

Uthungulu House Development Trust
(Reg. No. IT 1437/1998/PMB)

Financial statements

for the period 1 July 2013 to 30 June 2014

Uthungulu House Development Trust
(Reg. No. IT 1437/1998/PMB)

Financial statements
for the period 1 July 2013 to 30 June 2014

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Uthungulu House Development Trust

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Trustees' responsibility statement

The trustees are responsible for the preparation and fair presentation of the financial statements of the Uthungulu House Development Trust, comprising the statement of financial position at 30 June 2014, and the statements of comprehensive income, changes in equity and cash flows for the period 1 July 2013 to 30 June 2014, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards.

The trustees are also responsible for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The trustees have made an assessment of the ability of the trust to continue as a going concern and have no reason to believe that the trust will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of financial statements

The financial statements of the Uthungulu House Development Trust, as identified in the first paragraph, were approved and signed by the trustees on 18 July 2014:



T V B Mchunu



M H Nkosi

Uthungulu House Development Trust

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Trustees' report

for the period 1 July 2013 to 30 June 2014

The trust was formed on 2 July 1998 to act as a leasing, financing and investment vehicle, and to invest any funds of the trust from time to time.

Results of operations

The financial year of the trust ends on the last day of February each year. The attached financial statements for the period 1 July 2013 to 30 June 2014 have been prepared at the request of the trust's beneficiary, the Uthungulu District Municipality, for the purposes of their accounting requirements.

The results of the trust and state of affairs are set out in the attached audited financial statements and do not in the opinion of the trustees require any further comment.

Trustees

The trustees and their respective addresses are –

DP Lubbe (resigned 30 June 2014)
TVB Mchunu
MH Nkosi (appointed 30 June 2014)

Business address –

Uthungulu District Municipality
Uthungulu House
Richards Bay
Central Business District
3900



KPMG Inc
KPMG Crescent
85 Empire Road, Parktown, 2193
Private Bag 9, Parkview, 2122, South Africa

Telephone +27 (0)11 647 7111
Fax +27 (0)11 647 8000
Docex 472 Johannesburg

Independent Auditor's Report

To the Trustees of the Uthungulu House Development Trust

We have audited the financial statements of the Uthungulu House Development Trust, which comprise the statement of financial position at 30 June 2014, and the statements of comprehensive income, changes in equity and cash flows for the period then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 14.

Trustees' Responsibility for the Financial Statements

The trustees are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Uthungulu House Development Trust at 30 June 2014 and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

KPMG Inc.

Per *VT Yuill*
Chartered Accountant (SA)
Registered Auditor
Director
18 July 2014

KPMG Inc is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Registration number: 1999/0215/13/21

Policy Board
Chief Executive: RM Kgosana

Executive Directors: T Fubu, A Hari, E Magondo, JS McIntosh, CAT Smit, D van Heerden

Other Directors: DC Duffield, LP Fourie, N Fubu, TH Hoole, A Jaffer, M Letsitsi, A Masemola, AM Mokgabudi, Y Suleman (Chairman of the Board), A Thunström

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

Uthungulu House Development Trust

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Statement of financial position at 30 June 2014

	<i>Note</i>	2014 R	2013 R
Assets			
Non-current asset			
Investment in finance lease	2	2 187 252	2 730 719
Current assets			
Current portion of investment in finance lease	2	2 101 157	2 101 157
Cash and cash equivalents		555 894	533 857
Total assets		4 844 303	5 365 733
Equity and liabilities			
Capital and reserves			
Donations		100	100
Non-current liability			
Distribution payable	4	1 784 203	2 305 633
Current liability			
Distribution payable		3 060 000	3 060 000
Total equity and liabilities		4 844 303	5 365 733

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Uthungulu House Development Trust
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Statement of comprehensive income
for the period 1 July 2013 to 30 June 2014

	<i>Note</i>	2014 R	2013 R
Revenue		2 538 570	2 734 504
Interest income	3	2 538 570	2 734 504
Total profit and comprehensive income for the period		2 538 570	2 734 504

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Statement of changes in equity
for the period 1 July 2013 to 30 June 2014

	Founders donation R	Retained earnings R	Total R
Balance at 1 July 2013	100	-	100
<i>Total comprehensive income for the period</i>	-	2 734 504	2 734 504
Total profit and comprehensive income for the period	-	2 734 504	2 734 504
<i>Transactions with beneficiary, recognised directly in equity</i>	-	(2 734 504)	(2 734 504)
Transfer to distribution payable	-	(2 734 504)	(2 734 504)
Balance at 30 June 2014	100	-	100
<i>Total comprehensive income for the period</i>	-	2 538 570	2 538 570
Total profit and comprehensive income for the period	-	2 538 570	2 538 570
<i>Transactions with beneficiary, recognised directly in equity</i>	-	(2 538 570)	(2 538 570)
Transfer to distribution payable	-	(2 538 570)	(2 538 570)
Balance at 30 June 2014	100	-	100

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Statement of cash flows
for the period 1 July 2013 to 30 June 2014

	<i>Note</i>	2014 R	2013 R
Cash flow from operating activities			
Cash utilised by operations	5	—	—
Interest received		<u>2 538 570</u>	<u>2 734 504</u>
Cash generated by operating activities		2 538 570	2 734 504
Cash flow from investing activities			
Decrease in investment in finance lease		543 467	346 060
Cash utilised by financing activities			
Distributions paid	4	<u>(3 060 000)</u>	<u>(3 076 869)</u>
Movement in cash and cash equivalents		22 037	3 695
Cash and cash equivalents at the beginning of the period		<u>533 857</u>	<u>530 162</u>
Cash and cash equivalents at the end of the period		<u>555 894</u>	<u>533 857</u>

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Uthungulu House Development Trust

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Notes to the financial statements *for the period 1 July 2013 to 30 June 2014*

1. Accounting policies

The financial statements incorporate the principal accounting policies set out below, and are consistent with those adopted in the previous financial period.

1.1 Basis of preparation

The financial statements are prepared on the historical cost basis, unless otherwise stated. The financial year of the trust ends on the last day of February in every year. The attached audited financial statements for the period 1 July 2013 to 30 June 2014 have been prepared at the request of the trust's beneficiary, the Uthungulu District Municipality, for the purposes of their accounting requirements.

1.2 Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards.

1.3 Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the lessee are classified as finance leases. Finance leases are recognised in the statement of financial position at an amount equal to the net investment in the lease.

The net investment in the lease is the gross investment in the lease less unearned finance income.

The gross investment in the lease is the aggregate of the minimum lease payments under a finance lease from the standpoint of the lessor and any unguaranteed residual value accruing to the lessor.

Unearned finance income is the difference between the gross investment in the lease and the present value of the gross investment in the lease at the interest rate implicit in the lease.

Interest income is recognised based on a pattern reflecting a constant periodic rate of return on the lessor's investment outstanding in respect of the finance lease.

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

1.4 Distributions paid

Distributions are paid to the beneficiaries in accordance with the Trust Deed.

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Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

1.5 Financial instruments

Initial recognition and measurement

Financial instruments are initially measured at fair value, when the related contractual right or obligation exists. Subsequent to initial recognition, financial instruments are measured as set out below:

Cash and cash equivalents

Cash and cash equivalents comprise cash balances with original maturities of three months or less. Cash and cash equivalents are measured at amortised cost in the statement of financial position.

The carrying amount of cash and cash equivalents approximates its fair value due to the short term maturity of this asset

Derecognition of financial instruments

The trust derecognises a financial asset when and only when:

- the contractual rights to the cash flows arising from the financial asset have expired or been forfeited by the trust; or
- it transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- it transfers the financial asset, neither retaining nor transferring substantially all the risks and rewards of ownership of the asset, but no longer retains control of the asset.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, cancelled or has expired.

1.6 New accounting standards relevant to the trust

Standards that became effective for the first time during the financial period were adopted without any impact.

The following statements, amendments and interpretations to existing statements have been published and have not been adopted early by the trust. The impact thereof on the financial statements of the trust has not been estimated.

- IFRS 9 – Financial instruments (effective date not yet published)

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Notes to the financial statements
for the period 1 July 2013 to 30 June 2014 (continued)

2. Investment in finance lease	2014	2013
	R	R
<i>Reconciliation of carrying amount</i>		
Gross investment in finance lease	9 180 000	12 240 000
Unearned finance income	<u>(4 891 591)</u>	<u>(7 408 124)</u>
Net investment in lease	<u>4 288 409</u>	<u>4 831 876</u>
 <i>Gross investment in finance lease</i>		
Less than 1 year	3 060 000	3 060 000
Between 1 and 5 years	<u>6 120 000</u>	<u>9 180 000</u>
	<u>9 180 000</u>	<u>12 240 000</u>
 <i>Present value of minimum lease payments receivable</i>		
Less than 1 year	2 101 157	2 101 157
Between 1 and 5 years	<u>2 187 252</u>	<u>2 730 719</u>
	<u>4 288 409</u>	<u>4 831 876</u>
 The trust leases immovable property to the Uthungulu Financing Partnership in terms of the finance lease. The original lease period expires on 30 April 2017. The yield to maturity on the lease is 46% (2013 – 46%).		
<i>Description of the immovable property</i>		
Subdivision 2 of Erf 10033, Central Business District, Richards Bay, (Extension No 8) Registration Division GU, in the Richards Bay Transitional Local Council Area, Province of Kwa-Zulu Natal.		
 3. Interest income		
Interest income on finance lease	2 516 533	2 713 939
Interest income on cash and cash equivalents	<u>22 037</u>	<u>20 565</u>
	<u>2 538 570</u>	<u>2 734 504</u>
 4. Distribution payable		
Distribution payable at beginning of period	5 365 633	5 707 998
Transfer from retained earnings	2 538 570	2 734 504
Distribution paid	<u>(3 060 000)</u>	<u>(3 076 869)</u>
Distribution payable at end of period	<u>4 844 203</u>	<u>5 365 633</u>

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Notes to the financial statements
for the period 1 July 2013 to 30 June 2014 (continued)

	2014 R	2013 R
5. Notes to the statement of cash flows		
<i>Cash utilised by operations</i>		
Profit for the period	2 538 570	2 734 504
<i>Adjusted for items disclosed separately:</i>		
Interest income	<u>(2 538 570)</u>	<u>(2 734 504)</u>
	<u> -</u>	<u> -</u>

6. Financial risk management

Credit risk

Credit risk is the risk of financial loss to the trust if counterparty to a financial instrument fails to meet its contractual obligations.

The maximum exposure to credit risk is represented by the carrying amount of the financial assets in the statement of financial position. The trust is exposed to the following credit risk:

Investment in finance lease	4 288 409	4 831 876
Cash and cash equivalents	<u>555 894</u>	<u>533 857</u>
	<u>4 844 303</u>	<u>5 365 733</u>

Liquidity risk

Liquidity risk is the risk that the trust will encounter difficulty in meeting its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The table below sets out the maturity analysis of the trust's financial liabilities based on the contractual cash flows:

30 June 2014	Within 1 year R	1-5 years R	Total R
Distribution payable	3 060 000	1 784 203	4 844 203
	<u>3 060 000</u>	<u>1 784 203</u>	<u>4 844 203</u>
30 June 2013	Within 1 year R	1-5 years R	Total R
Distribution payable	3 060 000	2 305 633	5 365 633
	<u>3 060 000</u>	<u>2 305 633</u>	<u>5 365 633</u>

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Notes to the financial statements

for the period 1 July 2013 to 30 June 2014 (continued)

6. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates.

The trust holds the following interest-bearing instruments:

- Investment in finance lease – refer note 2
- Cash and cash equivalents

The trust does not account for its investment in the finance lease at fair value through profit or loss. Therefore a change in market interest rates will not impact profit or loss.

Currency risk

The trust's activities are conducted in South African Rands. The trust is not exposed to fluctuations in foreign exchange rates.

7. Fair value of financial instruments

Financial assets and financial liabilities comprise finance lease assets, cash and cash equivalents and distributions payable. The fair values of all financial instruments are substantially the same as the carrying amounts reflected on the statement of financial position. Where applicable, the fair values of financial assets and liabilities have been established using the market value, where available. For those instruments without a market value, a discounted cash flow approach has been used.

The table below sets out the trust's carrying values of each class of financial assets and liabilities, and their fair values as at 30 June 2014 and 30 June 2013 respectively:

30 June 2014	Fair Value R	Carrying Value R
Financial assets		
Investment in finance lease	4 288 409	4 288 409
Cash and cash equivalents	555 894	555 894
<i>Total financial assets</i>	<u>4 844 303</u>	<u>4 844 303</u>
Financial liabilities		
Distribution payable	4 844 203	4 844 203
<i>Total financial liabilities</i>	<u>4 844 203</u>	<u>4 844 203</u>

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Notes to the financial statements
for the period 1 July 2013 to 30 June 2014 (continued)

7. Fair value measurement (continued)

30 June 2013	Fair Value R	Carrying Value R
Financial assets		
Investment in finance lease	4 831 876	4 831 876
Cash and cash equivalents	533 857	533 857
<i>Total financial assets</i>	<u>5 365 733</u>	<u>5 365 733</u>
Financial liabilities		
Distribution payable	5 365 633	5 365 633
<i>Total financial liabilities</i>	<u>5 365 633</u>	<u>5 365 633</u>

8. Related parties

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence over the other party in making financial and operating decisions. All transactions with related parties have been conducted on an arm's length basis.

The entity has a related party relationship with its beneficiary, namely the Uthungulu District Municipality.

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