accrual accounts which were reconciled and cleared during this financial year. There were errors noted that required us to adjust the prior years as they were misposts.

Correction of expenses duplicated on accrual amounting to R33 016 090. During the 2012/13 financial year audit, there were expenses noted by the auditors which were not accrued and an accrual of R 65 490 900.67 was done to correct. Upon reversal of accrual in 2013/14 financial an error was noted that of the amount accrued R 33 016 090.29 was already accrued in the previous year which resulted in a duplication of expenses in 2012/13 financial year.

Reversal of VAT accrual written off amounting to R5 154 945. During the 2012/13 financial year audit VAT accrued was written-off, however the municipality engaged a service provider to re-perform VAT returns and recover previous years VAT reclaimable understated from SARS. VAT amounting to R5 154 945 was refunded during the 2013/14 financial year by SARS and the VAT accrual previously written off in error had to be reversed to match the refund.

Correction of retention creditors misposted amounting to R16 169 060. During the 2012/13 financial year audit it was noted that retentions amounting to R16 169 060 were not posted in the correct accounting period, the error was correct and amount was restated.

Correction of payroll suspense accounts amounting to R45 165. During the year 2012/13 financial year there was unallocated payroll suspense/accrual accounts which were reconciled and cleared during this financial year. There were errors noted that required us to adjust the prior years as they were misposts.

Correction of VIP toilets amounting to R70 152 043 that were disclosed as the municipalities assets under construction. During the audit of property, plant and equipment (PPE) and from the sample selected it was noted that there were VIP toilets that were built by the municipality for the community and they were included in PPE as assets under construction. These toilets are built in the houses of the community and when they are completed they are used by the households therefore the municipality does not have control over these toilets after they are finished. The VIP toilets amounting to R70 152 043 were written off in the period they were incurred.

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36. Irregular expenditure

	2014	2013
Reconciliation of irregular expenditure	592 546 816	343 938 509
Opening Balance	592 546 816	343 938 509
Irregular Expenditure - incurred current year	556 235 737	248 608 307
Condoned or written off by Council	-	-
Transfer to receivables for recovery (not condoned)	-	-
Irregular expenditure awaiting comment	1 148 782 553	592 546 816

The irregular expenditure submitted for the 2013/14 financial year was incomplete as other transactions were identified by Auditor General and the irregular expenditure was updated accordingly. This expenditure incurred as a result of non-compliance with SCM procedures. They are under investigation by both Provincial Treasury and COGTA.

Service providers in the service of the state

During the preparation of 2013/14 financial statements, all service providers engaged were verified and checked whether they are in service of the state. It was discovered that the following expenditure was incurred for service providers who are in service if the state and was regarded as irregular expenditure.

Total Expenditure	2014	2013
	55 395 173	13 091 192

An award of R228,080 was made to employees in the service of the municipality. Mr MS Msane (Councillor) was awarded R196,080 through Lucky Five Construction cc and Miss NS Mdelethe (Accountant: Budget & Reporting) was awarded R32,000 through Sthashe Construction and Trading.

An award of R23,750 was made to Uzoyisholo Wena Trading who is a spouse to a person in the service of the state (Ms S Mabuza - Secretary to the Executive Director: Planning)

An award to partners or associate of employees or councillors not declared and employees that did not declare their interests

1. Mr P.M Mhlanzi (employee of the municipality) who is a business partner with Phindithemba Mpumalelo Manganle (former employee of the municipality) on PPN Building Construction and Services who was awarded R6 153,11 through Impumlelo Development Programme.

2. Mr M.E. Nxumalo (employee of the municipality) who is a business partner with Dokotela Jonathan Mlhembu (employee of the municipality) on Maputland Community Radio who was awarded R5 972 117,80 through Joma Holdings cc.

3. Mr M.E. Gumbi (employee of the municipality) who is a business partner with Raymond Senzo Gumbi (not employee of the municipality) on Isinwazi Coop Ltd who was awarded R156 400 through Izigi Zethu Trading.

4. Mr E.S Mngoma (employee of the municipality) who is a business partner with Siyamthanda Gugulethu Zungu (not employee of the municipality) on Sezeswive Funeral Services who was awarded R267 000,00 through Gugulami Holdings (Pty) Ltd.

5. Mr M.E. Nxumalo (employee of the municipality) who is a business partner with Thandokuhle Dannie Mathenjwa (not employee of the municipality) on Maputland Community Radio who was awarded R781 763,76 through Nyala Development Solutions (Pty) Ltd.

6. Mr S.J. Vilane (councillor) who is a business partner with Gary Cason (not a councillor) on Umthombo Aqua Construction who was awarded R1 177 979,43 through Hydro Services and Fabrications cc.

7. Mr S.H. Nxumalo (councillor) who is a business partner with Magavithi Samuel Gumede (not a councillor) on Men to Men Contractor who was awarded R33 000 through Lake Sibayi Community Services.

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37. Additional disclosure in terms of Municipal Finance Management Act

External & Internal Audit fees

Opening balance - external audit fees	129 280	46 578
Current year external audit fees	3 238 391	3 211 504
Amount paid - current year external audit fees	(3 238 391)	(3 128 802)
Amount paid - previous years external audit fees	(129 280)	-
	<u>129 280</u>	<u>129 280</u>

Opening balance - Internal audit fees

Opening balance - Internal audit fees	-	-
Current year internal audit fees	441 790	-
Amount paid - current year internal audit fees	(441 790)	-
	<u>-</u>	<u>-</u>

Balance unpaid (included in payables)

Balance unpaid (included in payables)	-	-
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Pension

Opening balance	823 846	823 846
Current year pension fees	10 989 359	4 810 950
Amount paid - current year	(10 447 153)	(3 987 104)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	<u>1 366 052</u>	<u>823 846</u>

Medical Aid

Opening balance	356 102	-
Current year pension fees	3 043 384	2 214 032
Amount paid - current year	(2 960 437)	(1 857 930)
	<u>439 049</u>	<u>356 102</u>

PAYE

Opening balance	836 572	-
Current year PAYE	20 431 619	8 053 047
Amount paid - current year	(20 461 131)	(7 216 475)
Amount paid - previous years	-	-
	<u>807 060</u>	<u>836 572</u>

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37. Additional disclosure in terms of Municipal Finance Management Act (continued)

SALGA Fees

Current year SALGA fees	(1 039 426)	(601 440)
Amount paid - current year	1 039 426	601 440
	-	-

VAT

VAT output payables and VAT input receivables are shown in note 5. All VAT returns have been submitted by the due date throughout the year.

NON-COMPLIANCE WITH CHAPTER 11 OF THE MUNICIPAL FINANCE MANAGEMENT ACT:

Non-compliance with Supply Chain Management Procedures - There has been a material non-compliance with SCM procedures and hence irregular expenditure is disclosed above per note 35.

There were some service providers that were not paid within the stipulated 30 working days.

Non-compliance with MFMA Reporting Requirements:

The following MFMA returns have not been submitted on time to Provincial and National Treasury.

- Appendix B - Budget Returns i.e Asset Management.
- Signed copies of quarterly verifications for quarter 4.
- Mid-year Budget Performance Assessment.
- Not all of the required documents were updated on the National Treasury Website.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:

30 June 2014

	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Gumbi DL	-	10 514	10 514
Councillor Nyawo Z	-	17	17
Councillor Zungu MC	-	22 526	22 526
Councillor Moodley GP	9 908	239 100	249 008
Councillor Vilane SJ	5 298	114 473	119 771
	15 206	386 630	401 836

30 June 2013

	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Gumbi DL	-	6 997	8 412
Councillor Nyawo Z	-	17	17
Councillor Zungu MC	-	20 859	20 859
Councillor Vilane SJ	6 728	84 858	91 586
	8 143	112 731	120 874

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38. Capital Commitments

Commitments in respect of capital expenditure

- Infrastructure
- Non-capital commitments

Approved and contracted for	335 265 433	363 749 382
Approved but not yet contracted for	356 170 261	365 224 540
	<u>73 543 318</u>	<u>-</u>

These commitments include commitments for outer years.

This expenditure was financed from:

- Government Grants (MIG)
- Government Grant (Equitable Share)

	408 808 751	363 749 382
	20 904 828	1 475 158

These commitments include commitments for outer years.

The municipality has commitments in which the following service providers were appointed without Rand values:

Rand Water, Nesliffe, Rural Pumps (Pvt) Ltd, Renaissance Joint Venture, Rennies Travel and Harvey World Travel.

39. IMPRACTICABILITY IN SUPPORTING COMPARATIVES

On 29 February 2012 the wing of finance department in the main offices of uMkhanyakude District Municipality were burnt which resulted in financial records being burnt down. In the previous years the municipality could not support some of the trade creditors/payables as follows:

Trade creditors that could not be supported in previous years	16 983 000	25 026 000
Less: Total creditors documents recovered during the year under review	(11 772 367)	(8 043 000)
Total creditors documents still outstanding	<u>5 210 633</u>	<u>16 983 000</u>

This issue is still under investigation by South African Police Service (SAPS).

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40. CONTINGENCIES

Contingent Liabilities

Contingent Liability as a result of Wage Curve Agreement:

The job evaluation was not conducted by the Municipality as per Wage Curve Agreement and employees were not paid according to their skills hence there is a possibility that the Municipality might be owing its employees.

The Municipality had the following contingent liabilities as at 30 June 2014.

Source of Funding	Legal Fees	Amount
Amanzi Earthmoving (Pty) Ltd	100 000	1 624 253

Umkhanyakude District Municipality (DC27) has an outstanding claim of around R1,624,253 which the defendant (Amanzi Earthmoving (Pty) Ltd) may pursue at any time.

DC27	75 000	200 000
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Umkhanyakude District Municipality is in a matter over the eviction of Mr Spall from the Mkuze Airport and the estimated cost is between R300 000 to R500 000.

DC27	46 608	-
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Legal fees due to the lawyers (Shepstone and Wylie), Umkhanyakude District Municipality in its capacity as garnishee was ordered by

DC27	6 391	246 463
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the courts to pay the amount of R246 462,52 (principal debt) plus costs of R6

DC27	-	1 361
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Earthmoving (Pty) Ltd. Outstanding legal fees amounted to R16 868,98. Legal fees amounting to R1 360,89 are due to the lawyers (Shepstone and Wylie).

	-	20 000
	-	30 000

Schepers Spies Mdeka Attorneys vs Ms. Z.P Ngwenya Hlela Attorneys

	227 999	2 122 077
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41. Related parties

Relationships
Umkhosinga Development Agency (100% Ownership)

Umkhosinga Development Agency is a subsidiary wholly owned by Umkhanyakude District Municipality to spearhead the economic development within the district.

Transfers paid to Umkhosinga Development Agency	8 330 842	-
Expenses paid on behalf of Umkhosinga Development Agency:	2 618 724	-

Disclosure of directors remuneration and councillors remuneration has been made in note(s) 22 & 24.]

42. Events after the reporting date

There was an event that occurred after the reporting date. A service provider appointed by the municipality requested for an escalation in the contract price as a result of transportation and offloading costs. No adjusting entries will be processed currently as the matter is still being handled by the municipality's attorneys (Shepstone & Wylie) and has not yet been resolved.

43. Key Sources of Estimation Uncertainty and Judgements

The following areas involve a significant degree of estimation uncertainty:

Impairment of assets.

Provision for long service awards.

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43. Key Sources of Estimation Uncertainty and Judgments (continued)

Useful lives and residual values of property, plant, and equipment:

Water losses amounting to R36 209 490.36 and electricity losses amounting to R9 332 446.33.

44. Risk management

Interest Rate Risk

The municipality's interest rate risk arises from long-term borrowings from DBSA.

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

FNB Bank Call deposits.

FNB Bank, Nedbank & ABSA Bank Notice deposits.

Loan from Development Bank of South Africa.

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they become due. The municipality ensures that adequate funds are available to meet its expected and unexpected financial commitments. The

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

The following liabilities were due within 1 month:

Consumer Deposits R1 845 033 (2014) R2 498 666 (2013), Other current financial liabilities R3 826 791 (2014) R1 787 596 (2013) Trade and other payables from exchange transactions R123 438 532 (2014) R75 003 467 (2013).

The following liabilities were due from 1 month to 12 months:

Unspent Conditional Grants and Receipts R21 851 008 (2014) R77 201 965 (2013), Provision R109 013 (2014) R210 326 (2013), Borrowings R1 557 241 (2014) R821 476 (2013) and Finance Lease Liability R458 832 (2014) R220 230 (2013).

Maximum credit risk exposure

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. The investments are diversified among the reputable commercial banks.

The consumer debtors are settled on a monthly basis. Upon the new connections the consumers paid deposit in advance.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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45. Water & Electricity Losses

Water Losses

The municipality incurred 84,61% water losses for the 2013/14 financial year 64,9% (2013). The value of the losses incurred amounted to R36 209 490,36(2014) R25 119 747,85 (2013).

The municipality incurred 56% electricity losses for the 2013/14 financial year 17,44% (2013). The value of the losses incurred amounted to R9 332 446,33 (2014) R3 388 280,52 (2013)

46. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2014

Accumulated	1 444 069 194
Surplus	3 804 788
Total	1 447 873 982

Current year balance
Items under investigation

Ring-fenced internal funds and reserves within accumulated surplus - 2013

Accumulated	1 342 872 649
Surplus	3 804 788
Total	1 346 677 437

Current year balance
Items under investigation

47. Revenue

The amount included in revenue arising from exchanges of goods or

Service charges	43 573 187
Rental of facilities and equipment	106 871
Interest received (trading)	4 462 481
Other income	2 035 531
Interest received - investment	6 708 719
Total	56 886 789

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation Revenue	514 225 333
Grants Revenue	450 554 429
Government grants & subsidies	

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48. Going concern

We draw attention to the fact that at 30 June 2014, the municipality had accumulated surplus of R 1 447 530 320. The current liabilities exceeded its total assets by R15,1 million; certain unspent conditional grants are not cashed back, and large increase in the provision for doubtful debts due to debtors not collectable or indigent debtors.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government continue funding for the ongoing operations for the municipality to restore the solvency of the municipality.

Analysis of property, plant and equipment as at 30 June 2014
Cost/Revaluation
Accumulated depreciation

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Closing Balance	Accumulated Depreciation Opening Balance	Impairment Opening Balance	Disposals	Depreciation	Impairment loss	Closing Balance	Carrying value
Land (Separate for AFS purposes)	1 157 250	-	(3 225)	-	-	-	1 157 250	-	-	651	(1 951 927)	(47 709)	(8 933 116)	1 157 250
Buildings (Separate for AFS purposes)	35 878 244	-	(3 225)	-	-	-	35 878 019	(7 494 131)	-	651	(1 351 927)	(47 709)	(8 933 116)	28 981 503
	37 035 494	-	(3 225)	-	-	-	37 032 269	(7 494 131)	-	651	(1 351 927)	(47 709)	(8 933 116)	28 139 153
Infrastructure														
Electricity	12 429 970	-	-	-	-	-	12 429 970	(1 236 248)	-	-	(356 582)	(19 384)	(1 612 194)	10 817 778
Roads	31 229	-	-	-	-	-	31 229	(4 371)	-	-	(824)	-	(4 995)	28 234
Airport	4 973 883	-	-	-	-	-	4 973 883	(2 139 079)	-	-	(232 044)	-	(2 371 123)	2 602 760
Water	700 426 322	-	(580 001)	8 906 313	-	-	708 749 634	(52 752 351)	(22 095)	118 081	(19 494 721)	(1 849 158)	(74 602 234)	624 747 400
Sanitation	22 735 590	-	(823 955)	741 421	-	-	22 653 016	(1 534 386)	(1 165 645)	559 982	(596 247)	(174 790)	(2 911 086)	19 741 590
	740 598 994	-	(1 406 936)	9 647 734	-	-	748 837 732	(57 686 415)	(1 187 740)	676 053	(20 880 218)	(2 043 312)	(80 901 632)	657 936 100
Assets Under Construction														
Buildings	30 178 259	17 059 007	-	-	-	-	47 237 266	-	-	-	-	-	-	47 237 266
Electricity	5 825 081	851 452	-	-	-	-	6 676 513	-	-	-	-	-	-	6 676 513
Water	450 440 343	223 084 988	-	-	-	-	673 525 311	-	-	-	-	-	-	673 525 311
Sanitation	93 591 094	66 994 854	-	-	-	-	150 585 948	-	-	-	-	-	-	150 585 948
	580 034 757	307 990 281	-	(9 647 734)	-	-	878 377 304	-	-	-	-	-	-	878 377 304

Appendix B
June 2014

Analysis of property, plant and equipment as at 30 June 2014
Cost/Revaluation **Accumulated depreciation**

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Closing Balance	Accumulated Depreciation Opening Balance	Impairment Opening Balance	Disposals	Depreciation	Impairment loss	Closing Balance	Carrying value
Leased Assets														
Leased Assets	887 714	1 042 916	(193 307)	-	-	-	1 737 323	(550 556)	-	-	(254 249)	90 128	(714 677)	1 022 646
	887 714	1 042 916	(193 307)	-	-	-	1 737 323	(550 556)	-	-	(254 249)	90 128	(714 677)	1 022 646
Other Assets														
Machinery and Equipment	14 652 481	41 141	(175 444)	-	139 317	-	14 674 475	(3 158 580)	(419 253)	88 972	(1 115 825)	(68 678)	(4 674 962)	10 002 513
Furniture and Office Equipment	3 652 785	1 454 130	(81 861)	-	50 293	-	5 075 347	(2 558 514)	(25 870)	59 576	(427 657)	(5 858)	(2 956 263)	2 117 084
Computer Equipment	2 428 596	359 898	(146 499)	-	58 884	-	2 699 470	(827 919)	(90 670)	100 541	(512 681)	(6 705)	(1 337 375)	1 361 095
Motor Vehicles	10 411 762	2 950 209	-	-	978 077	-	14 338 048	(3 837 827)	(198 807)	-	(1 433 899)	(60 705)	(5 499 035)	8 839 013
	31 145 604	4 805 165	(405 801)	-	1 239 371	-	38 786 340	(10 380 640)	(702 480)	248 489	(3 490 059)	(141 945)	(14 466 635)	22 319 705

Appendix B
June 2014:

Analysis of property, plant and equipment as at 30 June 2014
Cost/Revaluation **Accumulated depreciation**

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Closing Balance	Accumulated Depreciation Opening Balance	Impairment Opening Balance	Disposals	Depreciation	Impairment loss	Closing Balance	Carrying Value
Total property, plant and equipment														
Land and buildings	37 035 494	-	(3 225)	-	-	-	37 032 269	(7 494 131)	-	651	(1 351 927)	(47 709)	(8 893 116)	28 136 153
Infrastructure	740 596 994	-	(1 408 996)	9 647 734	-	-	748 837 732	(57 666 415)	(1 187 740)	876 053	(20 880 218)	(2 043 312)	(80 901 632)	887 936 100
Assets Under Construction	580 034 757	307 990 281	-	(9 647 734)	-	-	878 377 304	-	-	-	(254 249)	90 128	(714 677)	878 377 304
Leased Assets	887 714	1 042 916	(193 307)	-	-	-	1 737 323	(550 556)	-	-	(3 490 059)	(141 945)	(14 486 635)	1 522 646
Other Assets	31 145 604	4 805 166	(403 801)	-	1 239 371	-	36 736 340	(10 390 640)	(702 480)	248 489	(99 792)	-	(107 600)	22 319 705
	1 369 700 583	313 838 363	(2 007 329)	-	1 239 371	-	1 702 770 968	(76 091 742)	(1 890 220)	925 193	(25 776 453)	(2 142 838)	(104 976 060)	1 597 794 908
Agricultural/Biological assets														
Intangible assets	37 434	397 523	-	-	-	-	434 957	(7 808)	-	-	(99 792)	-	(107 600)	327 357
Computers	37 434	397 523	-	-	-	-	434 957	(7 808)	-	-	(99 792)	-	(107 600)	327 357
Investment properties														
Total	37 434	397 523	-	-	-	-	434 957	(7 808)	-	-	(99 792)	-	(107 600)	327 357
Land and buildings														
Infrastructure	37 035 494	-	(3 225)	-	-	-	37 032 269	(7 494 131)	-	651	(1 351 927)	(47 709)	(8 893 116)	28 136 153
Assets Under Construction	740 596 994	-	(1 408 996)	9 647 734	-	-	748 837 732	(57 666 415)	(1 187 740)	876 053	(20 880 218)	(2 043 312)	(80 901 632)	887 936 100
Leased Assets	580 034 757	307 990 281	-	(9 647 734)	-	-	878 377 304	-	-	-	(254 249)	90 128	(714 677)	878 377 304
Other Assets	887 714	1 042 916	(193 307)	-	-	-	1 737 323	(550 556)	-	-	(3 490 059)	(141 945)	(14 486 635)	1 522 646
Intangible assets	31 145 604	4 805 166	(403 801)	-	1 239 371	-	36 736 340	(10 390 640)	(702 480)	248 489	(99 792)	-	(107 600)	22 319 705
	37 434	397 523	-	-	-	-	434 957	(7 808)	-	-	(99 792)	-	(107 600)	327 357
	1 369 737 997	314 235 886	(2 007 329)	-	1 239 371	-	1 703 205 925	(76 099 550)	(1 890 220)	925 193	(25 876 245)	(2 142 838)	(105 083 660)	1 598 122 265

Appendix B

Analysis of property, plant and equipment as at 30 June 2013 Cost/Revaluation Accumulated depreciation

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Closing Balance	Opening Balance	Opening Balance - Impairment loss	Transfers	Depreciation	Impairment loss	Closing Balance	Carrying value
Land and buildings														
Land	1 157 250	-	-	-	-	-	1 157 250	(8 241 920)	-	-	(1 252 211)	-	(7 494 131)	1 157 250
Buildings	35 878 244	-	-	-	-	-	35 878 244	(8 241 920)	-	-	(1 252 211)	-	(7 494 131)	28 384 113
	37 035 494	-	-	-	-	-	37 035 494	(6 244 920)	-	-	(1 252 211)	-	(7 494 131)	29 541 363
Infrastructure														
Electricity	12 029 974	399 999	-	-	-	-	12 429 970	(923 636)	-	-	(312 610)	-	(1 236 248)	11 193 722
Roads	31 229	-	-	-	-	-	31 229	(3 747)	-	-	(624)	-	(4 371)	26 858
Airports	4 973 883	-	-	-	-	-	4 973 883	(1 890 594)	-	-	(248 085)	-	(2 139 079)	2 834 804
Water	699 847 337	578 985	-	-	-	-	700 426 322	(38 474 994)	-	-	(14 277 357)	(22 095)	(52 774 446)	647 651 876
Sanitation	22 547 585	188 005	-	-	-	-	22 735 590	(1 113 899)	-	-	(420 487)	(1 185 645)	(2 700 011)	20 035 579
	739 430 008	1 166 989	-	-	-	-	740 596 994	(42 407 272)	-	-	(15 259 143)	(1 187 740)	(59 854 155)	681 742 839
Assets Under Construction														
Buildings	18 494 724	11 683 536	-	-	-	-	30 178 260	-	-	-	-	-	-	30 178 260
Electricity	-	5 825 061	-	-	-	-	5 825 061	-	-	-	-	-	-	5 825 061
Water	264 319 321	186 121 022	-	-	-	-	450 440 343	-	-	-	-	-	-	450 440 343
Sanitation	50 908 135	42 682 959	-	-	-	-	93 591 094	-	-	-	-	-	-	93 591 094
	339 722 180	246 512 578	-	-	-	-	586 034 758	-	-	-	-	-	-	586 034 758

Appendix B
June 2014

Analysis of property, plant and equipment as at 30 June 2013
Cost/Revaluation Accumulated depreciation

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Closing Balance	Opening Balance	Opening Balance - Impairment loss	Transfers	Depreciation	Impairment loss	Closing Balance	Carrying value
Leased Assets														
Leased Assets	887 714	-	-	-	-	-	887 714	(294 485)	-	-	(258 071)	-	(550 585)	337 158
	887 714	-	-	-	-	-	887 714	(294 485)	-	-	(258 071)	-	(550 585)	337 158
Other assets														
Motor vehicles	5 701 571	4 710 192	-	-	-	-	10 411 763	(3 068 317)	-	-	(799 311)	(168 807)	(4 004 435)	6 407 328
Plant & equipment	5 850 063	8 802 399	-	-	-	-	14 652 462	(2 321 416)	-	-	(835 164)	(419 253)	(3 575 833)	11 076 629
Computer Equipment	1 528 590	900 045	-	-	-	-	2 428 596	(492 328)	(2 648)	-	(395 591)	(87 965)	(918 591)	1 510 065
Furniture & Fittings	3 498 890	188 105	-	-	-	-	3 682 795	(2 138 898)	(7 983)	-	(421 618)	(17 947)	(2 584 324)	1 088 461
	16 586 854	14 578 742	-	-	-	-	31 145 606	(8 018 960)	(10 609)	-	(2 361 682)	(691 672)	(11 083 123)	20 062 483

Appendix B
June 2014

Analysis of property, plant and equipment as at 30 June 2013
Cost/Revaluation Accumulated depreciation

	Opening Balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Closing Balance	Opening Balance	Opening Balance Impairment	Transfers	Depreciation	Impairment loss	Closing Balance	Carrying Value	
Total property plant and equipment															
Land and buildings	37 035 494	1 169 986	-	-	-	-	37 035 494	(8 241 920)	-	-	(1 252 211)	-	(7 494 131)	28 541 363	
Infrastructure	739 430 008	246 312 578	-	-	-	-	740 596 994	(42 407 272)	-	-	(15 259 143)	(1 187 740)	(58 854 155)	681 742 839	
Assets Under Construction	333 722 180	-	-	-	-	-	580 034 758	(294 485)	-	-	(256 071)	-	(550 556)	580 034 758	
Leased Assets	887 714	-	-	-	-	-	887 714	(2 018 980)	(10 609)	-	(2 381 682)	(991 872)	(11 083 123)	20 062 483	
Other assets	18 586 884	14 578 742	-	-	-	-	31 145 606	(326)	-	-	(7 482)	-	(7 808)	29 628	
	1 127 642 260	262 058 306	-	-	-	-	1 389 700 566	(95 962 637)	(10 609)	-	(19 129 107)	(1 879 612)	(77 981 965)	1 311 718 601	
Intangible assets															
Computers - software	37 434	-	-	-	-	-	37 434	(328)	-	-	(7 482)	-	(7 808)	29 626	
Total	37 434	-	-	-	-	-	37 434	(326)	-	-	(7 482)	-	(7 808)	29 626	
Land and buildings															
Infrastructure	37 035 494	1 169 986	-	-	-	-	37 035 494	(8 241 920)	-	-	(1 252 211)	-	(7 494 131)	28 541 363	
Assets Under Construction	739 430 008	246 312 578	-	-	-	-	740 596 994	(42 407 272)	-	-	(15 259 143)	(1 187 740)	(58 854 155)	681 742 839	
Leased Assets	333 722 180	-	-	-	-	-	580 034 758	(294 485)	-	-	(256 071)	-	(550 556)	580 034 758	
Other Assets	987 714	-	-	-	-	-	887 714	(2 018 980)	(10 609)	-	(2 381 682)	(991 872)	(11 083 123)	20 062 483	
Intangible assets	18 586 884	14 578 742	-	-	-	-	31 145 606	(326)	-	-	(7 482)	-	(7 808)	29 628	
	37 434	-	-	-	-	-	37 434	(326)	-	-	(7 482)	-	(7 808)	29 626	
	1 127 679 694	262 058 306	-	-	-	-	1 389 738 000	(95 962 963)	(10 609)	-	(19 136 589)	(1 879 612)	(77 989 773)	1 311 748 227	