UTHUNGULU

uThungulu District Municipality
uThungulu Distrik Munisipaliteit
uMasipala Wesifunda Waso Thungulu

Annual Financial Statements
for the year ended 30 June 2014

GENERAL INFORMATION

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

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

Abbreviations

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

STATEMENT OF MUNICIPAL MANAGER'S RESPONSIBILITY

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 78, in terms of Section 126(1) of the Municipal Finance Management Act(Act no 56 of 2003) and which I have signed on behalf of the municipality.

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

MH Nkosi
Accounting Officer

Richards Bay

29 August 2014

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

	Note(s)	2014 R	2013 Restated R
Assets			
Current Assets			
Inventories	3	6 552 046	7 269 171
Accounts receivable from exchange transactions	4	44 203 392	37 791 179
Accounts receivable from non exchange transactions	5	20 412 540	14 501 684
Current portion of long term receivables	6	39 281	37 921
Cash and cash equivalents	7	518 756 277	445 848 491
		589 963 536	**505 448 446**
Non-Current Assets			
Property, plant and equipment	8	1 342 633 792	1 173 335 662
Intangible assets	9	931 975	1 077 033
Investments in municipal entities	10	23 004 474	24 672 820
Long term receivables	6	392 637	440 148
		1 366 962 878	**1 199 525 663**
Total Assets		**1 956 926 414**	**1 704 974 109**
Liabilities			
Current Liabilities			
Current portion of long term liabilities	11	12 035 986	10 595 110
Payables from exchange transactions	12	163 569 778	136 409 601
Consumer deposits	13	9 661 373	9 113 835
Defined benefit obligations	14	546 000	435 000
Unspent conditional grants and receipts	19	51 186 078	32 460 451
Provisions	15	4 015 006	16 490 794
		241 014 221	**205 504 791**
Non-Current Liabilities			
Long term liabilities	11	72 486 892	78 874 001
Defined benefit obligations	14	19 322 000	18 029 000
Provisions	15	60 853 204	57 605 107
		152 662 096	**154 508 108**
Total Liabilities		**393 676 317**	**360 012 899**
Total Assets		1 956 926 414	1 704 974 109
Total Liabilities		(393 676 317)	(360 012 899)
Net Assets		**1 563 250 097**	**1 344 961 210**
Accumulated surplus		1 563 250 097	1 344 961 210

STATEMENT OF FINANCIAL PERFORMANCE

	Note	2014 R	2013 Restated R
Revenue			
Service charges	16	53 801 025	49 901 919
Interest received	17	32 893 942	27 147 411
Government grants & subsidies	18	633 617 732	570 231 388
Other income	20	15 235 624	9 578 554
Rental income		36 579	33 947
Total revenue		**735 584 902**	**656 893 219**
Expenditure			
Employee related costs	21	(110 823 708)	(99 492 610)
Remuneration of councillors	22	(8 813 793)	(8 522 649)
Depreciation, amortisation and impairment	23	(48 971 339)	(50 917 324)
Finance costs	24	(7 988 223)	(13 490 296)
Debt impairment	4	(4 329 873)	(4 189 974)
Repairs and maintenance	25	(52 108 418)	(43 985 475)
Bulk purchases	26	(32 470 503)	(29 466 494)
Contracted services	27	(82 515 037)	(65 270 434)
Grants and subsidies paid	28	(12 233 119)	(11 126 978)
General expenses	29	(156 909 281)	(144 778 796)
Total expenditure		**(517 163 294)**	**(471 241 030)**
Operating surplus		**218 421 608**	**185 652 189**
Loss on disposal of property, plant and equipment		(192 530)	(265 025)
Fair value adjustments in respect of property, plant and equipment	8	59 806	523 775
		(132 724)	**258 750**
Surplus for the year		**218 288 884**	**185 910 939**

STATEMENT OF CHANGES IN NET ASSETS

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	1 159 541 492	1 159 541 492
Adjustments		
Backlog depreciation - refer to note 39	(491 221)	(491 221)
Balance at 01 July 2012 restated	**1 159 050 271**	**1 159 050 271**
Changes in net assets		
Surplus for the year restated - refer to note 39	185 910 939	185 910 939
Total changes	185 910 939	185 910 939
Balance at 01 July 2013 restated	**1 344 961 213**	**1 344 961 213**
Changes in net assets		
Surplus for the year	218 288 884	218 288 884
Total changes	218 288 884	218 288 884
Balance at 30 June 2014	**1 563 250 097**	**1 563 250 097**

CASH FLOW STATEMENT

	Note	2014 R	2013 Restated R
Cash flows from operating activities			
Receipts			
Receipts from consumers and other		58 415 912	55 834 999
Grants		648 844 569	582 042 063
Interest income		32 893 942	27 147 411
		740 154 423	665 024 473
Payments			
Employee costs	21 & 22	(119 637 501)	(108 015 259)
Suppliers		(333 899 049)	(294 115 186)
Finance costs		(7 988 223)	(13 490 296)
		(461 524 773)	(415 620 741)
Net cash flows from operating activities	30	**278 629 650**	**249 403 732**
Cash flows from investing activities			
Payment for property, plant and equipment		(202 490 125)	(167 323 863)
Purchase of other intangible assets	9	-	(92 800)
Decrease in non-current receivables		46 151	52 653
Decrease/(Increase) in non current investments		-	21 000 000
Movement in investments in municipal entities		1 668 345	533 976
Net cash flows from investing activities		**(200 775 629)**	**(145 830 034)**
Cash flows from financing activities			
Repayment of long term liabilities	11	(4 946 233)	(24 442 108)
Net cash flows from financing activities		**(4 946 233)**	**(24 442 108)**
Net increase/(decrease) in cash and cash equivalents		**72 907 788**	**79 131 590**
Cash and cash equivalents at the beginning of the year		445 848 491	366 716 901
Cash and cash equivalents at the end of the year	7	**518 756 279**	**445 848 491**

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	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	50 797 637	1 020 000	**51 817 637**	53 801 025	**1 983 388**	
Rental income	-	-	**-**	36 579	**36 579**	
Other income	8 443 424	6 740 062	**15 183 486**	15 235 624	**52 138**	
Interest received	27 278 710	1 752 436	**29 031 146**	32 893 942	**3 862 796**	38.1
Total revenue from exchange transactions	**86 519 771**	**9 512 498**	**96 032 269**	**101 967 170**	**5 934 901**	
Revenue from non-exchange transactions						
Government grants & subsidies	650 160 000	1 353 145	**651 513 145**	633 617 732	**(17 895 413)**	
Total revenue	**736 679 771**	**10 865 643**	**747 545 414**	**735 584 902**	**(11 960 512)**	
Expenditure						
Employee related costs	(138 378 043)	13 187 088	**(125 190 955)**	(110 823 708)	**14 367 247**	38.2
Remuneration of councillors	(9 277 055)	(775 077)	**(10 052 132)**	(8 813 793)	**1 238 339**	38.3
Depreciation, amortisation and impairment	(45 826 711)	(3 200 000)	**(49 026 711)**	(48 971 339)	**55 372**	
Finance costs	(11 459 907)	3 471 684	**(7 988 223)**	(7 988 223)	**-**	
Debt impairment	(8 095 565)	1 856 209	**(6 239 356)**	(4 329 873)	**1 909 483**	38.4
Repairs and maintenance	(38 852 637)	(15 444 148)	**(54 296 785)**	(52 108 418)	**2 188 367**	
Bulk purchases	(25 082 099)	(8 419 718)	**(33 501 817)**	(32 470 503)	**1 031 314**	
Contracted services	(80 720 569)	(6 540 248)	**(87 260 817)**	(82 515 037)	**4 745 780**	
Grants and subsidies paid	(11 856 869)	(376 572)	**(12 233 441)**	(12 233 119)	**322**	
General expenses	(156 526 337)	(46 318 667)	**(202 845 004)**	(156 909 281)	**45 935 723**	38.5
Total expenditure	**(526 075 792)**	**(62 559 449)**	**(588 635 241)**	**(517 163 294)**	**71 471 947**	
Operating surplus/(loss)	**210 603 979**	**(51 693 806)**	**158 910 173**	**218 421 608**	**59 511 435**	
Loss on disposal of property, plant and equipment	-	-	**-**	(192 530)	**(192 530)**	
Fair value adjustments in respect of property, plant and equipment	-	-	**-**	59 806	**59 806**	
	-	**-**	**-**	**(132 724)**	**(132 724)**	
Surplus	**210 603 979**	**(51 693 806)**	**158 910 173**	**218 288 884**	**59 378 711**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**210 603 979**	**(51 693 806)**	**158 910 173**	**218 288 884**	**59 378 711**	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	8 050 705	-	**8 050 705**	6 552 046	**(1 498 659)**	38.6
Current portion of long term receivables	32 079	-	**32 079**	39 281	**7 202**	
Accounts receivable from non exchange transactions	21 665 480	(212 000)	**21 453 480**	20 412 540	**(1 040 940)**	
VAT receivable	-	-	**-**	-	**-**	
Accounts receivable from exchange transactions	12 522 850	-	**12 522 850**	44 203 392	**31 680 542**	38.7
Cash and cash equivalents	352 265 775	6 478 000	**358 743 775**	518 756 277	**160 012 502**	38.8
	394 536 889	**6 266 000**	**400 802 889**	**589 963 536**	**189 160 647**	
Non-Current Assets						
Property, plant and equipment	1 560 905 660	116 655 846	**1 677 561 506**	1 342 633 792	**(334 927 714)**	38.9
Intangible assets	476 340	-	**476 340**	931 975	**455 635**	
Investments in municipal entities	30 601 105	(6 478 000)	**24 123 105**	23 004 474	**(1 118 631)**	
Long term receivables	411 423	-	**411 423**	392 637	**(18 786)**	
	1 592 394 528	**110 177 846**	**1 702 572 374**	**1 366 962 878**	**(335 609 496)**	
Total Assets	**1 986 931 417**	**116 443 846**	**2 103 375 263**	**1 956 926 414**	**(146 448 849)**	
Liabilities						
Current Liabilities						
Current portion of long term liabilities	12 035 983	-	**12 035 983**	12 035 986	**3**	
Payables from exchange transactions	66 836 000	-	**66 836 000**	163 569 778	**96 733 778**	38.10
Consumer deposits	7 868 190	-	**7 868 190**	9 661 373	**1 793 183**	38.11
Defined benefit obligations	-	-	**-**	546 000	**546 000**	38.12
Unspent conditional grants and receipts	-	-	**-**	51 186 078	**51 186 078**	38.13
Provisions	2 344 210	(212 000)	**2 132 210**	4 015 006	**1 882 796**	38.14
	89 084 383	**(212 000)**	**88 872 383**	**241 014 221**	**152 141 838**	
Non-Current Liabilities						
Long term liabilities	72 487 000	-	**72 487 000**	72 486 892	**(108)**	
Defined benefit obligations	14 355 898	-	**14 355 898**	19 322 000	**4 966 102**	38.12
Provisions	73 232 825	-	**73 232 825**	60 853 204	**(12 379 621)**	38.14
	160 075 723	**-**	**160 075 723**	**152 662 096**	**(7 413 627)**	
Total Liabilities	**249 160 106**	**(212 000)**	**248 948 106**	**393 676 317**	**144 728 211**	
Net Assets	**1 737 771 311**	**116 655 846**	**1 854 427 157**	**1 563 250 097**	**(291 177 060)**	
Net Assets						
Reserves						
Accumulated surplus	1 737 771 311	116 655 846	**1 854 427 157**	1 563 250 097	**(291 177 060)**	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget R	Adjustments R	Final Budget R	Actual amounts on comparable basis R	Difference between final budget and actual R	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Receipts from consumers and other	59 240 000	13 571 105	**72 811 105**	58 415 912	**(14 395 193)**	38.15
Grants	650 160 000	1 860 846	**652 020 846**	648 844 569	**(3 176 277)**	
Interest income	27 279 000	1 941 393	**29 220 393**	32 893 942	**3 673 549**	38.16
	736 679 000	**17 373 344**	**754 052 344**	**740 154 423**	**(13 897 921)**	
Payments						
Employee costs	(147 981 000)	9 460 000	**(138 521 000)**	(119 637 501)	**18 883 499**	38.17
Suppliers	(301 015 000)	(43 941 278)	**(344 956 278)**	(333 899 049)	**11 057 229**	
Finance costs	(6 304 481)	-	**(6 304 481)**	(7 988 223)	**(1 683 742)**	38.18
	(455 300 481)	**(34 481 278)**	**(489 781 759)**	**(461 524 773)**	**28 256 986**	
Net cash flows from operating activities	**281 378 519**	**(17 107 934)**	**264 270 585**	**278 629 650**	**14 359 065**	
Cash flows from investing activities						
Payment of property, plant, equipment	(277 488 000)	(116 655 846)	**(394 143 846)**	(202 490 125)	**191 653 721**	38.19
Decrease in non current receivables	42 000	-	**42 000**	46 151	**4 151**	
Movement in investments in municipal entities	18 310 000	(17 760 000)	**550 000**	1 668 345	**1 118 345**	38.20
Net cash flows from investing activities	**(259 136 000)**	**(134 415 846)**	**(393 551 846)**	**(200 775 629)**	**192 776 217**	
Cash flows from financing activities						
Repayment of long term liabilities	(4 946 000)	-	**(4 946 000)**	(4 946 233)	**(233)**	
Increase/ (decrease in consumer deposits	410 000	-	**410 000**	-	**(410 000)**	
Net cash flows from financing activities	**(4 536 000)**	**-**	**(4 536 000)**	**(4 946 233)**	**(410 233)**	
Net increase/(decrease) in cash and cash equivalents	17 706 519	(151 523 780)	**(133 817 261)**	72 907 788	**206 725 049**	
Cash and cash equivalents at the beginning of the year	312 751 000	133 097 491	**445 848 491**	445 848 491	**-**	
Cash and cash equivalents at the end of the year	**330 457 519**	**(18 426 289)**	**312 031 230**	**518 756 279**	**206 725 049**	

ACCOUNTING POLICIES

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board 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. They are presented in South African Rand and the figures in the statements have been rounded to the nearest rand.

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

1.1 Significant judgements and sources of estimation uncertainty

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

1.1.1 Provisions

Management determined an estimate for provisions raised based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Non - Current and Current Provisions.

1.1.2 Useful lives of property, plant, equipment and intangible assets

As described in accounting policies 1.6 & 1.7 the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets become available for use. The useful lives and residual values of the assets are based on industry knowledge and are reviewed annually.

1.1.3 Defined benefit plan liabilities

As described in accounting policy 1.4, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post retirement health benefit obligations and long service awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25.
Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in note 14 to the financial statements.

1.1.4 Revenue recognition

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

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

1.1.5 Financial assets and liabilities

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

1.2 New standards and interpretations

Changes in accounting policies that are effected by management are applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of a change in policy. In such cases, the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

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

GRAP 18 - Segmental reporting

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

GRAP 20 - Related party disclosure

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

GRAP 105 - Transfer of function between entities under common control

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

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

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

GRAP 107 - Mergers

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

The following GRAP standards have been issued and are effective for the period commencing 1April 2013 and have been applied in the 2013/2014 financial year.

GRAP 25 - Employee benefits

This standard of GRAP on employee benefits is to provide accounting principles for amounts or benefits due to employees, their spouses or third parties when employees have rendered services to the municipality, and the rendering of those services entitles employees to certain benefits.This standard prescribes similar requirements to those in terms of IAS 19: Employee Benefits. Since IAS 19 has been applied in developing the current accounting policy, no significant impact on the financial statements of the Municipality is expected.

1.3 Financial instruments

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

1.3 Financial instruments (continued)

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

1.3 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

- combined instruments that are designated at fair value;

ACCOUNTING POLICIES

1.3 Financial instruments (continued)

Classification

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

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

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

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

Initial measurement of financial assets and financial liabilities

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

1.3 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following category:
- Financial instruments at amortised cost.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Investment in municipal entities

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

1.4 Employee benefits

1.4.1 Short-term employee benefits

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

The municipality has opted to treat its provision for leave pay as an accrual, included under current liabilities.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is included in payables from exchange transactions.

1.4.2 Defined contribution plans

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

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those funds. Contributions are recognised in the statement of financial performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

1.4 Employee benefits (continued)

1.4.3 Defined benefit plans

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

Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

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

Long-service allowance

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Defined benefit plans

The municipality contributes to various defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 14 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the discounted cash method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

1.5 Provisions

Provisions are recognised when:

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

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

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

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

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

1.6 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 water and sanitation services, rental to others, or for administrative purposes, and are expected to be used during more than one financial period.

Initial recognition

The cost of an item of property, plant 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 recognised at cost on it's acquisition date or in the case of assets acquired at nil or nominal consideration the deemed cost, being the fair value of the asset at acquisition date.

The cost of an item of property, plant 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 municipality. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, it's cost is it's 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 for purposes of depreciation.

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.

1.6 Property, plant and equipment (continued)

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 the municipality.

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 .

Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic fair value of the subsequent expenditure can be reliably measured.
Subsequent expenditure incurred on a asset is only capitalised when it increases the capacity for future economic benefits associated with the asset.
Where the municipality replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.
Subsequent measurement of all property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses's. The municipality does not recognise in the carrying amount of an item of property, plant and equipment the cost of day to day servicing of the item.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when compensation becomes receivable.

Depreciation

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

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

Land, with the exception of landfill sites and cemetery, is not depreciated as it is regarded as having an infinite life. If the cost of the land includes the cost of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits or service potential, obtained by incurring those costs. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the asset. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

1.6 Property, plant and equipment (continued)

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

Item	Expected useful life
Land	
• Permanent	30 years
Buildings	
• Other buildings	30 years
Plant and Equipment	
• Weed eater	2 years
• Lawn mower	2 years
• Other	5 years
• Skid mounted fire response	15 years
Furniture	10 years
Computer Equipment	5 years
Infrastructure - Plant & Equipment	
• Heavy duty infrastructure pumps	15 years
• Unspecified infrastructure assets	15 years
• Standby generator sets - water and sewerage camps	15 years
Infrastructure - Sewerage Services	
• Sewerage containment	50 years
• Sewerage network	50 years
• Sewerage purification	50 years
Infrastructure - Solid Waste Cell Services	
• Solid waste cell	15 years
• Cemetery	15 years
Infrastructure - Water Services	
• Small schemes	20 years
• Water abstraction	20 years
• Water network	20 years
• Water purification	20 years
• Water storage	50 years
Motor Vehicles	
• Bakkie, LDV, sedan & tanker	7 years
• Truck	7 years
• Trailer & caravan	5 years
• Forklift	5 years
• Tractors	15 years
Equipment	
• Office equipment	5 years

Infrastructure assets

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

Derecognition of property, plant and equipment

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

The gain or loss arising from the derecognition is included in surplus or deficit when the item is derecognised.

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

1.7 Intangible assets

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

Initial recognition

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

Intangible assets are initially recognised at cost.

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale; and
- there is an intention to complete and use or sell it; and
- there is an ability to use or sell it; and
- it will generate probable future economic benefits or service potential; and
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent measurement, amortisation and impairment

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

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

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

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

Item	**Useful life**
Computer software, other	3 years

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

Derecognition

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

1.8 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Identification of impairment

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

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

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

1.9 Leases

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

1.9.1 Finance leases - The municipality as a lessee

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

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

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

1.9 Leases (continued)

1.9.2 Operating leases - The municipality as a lessee

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

1.10 Inventories

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

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

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

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

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

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

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

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

1.11 Tax

Tax Expense:

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

Value Added Tax (VAT):

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

1.12 Revenue from exchange transactions

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

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

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

Service charges relating to water are based on consumption. Meters are read on a monthly basis and when the meter is not read provisional estimates are made and based on those readings the revenue is invoiced monthly and recognised. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

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

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

Interest and rentals are recognised on a time proportion basis.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items are brought into use. Where public contributions have been received but the municipality has not met the conditions, a liability is recognised.

1.13 Revenue from non-exchange transactions

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

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

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

1.13 Revenue from non-exchange transactions (continued)

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

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

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

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. Government grants are recognised as revenue when :
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any conditions associated with the grant.

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

Measurement

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

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

1.14 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time.

When making these transfers, the municipality does not:
- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

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

1.15 Borrowing costs

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

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

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

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

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

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

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

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

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

1.16 Budget information

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

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

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

1.17 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (No. 56 of 2003). All unauthorised expenditure is recognised as an expense in the Statement of Financial Performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 Fruitless and wasteful expenditure

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

1.18 Fruitless and wasteful expenditure (continued)

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

1.19 Irregular expenditure

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

1.20 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will result in the future outflow of resources. Capital commitments are not recognised in the statement of Financial Position as a liability but are included in the disclosure note 31, for approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.

1.21 Related parties

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

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

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

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

1.22 Comparative figures

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

1.23 Events after report date

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

1.24 Contingent assets and contingent liabilities

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

1.25 Presentation currency

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

1.26 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.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25: Employee benefits	01 April 2013	This standard prescribes similar requirements to those in terms of IAS 19; Employee Benefits. Since IAS 19 has been applied in developing the previous accounting policy and no major amendments were required to the current policy, no significant impact on the financial statements of the municipality have been effected.
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	No material changes effected.
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	No material changes effected.
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013	Currently not relevant to the municipality.
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	No material changes effected.
• GRAP 12 (as revised 2012): Inventories	01 April 2013	No material changes effected.
• GRAP 13 (as revised 2012): Leases	01 April 2013	No material changes effected.
• GRAP 16 (as revised 2012): Investment Property	01 April 2013	Currently not applicable to the municipality as the municipality does not hold nor anticipates to hold in the foreseeable future such property.
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	No material changes effected.
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013	Currently not applicable to the municipality.
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	No material changes effected.
• IGRAP16: Intangible assets website costs	01 April 2013	No material changes effected.
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013	No material changes effected.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2015	The effect of this standard will be on presentation only.
• GRAP 105: Transfers of functions between entities under common control	01 April 2015	Currently not relevant to the municipality due to the municipality rarely enters into such transactions.
• GRAP 106: Transfers of functions between entities not under common control	01 April 2015	The effect will be on the measurement of transferred assets and liabilities at fair value.
• GRAP 107: Mergers	01 April 2015	Currently not relevant to the municipality as this standard deals with requirements for accounting for a merger between two or more entities, and is unlikely to have an impact on the financial statements of the municipality in the foreseeable future.
• GRAP 20: Related parties	Standard is approved but not yet effective	No significant impact is expected.
• IGRAP 11: Consolidation – Special purpose entities	Standard is approved but not yet effective	Currently not relevant to the municipality.
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	Standard is approved but not yet effective	Currently not relevant to the municipality.
• GRAP32: Service Concession Arrangements: Grantor	Standard is approved but not yet effective	Currently not relevant to the municipality.
• GRAP108: Statutory Receivables	Standard is approved but not yet effective	The effect will be on the recognition, measurement, presentation and disclosure of statutory receivables.
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2015	Currently not relevant to the municipality.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R
3. Inventories		
Consumable and maintenance materials	6 001 210	6 973 930
Water	550 836	295 241
	6 552 046	**7 269 171**
Inventories recognised as an expense during the year	2 240 759	2 814 282

Inventory pledged as security

No inventory was pledged as security.

4. Accounts receivable from exchange transactions

	2014 R	2013 R
Consumer debtors - Gross balances		
Water	47 916 597	39 659 143
Sanitation	5 089 769	4 539 919
Solid waste	1 687 952	2 290 398
	54 694 318	**46 489 460**
Less: Allowance for impairment		
Water	(29 429 077)	(25 743 019)
Sanitation	(4 068 932)	(3 291 324)
Solid Waste	(229 272)	(403 467)
	(33 727 281)	**(29 437 810)**
Net balance		
Water	18 487 520	13 916 124
Sanitation	1 020 837	1 248 595
Solid waste	1 458 680	1 886 931
	20 967 037	**17 051 650**

Summary of debtors by service type

	2014 R	2013 R
Water		
Current (0 -30 days)	7 857 928	6 598 266
31 - 60 days	3 030 077	2 943 760
61 - 90 days	1 381 408	1 210 218
91 - 120 days	1 379 978	951 878
> 121 days	34 267 206	27 955 021
Less: Allowance for impairment	(29 429 077)	(25 743 019)
	18 487 520	**13 916 124**
Sanitation		
Current (0 -30 days)	436 569	425 332
31 - 60 days	227 777	265 915
61 - 90 days	155 182	154 537
91 - 120 days	160 503	144 800
> 121 days	4 109 738	3 549 337
Less: Allowance for impairment	(4 068 932)	(3 291 326)
	1 020 837	**1 248 595**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

4. Accounts receivable from exchange transactions (continued)

	2014 R	2013 R
Solid waste		
Current (0 -30 days)	975 684	1 417 629
31 - 60 days	441 965	557 798
61 - 90 days	49 644	9 658
91 - 120 days	48 944	57 757
> 121 days	171 715	247 556
Less: Allowance for impairment	(229 272)	(403 467)
	1 458 680	**1 886 931**

Summary of debtors by customer classification

	2014 R	2013 R
Domestic Consumers		
Current (0 -30 days)	5 072 630	4 385 114
31 - 60 days	1 792 523	2 030 530
61 - 90 days	1 240 000	1 045 722
91 - 120 days	1 087 021	682 429
> 121 days	34 683 136	27 354 489
	43 875 310	35 498 284
Less: Allowance for impairment	(33 498 009)	(29 034 344)
	10 377 301	**6 463 940**
Industrial/Commercial		
Current (0 -30 days)	2 187 049	2 183 773
31 - 60 days	924 258	1 211 699
61 - 90 days	220 316	90 560
91 - 120 days	155 581	157 309
> 121 days	2 172 795	2 542 758
	5 659 999	6 186 099
Less: Allowance for impairment	(229 272)	(403 467)
	5 430 727	**5 782 632**
National and Provincial government		
Current (0 -30 days)	2 019 731	1 872 340
31 - 60 days	983 039	525 243
61 - 90 days	125 917	238 131
91 - 120 days	346 823	186 187
> 121 days	1 683 499	1 983 178
	5 159 009	**4 805 079**
Total		
Current (0-30 days)	9 279 410	8 441 226
31 - 60 days	3 699 820	3 767 472
61 - 90 days	1 586 234	1 374 413
91 - 120 days	1 589 425	1 025 924
> 121 days	38 539 429	31 880 425
Less: Allowance for impairment	(33 727 281)	(29 437 810)
	20 967 037	**17 051 650**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

4. Accounts receivable from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(29 437 810)	(25 276 820)
Contributions to allowance (Debt impairment)	**(4 329 873)**	**(4 189 974)**
Debt impairment written off against allowance	40 402	28 984
	(33 727 281)	**(29 437 810)**

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

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

Category B Irregular payers.

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

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

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

Accounts receivable from exchange transactions

Consumer debtors	20 967 037	17 051 650
VAT receivable	23 236 355	20 739 529
	44 203 392	**37 791 179**

5. Accounts receivable from non exchange transactions

Deposits	3 607 364	3 490 212
Employee, councillor account transactions	557 394	836 514
Grant & other debtors	3 929 179	692 036
Investment interest accrual	5 086 966	3 954 455
Payments received in advance	2 362 278	659 108
uMhlathuze municipality - soccer stadium	4 869 359	4 869 359
	20 412 540	**14 501 684**

6. Long term receivables

Staff recoverable bursaries	-	4 483
Staff home loans	392 637	435 665
Non - Current assets	**392 637**	**440 148**

	2014 R	2013 R

6. Long term receivables (continued)

Non-current assets	392 637	440 148
Current portion of long term receivables	39 281	37 921
	431 918	**478 069**

Staff home loans

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

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 800	3 800
Cash book balances	38 752 477	75 844 691
Call Investment deposits	480 000 000	370 000 000
	518 756 277	**445 848 491**

Call Investment deposits portfolio is detailed below:

Financial Institution	Maturity Date	Investment R
ABSA	2014/07/02	20 000 000
ABSA	2014/07/09	45 000 000
ABSA	2014/07/10	25 000 000
ABSA	2014/09/05	50 000 000
ABSA	2014/09/26	20 000 000
NEDBANK	2014/07/08	40 000 000
NEDBANK	CALL	10 000 000
STANDARD	2014/08/01	40 000 000
STANDARD	2014/08/08	10 000 000
INVESTEC	2014/08/01	40 000 000
INVESTEC	2014/08/08	20 000 000
INVESTEC	2014/09/05	40 000 000
INVESTEC	2014/09/16	80 000 000
RAND MERCHANT	2014/07/24	20 000 000
FIRST NATIONAL	2014/07/24	20 000 000
		480 000 000

An average interest rate of 5.546 % (2013 - 5.32%) was received on investments placed for the financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014 R	30 June 2013 R	30 June 2012 R	30 June 2014 R	30 June 2013 R	30 June 2012 R
NEDBANK - Primary Account Account No. 145 408 8885	79 327 350	111 534 826	112 039 895	79 294 133	111 525 267	111 891 301
Other accounts						
NEDBANK - Account No. 145 408 8893	5 941 970	4 369 966	1 911 924	5 217 802	4 334 015	1 183 288
NEDBANK - Account No. 145 408 9016	-	-	-	(46 040 460)	(40 288 110)	(26 725 522)
NEDBANK - Account No. 145 408 8907	13 360	14 760	103 302	13 360	14 760	102 905
NEDBANK - Account No. 145 409 4141	267 642	258 759	343 939	267 642	258 759	261 131
Total	**85 550 322**	**116 178 311**	**114 399 060**	**38 752 477**	**75 844 691**	**86 713 103**

8. Property, plant and equipment

	2014			2013		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	55 431 706	(11 140 510)	44 291 196	55 311 621	(9 336 460)	45 975 161
Land	12 474 983	-	12 474 983	12 474 983	-	12 474 983
Infrastructure under construction	519 646 469	-	519 646 469	497 527 303	-	497 527 303
Infrastructure	993 799 688	(252 211 236)	741 588 452	807 746 824	(210 026 633)	597 720 191
Other assets - assets under construction	5 680 629	-	5 680 629	3 374 055	-	3 374 055
Other assets	37 068 116	(18 116 053)	18 952 063	32 645 191	(16 381 222)	16 263 969
Total	**1 624 101 591**	**(281 467 799)**	**1 342 633 792**	**1 409 079 977**	**(235 744 315)**	**1 173 335 662**

Reconciliation of property, plant and equipment - 2014

	Opening carrying value	Additions	Disposals	Transfers	Newly identified assets at fair value	Depreciation	Impairment loss	Total
Buildings	45 975 161	-	-	120 086	-	(1 804 051)	-	44 291 196
Land	12 474 983	-	-	-	-	-	-	12 474 983
Infrastructure under construction	497 527 303	208 242 516	-	(186 123 350)	-	-	-	519 646 469
Infrastructure	597 720 191	49 600	-	186 003 264	-	(40 409 473)	(1 775 130)	741 588 452
Other assets - assets under construction	3 374 055	2 306 574	-	-	-	-	-	5 680 629
Other assets	16 263 969	7 279 475	(192 530)	-	59 806	(4 452 108)	(6 549)	18 952 063
	1 173 335 662	**217 878 165**	**(192 530)**	**-**	**59 806**	**(46 665 632)**	**(1 781 679)**	**1 342 633 792**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening carrying value	Additions	Disposals	Transfers	Newly identified assets at fair value	Depreciation	Impairment loss	Impairment reversal	Total
Buildings	45 608 175	124 675	-	2 037 448	-	(1 795 137)	-	-	45 975 161
Land	12 474 983	-	-	-	-	-	-	-	12 474 983
Infrastructure under construction	418 546 214	167 310 671	-	(88 329 582)	-	-	-	-	497 527 303
Infrastructure	554 069 962	-	(78 809)	88 545 236	-	(32 584 431)	(12 832 675)	600 908	597 720 191
Other assets - assets under construction	2 350 774	3 276 383	-	(2 253 102)	-	-	-	-	3 374 055
Other assets	16 866 787	2 873 163	(186 216)	-	523 775	(3 779 770)	(33 770)	-	16 263 969
	1 049 916 895	**173 584 892**	**(265 025)**	**-**	**523 775**	**(38 159 338)**	**(12 866 445)**	**600 908**	**1 173 335 662**

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

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

Refer to note 39 for re-stated opening carrying value, transfers and depreciation for 2012/2013.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

9. Intangible assets

	2014			2013		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and other	3 221 030	(2 289 055)	931 975	2 842 062	(1 765 029)	1 077 033

Reconciliation of intangible assets - 2014

	Opening carrying value	Additions	Amortisation	Total
Computer software & other	1 077 033	378 968	(524 026)	931 975

Reconciliation of intangible assets - 2013

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

10. Investments in municipal entities

	% holding 2014	% holding 2013	Carrying amount 2014	Carrying amount 2013
uThungulu Financing Partnership	99,00 %	99,00 %	18 160 171	19 307 087
uThungulu House Development Trust	100,00 %	100,00 %	4 844 303	5 365 733
			23 004 474	**24 672 820**

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R
11. Long term liabilities		
At amortised cost		
ABSA Bank 12.6%	38 537 512	40 391 568
The loan was raised originally for the development of the Uthungulu House building and the greater Mthonjaneni Bulk Water Scheme. Subsequently infrastructure for the landfill site and sewer treatment plants were constructed therefrom. The original loan is repayable after a 15 year period (remaining period 10 years). Interest at 12.6% is payable 6 monthly in arrears on the last day of the month.		
INCA 11.95%	23 652 428	25 060 631
The loan was raised to finance extensions to Uthungulu House and the development of the Regional Solid Waste Site cell 2. The original loan is repayable after a 15 year period(remaining period 9 years). Interest at 11.95% is payable 6 monthly in arrears on the last day of the month.		
Obligation under Finance Headlease	22 332 938	24 016 912
The finance headlease payments represent payments by the municipality for a headlease property in which the municipality has a controlling interest at the end of the lease through Uthungulu Financing Partnership and consists of a lease over Portion 2 of ERF 10033 Richards Bay, 2 Haiti, Central Business District, known as Uthungulu House. The original lease period expires on 31 October 2017, ownership of the property will vest with Uthungulu on the termination of the lease. The yield to maturity on the lease is 23.81% and is paid 6 monthly in advance on the last day of the month.		
Long term liabilities	**84 522 878**	**89 469 111**

Refer to appendix A for more information.

Non-current liabilities		
At amortised cost	**72 486 892**	**78 874 001**
Current liabilities		
At amortised cost	**12 035 986**	**10 595 110**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

12. Payables from exchange transactions

	2014 R	2013 R
Trade payables	127 421 654	103 653 393
Amounts received in advance	2 497 187	2 635 016
Retention payables	25 751 269	24 247 760
Accrued leave pay	7 842 236	5 847 669
Employee payable transactions	57 432	25 763
	163 569 778	**136 409 601**

13. Consumer deposits

	2014 R	2013 R
Water	**9 661 373**	**9 113 835**

In terms of Council's by-laws no interest is raised or paid on consumer deposits.

	2014 R	2013 R

14. Defined benefit obligations

Defined benefit plan

Post retirement health care benefit liability

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of planned assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2014 by ZAQ Consultants and Actuaries , a member of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method. No other post retirement benefits are provided by the municipality.

The municipality makes monthly contributions to the following medical aid schemes;

- Bonitas
- Keyhealth
- Hosmed
- Samwumed.

The post employment health care benefit plan is a defined benefit plan, of which the members are made up as follows:

	2014	2013
Membership		
In- service members (Employees)	214	143
Continuation members(Retirees, widowers and orphans)	4	2
	218	**145**

	2014	2013
Estimated liability in respect of past services		
In- service members (Employees)	14 058 000	14 889 000
Continuation members	1 795 000	777 000
	15 853 000	**15 666 000**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

14. Defined benefit obligations (continued)

Long service awards

A long service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality which includes their uninterrupted service with the former Local Authorities amalgamated in December 2000. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into a an amount based on his or her basic salary applicable at the time the award became due or, alternatively, credited to his or her vacation leave accrual.

The provision represents an estimation of the awards to which employees in the service of the municipality at 30 June 2014 may become entitled to in future, based on actuarial valuation performed at that date.

The most recent actuarial valuations of planned assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2014 by ZAQ Consultants and Actuaries , a member of the Actuarial Society of South Africa.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method. No other long service benefits are provided by the municipality.

The amounts recognised in the statement of financial position are as follows:

	2014 R	2013 R
Carrying value		
Present value of fund obligations - post employment medical aid benefits	(15 853 000)	(15 666 000)
Present value of fund obligations - long service awards	(4 015 000)	(2 798 000)
	(19 868 000)	**(18 464 000)**
Non-current liabilities	(19 322 000)	(18 029 000)
Current liabilities	(546 000)	(435 000)
	(19 868 000)	**(18 464 000)**

Changes in the present value of the defined benefit obligation are as follows:

	2014 R	2013 R
Opening balance	18 464 000	14 180 935
Net expense recognised in the statement of financial performance - total included in employee related costs	1 404 000	4 283 065
	19 868 000	**18 464 000**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

14. Defined benefit obligations (continued)

Net expense recognised in the statement of financial performance

Post employment medical aid benefits - current service cost	1 564 000	1 064 000
Long service awards - current service cost	332 000	772 680
Post employment medical aid benefits - interest cost	1 294 000	887 400
Long service awards - interest cost	206 000	202 053
Post employment medical aid benefits - actuarial loss/(gain)	(2 581 707)	3 185 055
Long service awards - actuarial loss/(gain)	908 146	(1 421 123)
Post employment medical aid benefits - benefits paid	(89 293)	(55 000)
Long service awards - benefits paid	(229 146)	(352 000)
	1 404 000	**4 283 065**

Calculation of actuarial gains and losses

Post employment medical aid benefits - Actuarial loss/(gain)	(2 581 707)	3 185 055
Long service awards - Actuarial loss/(gain)	908 146	(1 421 123)
	(1 673 561)	**1 763 932**

Expected future service and interest costs

Post employment medical aid benefits

The future service cost for the ensuing year is established to be R 1 668 000, whereas the interest cost for the next year is estimated to be R 1 484 000 (2013 - R 1 564 000 and R 1 294 000 respectively).

The municipality expects to make a contribution of R 176 000,(2013 - R90 000) to the defined benefit plans during the next financial year.

Long service awards

The future service cost for the ensuing year is established to be R 646 000, whereas the interest cost for the next year is estimated to be R 338 000 (2013 - R 332 000 and R 206 000 respectively).

The municipality expects to make a contribution of R 370 000,(2013 - R 345 000) to the defined benefit plans during the next financial year.

	2014 R	2013 R

14. Defined benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Post employment medical aid benefits		
Discount rates used	8,94 %	8,94 %
Medical aid contribution inflation	8,05 %	7,14 %
Net effective discount rate	0,82 %	0,70 %
Consumer price inflation	7,05 %	6,14 %
Long service awards		
Discount rates used	7,96 %	7,40 %
Expected rate of salary increase	7,33 %	6,66 %
Net effective discount rate	0,59 %	0,69 %
Consumer price inflation	6,33 %	5,66 %

The expected retirement age for females is 58 years and males 63 years (2013 - females 58 years and males 63 years).

The basis on which the discount rate and medical aid inflation rate has been determined is as follow for post employment medical aid benefits:

The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

The discount rate was therefore set as the yield of the R209 South African government bond as at the valuation date. The actual yield on the R209 bond was sourced from the RMB Global Markets website on the 30th of June 2014.

The medical aid inflation rate was set with reference to the past relationship between CPI and medical aid contribution rate Inflation. The actuaries have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between current conventional government bond yields (R209) and current index-linked bond yields (R202).

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

The basis on which the discount rate and salary inflation has been determined is as follow for long service awards:

	2014 R	2013 R

14. Defined benefit obligations (continued)

The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

The discount rate used by the actuaries was therefore set as the yield of the R208 South African government bond as at the valuation date. The actual yield on the R208 bond was sourced from the RMB Global Markets website on the 30th of June 2014.

The actuaries have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between current conventional bond yields (R208) and current index-linked bond yields (R197). The actual yield on the R208 and R197 government bonds was sourced from the RMB Global Markets website. Our assumed rate of salary inflation was set as the assumed value of CPIplus 1%. The salaries used in the valuation include an assumed increase on 01 July 2014 of 6.79%. The next salary increase was assumed to take place on 01 July 2015.

Other assumptions

Assumed healthcare cost trends and salary inflation rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends and salary inflation rates would have the following effects:

	2014	2013
	-	
Increase of 1 % / (Decrease of1 %)		
Effect on the post employment medical aid benefit (pemab)	705 000	1 687 000
Effect on the aggregate of the service cost and interest cost - pemab	147 000	305 000
Effect on the post employment medical aid benefit (pemab)	(983 000)	(2 006 000)
Effect on the aggregate of the service cost and interest cost - pemab	(208 000)	(374 000)
Effect on the Long Service awards (lsa)	347 000	238 000
Effect on the aggregate of the service cost and interest cost - lsa	102 000	56 000
Effect on the long service awards (lsa)	(308 000)	(212 000)
Effect on the aggregate of the service cost and interest cost - lsa	(91 000)	(50 000)

Defined benefits obligations

An amount of R11 755 553(2013 - R9 925 892) was contributed by Council towards employment retirement funding. These contributions have been expensed. The Zululand Joint Provident Fund has received a notice of exemption for further valuations per notice number 12/8/37666.

Description of Fund	Last Actuarial Valuation	Total assets R'000	Total Liabilities R'000	Net Gain/(Loss)
Government Employees Pension Fund	March 2010	801 004 000	801 004 000	
KwaZulu-Natal Joint Municipal Provident Fund	March 2013	1 651 394	1 584 921	66 473
Natal Joint Municipal Pension Fund (Superannuation Fund)	March 2013	7 467 702	7 626 418	(158 716)
Natal Joint Municipal Pension Fund (Retirement)	March 2013	2 765 941	2 969 701	(203 760)
Zululand Joint Provident Fund (Uthungulu District Municipality Provident Fund)	February 2009	12 541 836	12 541 836	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Transfer of current portion	Reversal of short term portion	Total
Reclamation of refuse landfill site	57 605 107	4 805 497	(13 907 859)	(3 279 412)	15 629 871	60 853 204
Performance bonus	860 923	741 166	(866 495)	-	-	735 594
Current portion of reclamation of refuse landfill site	15 629 871	-	-	3 279 412	(15 629 871)	3 279 412
	74 095 901	**5 546 663**	**(14 774 354)**	**-**	**-**	**64 868 210**

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Reclamation of refuse landfill site	69 415 033	4 095 485	(275 540)	(15 629 871)	57 605 107
Performance bonus	751 981	814 554	(705 612)	-	860 923
Current portion of reclamation of refuse landfill site	-	-	-	15 629 871	15 629 871
	70 167 014	**4 910 039**	**(981 152)**	**-**	**74 095 901**

Non-current liabilities	**60 853 204**	**57 605 107**
Current liabilities	**4 015 006**	**16 490 794**

Performance bonuses are paid after the financial year end in arrears as the assessment of eligible employees had not taken place at reporting date.

In terms of licensing of the landfill refuse site, council will incur rehabilitation costs of R64 million to restore the old Empangeni and Cell 1 refuse sites at the end of their useful lives. Planning and rehabilitation had commenced in 2013. Provision has been made at best estimate determined by the resident professional engineer at a cost for the current solid waste (Cell 1 & Cell 2) and the old Empangeni Site.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R
16. Service charges		
Sale of water	37 658 953	33 304 979
Solid waste revenue	11 380 914	11 722 007
Sanitation revenue	4 529 472	4 604 903
Cemetery revenue	231 686	270 030
	53 801 025	**49 901 919**
17. Interest received		
Interest revenue		
Outstanding debtors	28 237	34 243
External investments	32 865 705	27 113 168
	32 893 942	**27 147 411**
18. Government grants and subsidies		
Operating grants		
Levy Replacement Grant	180 845 000	165 913 000
Municipal Infrastructure Grant	178 514 303	189 155 078
Equitable share	173 064 000	162 849 000
Department of Co-operative Governance and Traditional Affairs (previously DTLGA)	3 479 557	1 900 553
Department of Water Affairs	70 353 268	42 071 839
Department of Co-operative Governance and Traditional Affairs	15 471 373	3 037 614
Department of Public Works	7 860 064	1 833 503
National Treasury	1 112 500	1 470 942
Public donors	174 142	59 750
Provincial Treasury	252 196	-
Department of Sports and Recreation	273 800	-
Department of Transport	2 167 278	1 940 109
Department of Economic Affairs and Tourism	11 841	-
Department of Agriculture	38 410	-
	633 617 732	**570 231 388**

Summary of grants per funder

Levy Replacement Grant

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

18. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Current-year receipts	185 343 000	195 223 000
Conditions met - transferred to revenue	(178 514 303)	(188 883 561)
Mig debtor receipt	(271 517)	(6 339 439)
	6 557 180	**-**

This grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas.
No funds have been withheld.

Equitable Share

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

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

Balance unspent at beginning of year	9 080 327	10 980 879
Conditions met - transferred to revenue	(3 479 557)	(1 900 552)
	5 600 770	**9 080 327**

Conditions still to be met - remain liabilities (see note 19)

These grants are used:
- to build capacity within the district in order to perform functions as per legislature;
- for disaster programmes, fire fighting equipment, water service delivery planning, shared services unit and infrastructure.

Department of Water Affairs

Balance unspent at beginning of year	917 526	1 826 455
Current-year receipts: Regional bulk infrastructure grant	32 164 041	38 865 302
Conditions met - transferred to revenue: Regional bulk infrastructure grant	(32 163 855)	(40 292 906)
Current-year receipts: ACIP	2 531 152	2 079 583
Conditions met - transferred to revenue: ACIP	(3 049 828)	(1 560 908)
Current-year receipts: MWIG tanker reduction strategy	39 478 000	-
Conditions met - transferred to revenue: MWIG Tanker reduction strategy	(28 343 799)	-
Current-year receipts: WSOG Boreholes	1 500 000	-
Conditions met - transferred to revenue: WSOG boreholes	(1 442 809)	-
Current-year receipts: Water Services Operating Subsidy	1 624 000	-
Conditions met - transferred to revenue : Water Services Operating Subsidy	(1 624 000)	-
DWA debtor receipt	(218 025)	-
Conditions met-transferred to revenue : Other	(12 152)	-
	11 360 251	**917 526**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

18. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 19)

These grants are used for:
- water infrastructure and sanitation projects;
- drought relief and disaster relief programmes.

Department of Co-operative Governance and Traditional Affairs

	2014 R	2013 R
Balance unspent at beginning of year	14 723 666	7 861 281
Current-year receipts: Municipal systems improvement grant (DCOGTA)	890 000	1 000 000
Conditions met - transferred to revenue: Municipal systems improvement grant (DCOGTA)	(1 712 439)	(895 119)
Current-year receipts: Councillor training programme	-	200 000
Conditions met - transferred to revenue: Councillor training programme	(193 430)	-
Current-year receipts: Growth and development summit	-	400 000
Conditions met - transferred to revenue: Growth and development summit	(251 374)	-
Current-year receipts: Water reduction strategy	-	8 000 000
Conditions met - transferred to revenue: Water reduction strategy	(11 423 286)	(1 918 818)
Current-year receipts: Public participation	750 000	-
Current-year receipts: Fresh produce market	18 000 000	-
Conditions met - transferred to revenue: Fresh produce market	(140 328)	-
Current-year receipts: Municipal excellency	1 000 000	-
Current-year receipts: BIOGAS	2 000 000	300 000
Conditions met - transferred to revenue: BIOGAS	(643 507)	(183 701)
Conditions met - transferred to revenue: Massification	(1 107 009)	(18 631)
Conditions met - transferred to revenue: Other	28 000	(21 346)
	21 920 293	**14 723 666**

Conditions still to be met - remain liabilities (see note 19)

The Department of Co-operative Governance and Traditional Affairs grants are used to build capacity within the district in order to perform functions as per legislature.

Department of Public Works Grants

	2014 R	2013 R
Balance unspent at beginning of year	5 147 158	3 025 661
Current-year receipts: EPWP	2 840 000	3 955 000
Conditions met - transferred to revenue	(7 860 064)	(1 833 503)
	127 094	**5 147 158**

Conditions still to be met - remain liabilities (see note 19)

This grant is used to construct water and sewerage infrastructure as part of the upgrading of informal settlement areas. No funds have been withheld.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

18. Government grants and subsidies (continued)

National Treasury

Balance unspent at beginning of year	-	500 942
Current-year receipts - Local Finance Management Grant	1 250 000	1 250 000
Conditions met transferred to revenue - Local Finance Management Grant	(1 112 500)	(1 470 942)
Current-year receipts - Rural Households Infrastructure grant	4 000 000	-
Transferred to EQS & LRG	-	(280 000)
	4 137 500	**-**

Conditions still to be met - remain liabilities (see note 19)

National Treasury other grants are used for:

- to promote and support of reforms to municipal financial management; and
- the implementation of the Municipal Finance Management Act (Act no. 56 of 2003).

The allocation from the funder was reduced by an amount of R 280 000 through a set off against the Levy replacement and Equitable share tranche in 2012/2013. This pertained to the unspent allocation from 2010/2011 financial year.

Public donors

Balance unspent at beginning of year	180 186	186
Current-year receipts	82 000	239 750
Conditions met - transferred to revenue	(174 142)	(59 750)
	88 044	**180 186**

Conditions still to be met - remain liabilities (see note 19)

The grant received of R 82 000 from BHB Billiton is to partner with the district municipality in raising funds to support children in need of school uniforms.

The grants received of R239 750 for the 2012/2013 financial year are as follows:
The grant received of R160 000 from Foskor is to partner with the district municipality in the fight against HIV and Aids, the grant received of R50 000 from BHP Billiton and R 20 000 from Bell equipment was for corporate social investment programmers, while the grant received of R 9 750 from Eyethu engineering was for the assistance of bursary applications.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

18. Government grants and subsidies (continued)

Provincial Treasury

Balance unspent at beginning of year	280 196	280 196
Conditions met - transferred to revenue	(252 196)	-
Conditions met - transferred to revenue: Other	(28 000)	-
	-	**280 196**

Conditions still to be met - remain liabilities (see note 19)

The grant received from Provincial Treasury is used for the upliftment of the district's communities through various programmes.

Department of Sports and Recreation

Balance unspent at beginning of year	277 613	3 813
Current-year receipts	-	273 800
Conditions met - transferred to revenue	(273 800)	-
	3 813	**277 613**

Conditions still to be met - remain liabilities (see note 19)

The grant received from the Department of Sport and Recreation is used to develop sporting codes within the district. The grant is spent in accordance with the approved business plan. No funds have been withheld.

Department of Transport

Balance unspent at beginning of year	1 427 737	1 591 846
Current-year receipts: Rural transport services and infrastructure grant	1 746 000	1 776 000
Conditions met - transferred to revenue	(2 167 278)	(1 940 109)
	1 006 459	**1 427 737**

Conditions still to be met - remain liabilities (see note 19)

The Department of Transport grant is used for the development of the public transport plan.

Department of Economic Affairs and Tourism

Balance unspent at beginning of year	11 841	11 841
Conditions met - transferred to revenue	(11 841)	-
	-	**11 841**

Conditions still to be met - remain liabilities (see note 19)

The grant received from the Department of Economic Affairs and Tourism is for the development and promotion of the district's local economy and tourism.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

18. Government grants and subsidies (continued)

Department of Agriculture

	2014 R	2013 R
Balance unspent at beginning of year	177 708	177 708
Conditions met - transferred to revenue	(38 410)	-
	139 298	**177 708**

Conditions still to be met - remain liabilities (see note 19)

The grant received from the Department of Agriculture is for the development of district agricultural projects.

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2014 R	2013 R
Conditional Grants from spheres of Government and other		
Municipal Infrastructure Grant	6 557 180	-
Department of Co-operative Governance and Traditional Affairs (Previously DTLGA)	5 600 770	9 080 327
Department of Water Affairs	11 360 251	917 526
Department of Co-operative Governance and Traditional Affairs	21 920 293	14 723 666
Department of Public Works	127 094	5 147 158
National Treasury	4 137 500	-
Public donors	88 044	180 186
Provincial Treasury	-	280 196
Department of Sport and Recreation	3 813	277 613
Department of Transport	1 006 459	1 427 737
Department of Economic Affairs and Tourism	-	11 841
Department of Agriculture	139 298	177 708
Other - EU	245 376	236 493
	51 186 078	**32 460 451**

20. Other income

	2014 R	2013 R
Sundry income	8 514 787	1 674 892
Income from the uThungulu House Development Trust	2 538 570	2 734 504
Income from uThungulu Financing Partnership	3 125 934	3 355 457
Tender deposits	529 616	231 486
SETA refund	-	1 167 616
Insurance claim proceeds	345 656	283 235
Lease income	181 061	131 364
	15 235 624	**9 578 554**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. Employee related costs

	2014 R	2013 R
Employee related costs - salaries and wages	75 825 210	64 026 865
Employee related costs - contributions for UIF, pensions and medical aid	16 947 119	14 323 090
Travel and other allowances	8 233 825	7 400 181
Overtime and relief payments	6 054 182	7 040 423
Housing benefits and allowances	2 359 372	2 418 986
Defined benefits obligations: post-employment health care benefit & long service awards	1 404 000	4 283 065
	110 823 708	**99 492 610**

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

Remuneration of Municipal Manager

	2014 R	2013 R
Annual remuneration	1 080 463	981 689
Car allowance	363 984	333 728
Performance bonuses	186 887	154 673
Contributions to UIF, SDL and other	1 861	13 524
	1 633 195	**1 483 614**

Remuneration of Deputy Municipal Manager - Technical Services

	2014 R	2013 R
Annual remuneration	873 745	1 035 447
Car allowance	222 389	220 876
Performance bonuses	169 902	115 574
Contributions to UIF, SDL, pension & medical aid	200 376	12 859
Annual bonus	-	37 272
Leave pay	-	27 345
	1 466 412	**1 449 373**

Remuneration of Deputy Municipal Manager - Corporate Services

	2014 R	2013 R
Annual remuneration	922 712	825 237
Car allowance	281 940	244 740
Performance bonuses	169 902	139 206
Contributions to UIF, SDL and other	1 861	11 834
Annual bonus	76 893	-
	1 453 308	**1 221 017**

Remuneration of Deputy Municipal Manager - Financial Services

	2014 R	2013 R
Annual remuneration	897 082	881 216
Car allowance	389 060	377 430
Performance bonuses	169 902	140 287
Contributions to UIF, SDL and other	1 861	16 952
Leave pay	-	97 087
Long service leave pay	-	145 630
	1 457 905	**1 658 602**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

21. Employee related costs (continued)

Remuneration of Deputy Municipal Manager - Planning & Economic Development

	2014 R	2013 R
Annual remuneration	300 329	896 040
Car allowance	153 883	364 075
Performance bonuses	169 902	155 873
Contributions to UIF, SDL and other	781	15 239
Leave pay	93 143	18 007
	718 038	**1 449 234**

The contract of the Deputy Municipal Manager - Planning and Economic Development ended on 31 October 2013 and an acting allowance was paid to an incumbent amounting to R 50 851 for the period December 2013 to April 2014.

Deputy Municipal Manager - Community Services

	2014 R	2013 R
Acting allowance	28 707	-
	28 707	**-**

In the financial year under review the Council approved the creation of a Deputy Municipal Manger - Community Services position; this function was previously under the custodianship of the Deputy Municipal Manager- Corporate Services. During the financial year an amount of R28 707 was paid to an incumbent acting in the post.

22. Remuneration of councillors

	2014 R	2013 R
Mayor	764 609	728 196
Deputy Mayor	615 861	586 532
Speaker	489 375	586 532
Chief Whip	385 798	367 600
Executive Committee	2 666 905	2 581 614
Councillors	3 167 055	2 930 547
Councillors' pension contribution	724 190	741 628
	8 813 793	**8 522 649**

In-kind benefits

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

23. Depreciation, amortisation and impairment

	2014 R	2013 R
Property, plant and equipment	48 447 313	50 424 874
Intangible assets	524 026	492 450
	48 971 339	**50 917 324**

The comparitive figure for depreciation, amortisation and impairment has been re-stated by an amount of R 424 415. Refer to note 39.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

24. Finance costs

	2014 R	2013 R
Interest paid - long term liabilities	**7 988 223**	**13 490 296**

25. Repairs and maintenance

	2014 R	2013 R
Vehicles, buildings & other	1 460 935	1 361 009
Water and sanitation infrastructure	50 647 483	42 624 466
	52 108 418	**43 985 475**

26. Bulk purchases

	2014 R	2013 R
Electricity for operations	19 409 608	17 415 113
Water	13 060 895	12 051 381
	32 470 503	**29 466 494**

27. Contracted services

	2014 R	2013 R
Service support agent,Information technology services, environmental health and administration services	80 975 345	63 537 996
Internal audit	1 430 244	1 525 661
Specialist services	109 448	206 777
	82 515 037	**65 270 434**

28. Grants and subsidies paid

	2014 R	2013 R
KZ 282 uMhlathuze Municipality	4 856 400	4 603 259
KZ 283 Ntambanana Municipality	6 851 000	6 041 000
KZ 284 Umlalazi Municipality	482 719	482 719
KZ 281 Umfolozi Municipality	43 000	-
	12 233 119	**11 126 978**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

29. General expenses

	2014 R	2013 R
Advertisements	699 734	666 394
Assessment rates & municipal charges	778 427	626 568
Audit committee fees	112 606	81 286
Bank charges	202 894	168 058
Bursaries	263 820	24 499
Chemicals & cleaning materials	2 633 851	2 802 197
Delegations	572 312	377 605
External audit fees	2 148 541	2 295 406
Fuel and oil	3 758 736	2 863 159
IDP operational externally funded projects	62 098 994	64 260 792
IDP operational internal funded projects	59 447 405	52 375 910
Indigent burials	101 172	98 069
Insurance	1 304 648	854 345
Landfill site reclamation	4 805 497	3 819 945
Legal fees	283 098	242 073
Levies & membership fees	1 262 303	1 018 989
Licenses	1 703 383	1 227 207
Personal protective equipment	232 004	201 981
Partnership expense	-	191 611
Printing & postage	1 219 175	1 101 421
Publicity	1 134 157	782 819
Refreshments	475 771	283 453
Rent - plant and vehicles	5 004 228	3 103 783
Rent office	63 345	62 733
Skills development levy	946 139	822 339
Small tools	42 954	34 167
Staff medical examinations	213 850	189 012
Stores and material	73 358	57 002
Subsistence & travelling	1 260 218	1 062 242
Telephone	1 770 861	1 480 471
Training costs	1 646 864	1 076 517
Workmen's compensation	648 936	526 743
	156 909 281	**144 778 796**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R

30. Cash generated from operations

	2014 R	2013 R
Surplus	218 288 884	185 910 939
Adjustments for:		
Depreciation and amortisation	48 971 339	50 917 324
(Surplus)/Loss on sale of property, plant and equipment	192 530	265 025
Fair value adjustments	(59 806)	(523 775)
Debt impairment	4 329 873	4 189 974
Movements in retirement benefit assets and liabilities	1 404 000	4 283 065
Movements in provisions	(9 227 691)	3 928 887
Changes in working capital:		
Inventories	717 125	(1 147 054)
Accounts receivable from non exchange transactions	(5 910 857)	10 553 840
Accounts receivable from exchange transactions	(8 245 260)	(8 383 364)
Payables from exchange transactions	27 160 177	9 452 472
VAT	(2 496 826)	(10 627 928)
Unspent conditional grants and receipts	18 725 627	5 960 777
Consumer deposits	547 538	884 573
Other non-cash items: Accruals	(15 767 003)	(6 261 023)
	278 629 650	**249 403 732**

31. Commitments

Authorised capital expenditure

	2014 R	2013 R
Approved and contracted for		
• Infrastructure	284 205 170	125 303 155
This expenditure will be financed from:		
Government Grants	272 475 359	117 047 996
Own Resources	11 729 811	8 255 159
	284 205 170	125 303 155

The outstanding commitments relate to capital projects and other assets that have been committed by order, by the Bid Adjudication Committee and Executive Committee prior to 30 June 2014. The majority of the capital projects include water infrastructure.

32. Operating leases - as lessee (expense)

	2014 R	2013 R
Minimum lease payments due		
- within one year	3 681 092	863 403
- in second to fifth year inclusive	4 201 114	184 409
	7 882 206	**1 047 812**

Operating lease payments represent payments for the leasing of vehicles by the municipality. Lease contracts are entered into for a three year period and the lease payments are fixed for the lease period with no escalation. A number of lease agreements ended in August 2013 and further new lease agreements were entered into in 2013/2014. An amount of R 3 591 429 has been recognised in the statement of financial performance.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

33. Deviation from supply chain management regulations

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

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

The deviations greater than R 200 000 are listed individually below for the year ended 30 June 2014.

Project description	
Establishment and De-establishment of plant to attend to a fire at the Empangeni waste Site	339 293
Emergency hire for standby purposes - increase in waste disposal at Solid Waste	324 189
Hire of alternate landfill equipment	714 854
Deposit for booking of accommodation for Salga games	280 000
Various deviations less than R200 000 aggregated	10 140 601
	11 798 937

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

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

The details are listed below for the period ending 30 June 2014;

Name of person	T Jordan
Relation	Spouse
Capacity	Admin Manager: Development - Umhlathuze Municipality
Service Provider	Audio Computer World
Number of transactions	54
Total Amount	R899 220

Name of person	N Reddy
Relation	Spouse
Capacity	Prosecutor - NPA Verulam Court
Service Provider	Fana Manufacturing CC
Number of transactions	2
Total Amount	R226 518

Name of person	R Pillay
Relation	Spouse
Capacity	Educator - Department of Education
Service Provider	KDM Sports CC
Number of transactions	12
Total Amount	R366 734

Name of person	PV Dube & EN Dube
Relation	Parents
Capacity	Educators - Department of Education
Service Provider	Ziphozovela Multiservices CC
Number of transactions	72
Total Amount	R1 788 900

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

35. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2014 R	2013 R
Current year membership fee	1 212 390	969 928
Amount paid - current year	(1 212 390)	(969 928)
	-	-

Audit fees

	2014 R	2013 R
Current year fee	2 148 541	2 295 406
Amount paid - current year	(71 452)	(185 793)
Amount paid - previous years	(2 077 089)	(2 109 613)
	-	-

PAYE and UIF

	2014 R	2013 R
Current year subscription / fee	17 318 051	15 850 813
Amount paid - current year	(17 318 051)	(15 850 813)
	-	-

Pension and Medical Aid Deductions

	2014 R	2013 R
Current year subscription / fee	15 222 366	14 556 216
Amount paid - current year	(15 222 366)	(14 556 216)
	-	-

VAT

	2014 R	2013 R
VAT receivable	23 236 355	20 739 529

All VAT returns have been submitted by the due date throughout the year. In the year under review the municipality had engaged SARS with respect to the following matters:
Voluntary disclosure programme: An application was lodged in 2012/2013 to SARS amounting to R 3 723 130, SARS have considered the application and the refund will be processed accordingly.
ADR1: An ADR1 application was lodged disputing penalties imposed by SARS in respect to their derivation of certain transactions that occurred as a result of timing differences. The objection was lodged to contest the penalty and it was requested that all information be considered. We have reasonable assurance that the objection shall result in the penalty being reversed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

36. Contingent liabilities and contingent assets

	2014 R	2013 R
Contingent liabilities - Future legal fees and other		
1. Ex-employee 1 - legal action pending	600 000	600 000
2. Contractor 1 - legal matter pending	-	140 000
3. Consulting Engineers 2 - legal matter pending	140 000	140 000
4. Contractor 2 - legal matter pending	100 000	100 000
5. Service provider - legal action pending	40 000	40 000
6. Employee 2 - legal matter pending	80 000	-
7. Employee 3 - a case of theft of money	27 429	27 429
8. Labour Court Judgement - Task pay scales	-	2 500 000
9. Employee 4 - a case of alleged theft of money	8 170	8 170
10. Employee 5 - legal matter pending	60 000	60 000
11. Employees 6 & 7 - legal matter pending	90 000	90 000
	1 145 599	3 705 599

1. The municipality has taken legal action against an ex-employee that made an illegal investment. The matter is being dealt with by the high court. The appointed legal team has commenced with pre-trial preparations with the appointed advocate. New trial dates are pending.

2. This is a contractor's liability claim by the municipality against a contractor for non performance. A settlement agreement was concluded in the year under review resulting in the municipality receiving an amount of R 2 385 902 and incurring legal costs of R 200 000.

3. This matter refers to a dispute with a consulting engineering firm and relates to the consultant increasing the scope of work of a project without obtaining prior approval from the municipality. The matter is a high court claim and the matter is ready for trial and on the trial awaiting list.

4. The municipality has legal action against a contractor for non performance and relates to the claim referred to in point 3 above. The matter is with the high court, however it may not come before the court as it is our legal teams view that the Consultant is liable for all costs.

5. This is a high court claim in which an order of re-payment was obtained against the service provider.

6. This matter refers to a labour dispute that an employee has lodged with the labour court. The matter has been opposed by Council.

7. This matter refers to a case of theft of money by an employee. A criminal case has being opened at the SAPS and attempts are being made to recover the monies, furthermore disciplinary action was taken and the said employee was subsequently found guilty and dismissed.

8. This matter refers to a judgement handed down by the Labour court of South Africa(Case no. J1255/2010) wherein municipalities have been ordered to effect a 8.48% salary adjustment in the Job evaluation wage curve. The matter was taken on appeal by SALGA wherein the Labour appeal court ruled in their favour. The Unions approached the Constitutional Court, however their application was dismissed, therefore the matter has been finalised and no contingent liability has arisen.

36. Contingent liabilities and contingent assets (continued)

9. This matter refers to a case of theft of money by an employee. A criminal case has been opened at SAPS and the employee has been dismissed through the disciplinary processes's.

10. This matter refers to an application that has been brought by an employee against the municipality regarding employee matters. The matter has been opposed by the municipality and the relevant papers have been lodged with the court.

11. This matter refers to an application for a review of an arbitration award made in favour of the municipality. The application for review has been finalised by the court and the Judge's ruling is awaited.

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

Contingent assets

The municipality assisted by Provincial Treasury embarked on a review of VAT transactions inclusive of apportionment vat calculations which have been applied. The review encompassed an analysis of the past five financial years. At the compilation of these financial statements the review was partially complete with the 2009/2010 financial year finalised and an input vat amount of R1.3 million has been included in the June 2014 vat 201 return. There is an initial indication that the prudent approach application of the estimate used may result in input vat being claimed from SARS. The transactions have been disclosed as a contingent asset as the outcome of the claim is solely reliant on SARS's interpretation and approval of such.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

37. Related parties

The uThungulu Financing Partnership
uThungulu House Development Trust
Uthungulu Fresh Produce Market

	2014 R	2013 R
Related party balances		
Investments in municipal entities		
The uThungulu Financing Partnership	18 160 173	19 307 088
uThungulu House Development Trust	4 844 303	5 365 733
Income received from related parties		
The uThungulu Financing Partnership	3 125 934	3 355 457
uThungulu House Development Trust	2 538 570	2 734 507
Balances outstanding from related parties		
The uThungulu Financing Partnership	22 332 937	24 016 912
% Interest in municipal entities		
The uThungulu Financing Partnership	99	99
uThungulu House Development Trust	100	100
Related party transactions		
Sub-lease payments		
The uThungulu Financing Partnership	5 648 876	5 884 907

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

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

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

38. Budget and Actual amount variances

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

Statement of financial performance

38.1 Interest received

The variance between budget and actual amounts are attributable to the prudent monitoring of available funds which could be invested together with the interest rate increasing in the financial year under review.

38.2 Employee related costs

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

38.3 Councillor remuneration

The variance is mainly as a result of one of the local municipalities within the district grade increasing, which effects the councillor allowance to be paid.

38.4 Debt impairment

Consistent application of the credit control bylaws and stringent enforcement of punitive measures to encourage payment has resulted in more favourable collections, thus lower impairments.

38.5 General expenses

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

Statement of financial position

38.6 Inventory

The variance is mainly attributable to the prudent setting of minimum stock holdings thereby ensuring inventory is available for projects as well as ensuring capital is not tied up unnecessarily.

38.7 Accounts receivable from exchange transaction

The final budget of R 12 522 850 is exclusive of vat, while the actual amount of R 44 203 392 is inclusive of vat. The vat receivable as per the Statement of Financial Position amounts to R 23 236 355(refer to note 4); therefore the comparison of final budget and actual's indicates a variance of R 8 444 187 (R31 680 542- R23 236 355) which is mainly due to revenue generated from service charges increasing, as a result of increased consumption's. Furthermore the current harsh economic conditions is negatively impacting indigent and poor consumers which is contributing to outstanding debtors.

38.8 Cash and cash equivalents

The budgeted investment portfolio holding as at 30 June 2014 was anticipated to be R 330 000 000, however due to cash flow requirements and surplus cash available from spending trends,the portfolio as at 30 June 2014 increased to R480 000 000. Therefore, the budget against actual variance amounting to R 160 012 502 is due to investment holdings increasing by R 150 000 000 and cash book balance being R 38 756 277.

38. Budget and Actual amount variances (continued)

38.9 Property, plant, equipment and intangibles

The final budget of R 1 677 561 506 is inclusive of intangibles assets, while the actual amounts of R 1 342 633 792 is exclusive of intangible assets. The intangible assets as per the Statement of Financial Position amounts to R 931 975(refer to note 9); therefore the comparison of the budget and actual's indicates a variance of R 333 995 739 (R 334 927 714 - R 931 975). The variance is mainly attributable to budgeted certain multi-year capital projects not yet completed due to unforeseen circumstances.

38.10 Payables from exchange transactions

The variance is attributable to an increase in accounts payables from exchange transactions as a result of retention's increasing and a number of projects being expedited in the latter two months of the year.

38.11 Consumer deposits

Deposits are based on the average consumption of consumers which have been effected by the very dry weather conditions in the year under review. The increased consumption trends has inadvertently contributed to the higher anticipated deposit holding.

38.12 Defined benefit obligations

The variance is attributable to assumed variables and demographical profiles of membership which actuarial valuations are based on.

38.13 Unspent conditional grants and receipts

The variance is attributable mainly to delays experienced in the appointment of service providers to implement projects.

38.14 Provisions

The variance is mainly due to inflationary related costs when determining rehabilitation of the landfill sites.

Cash flow statement:

38.15 Receipts from customers and other

The variance is mainly attributable to the increase in receipts from other sources not budgeted for, inclusive of amongst others, a settlement claim related to non- performance on a project and the resolution of transactions which were sub judicae in regards to bulk water purchases.

38.16 Interest income

The prudent investment of surplus cash as referred to above in 38.8 has resulted in investment income exceeding the budget.

38.17 Employee costs

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

38.18 Finance costs

The variance is attributable to the movement in the headlease which is only determined at year end.

38. Budget and Actual amount variances (continued)

38.19 Purchase of property,plant, equipment and intangibles

The final budget for property, plant and equipment included the purchase of intangibles assets. The variance is mainly due to unspent capital budgets. Refer to 38.9 above for further explanation to the variance.

38.20 Movement in investments in municipal entities

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

39. Prior year adjustments

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice and the aggregate affect of the prior year adjustments in the annual financial statements for the period ended 30 June 2014 is as follows:

1)**Capitalization of previous year's work under construction (UC) to completed assets**

Effect on Non Current assets - Property, plant and equipment - Refer to note 8

Movement in opening carrying value for June 2013

Previously reported balance for infrastructure under construction as at 30 June 2012	R 426 385 397
Adjustment for transfer of infrastructure UC to completed infrastructure - prior 30 June 2012	(R 7 839 183)
Re-stated	R 418 546 214
Previously reported balance for infrastructure as at 30 June 2012	R 546 722 000
Adjustment for transfer of infrastructure UC	R 7 839 183
Adjustment for backlog depreciation for transferred infrastructure	(R 491 221)
Re-stated	R 554 069 962

Movement in transfers for 2012/2013

Previously reported infrastructure under construction - transfers	(R 88 048 215)
Adjustment for transfer of UC to complete - 2012/2013	(R 281 367))
Re-stated	(R 88 329 582)
Previously reported infrastructure - transfers	R 88 263 869
Adjustment for transfer of infrastruture UC to complete - 2012/2013	R 281 367
Re-stated	R 88 545 236
Previously reported balance buildings - transfers	R 0
Adjustment for transfer of buildings UC to complete - 2012/2013	R 2 037 448
Re-stated	R 2 037 448
Previously reported balance other assets UC - transfers	(R 215 654)
Adjustment for transfer of buildings UC to completed buildings	(R 2 037 448)
Re-stated	(R 2 253 102)

Movement in depreciation for 2012/2013

Previously reported total depreciation	R 37 734 922
Adjustment	R 424 415
Re-stated	R 38 159 337
Previously reported depreciation for infrastructure assets	R 32 227 597
Adjustment for baclkog depreciation	R 356 834
Re-stated	R 32 584 431
Previously reported depreciation for buildings	R 1 727 555
Adjustment for backlog depreciation	R 67 581
Re-stated	R 1 795 137

39. Prior year adjustments (continued)

2**) Adjustment to 2012/2013 surplus and accumulated surplus**

Movement in surplus for 2012/2013

Previously reported balance	R 186 335 355
Adjustment for depreciation	R 424 415
Re-stated	R 185 910 940

Movement in accumulated surplus
Adjustment

Accumulated Surplus as at the 1st of July 2012 as previously reported	R 1 159 541 492
Prior year adjustment - Depreciation	R 491 221
Surplus 2012/2013 restated	R 1 159 050 271

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

		2014 R	2013 R

40. Unauthorised, Fruitless & Wasteful and Irregular expenditure

To the best of our knowledge no known incidences of these expenditures have been incurred during the year under review.

41. Distribution losses

The technical department is responsible for monitoring and ensuring appropriate measures are developed to reduce water distribution losses's. A number of programs have been implemented to reduce losses on a wide scale with our focus areas being that of the non urbanised areas. In the urban areas water losses are contained within the acceptable norms of the Department of Water affairs and potential revenue losses's thereby minimised. Losses's are attributable to two components namely, normal losses's through reticulation systems and losses's due to influences attributable to external factors, i.e illegal connections.

The department of Water Affairs considers any losses's below that of 25 % as an acceptable norm.

42. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns and benefits for all stakeholders, while delivering sustainable services and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the long-term liabilities as disclosed in note 11, cash and cash equivalents disclosed in note 7, and equity as disclosed in the statement of financial position.

Gearing ratios

The gearing ratio as at 2014 and 2013 restated respectively were as follows:

	Note	2014 R	2013 R
Total borrowings			
Long-term liabilities	11	84 522 878	89 469 111
Less: Cash and cash equivalents	7	518 756 277	445 848 491
Net cash		(434 233 399)	(356 379 380)
Total equity		1 563 250 097	1 344 961 210
Total capital		**1 129 016 698**	**988 581 830**
		7,49 %	9,05 %

The comparative figure for total equity has been restated by an amount of R 915 637 (R491 221 +R 424 415) - refer to note 39.

	2014 R	2013 R

42. Risk management (continued)

Financial risk management

Financial Risk Management Objectives
Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.
The municipality's financial services function monitors and manages the financial risks relating to the operation of the municipality. These risks include credit risk and liquidity risk.

Liquidity risk

Liquidity risk refers to the ability of an entity to meet its obligations associated with financial liabilities.
The municipality's liquidity risk pertains to whether funds are available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit obligations.

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

Current Assets	589 963 536	505 448 446
Current liabilities	241 014 221	205 504 791
Liquidity ratio	2,44:1	2,46:1

Interest rate risk

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

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.
Debtors comprise of mainly water and sanitation users, dispersed across different industries and geographical areas. Ongoing evaluations are performed on the financial condition of these debtors and have been presented in these financial statements net of a provision for impairment. In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", which ever procedure is applicable in terms of Councils credit control and debt collection policy.

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

Financial instrument

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2014 R	2013 R
42. Risk management (continued)		
Investments	480 000 000	370 000 000
Cash and cash equivalents	38 756 277	75 848 491
Accounts receivable from exchange and non exchange transaction	64 615 932	52 292 863

43. Going concern

We draw attention to the fact that at 30 June 2014, the municipality had accumulated surplus of R 1 563 250 097 and that the municipality's total assets exceed its total liabilities by R 1 563 250 097.

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

44. Events after the reporting date

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