

**eDUMBE MUNICIPALITY
UNAUDITED
ANNUAL FINANCIAL STATEMENTS**



FOR THE YEAR

ENDED 30 JUNE 2012

eDumbe municipality

ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 30 JUNE 2012

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eDumbe municipality

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

GENERAL INFORMATION

MEMBERS OF THE EXECUTIVE COMMITTEE

Mayor : Cllr BM Nxusa
Deputy Mayor : Cllr DJ Nhlengethwa
Speaker : Cllr NR Simelane
Executive committee member : Cllr SJ Kunene

Ordinary councillors

Cllr IAT Mbatha
Cllr TP Sibeko
Cllr RC Gevers
Cllr SR Nkosi
Cllr ES Thela
Cllr TB Shabalala
Cllr N Ndlangamandla
Cllr NZ Keswa
Cllr MP Khumalo
Cllr DZ Mtshali
Cllr NM Nhlabathi

Grading of Municipality : Grade 3

Auditors

The Auditor-General
Private Bag X9034
PIETERMARITZBURG
3200

eDumbe municipality

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

GENERAL INFORMATION (continued)

Bankers

First National Bank of South Africa (Operating account)

Registered office

Postal address

10 Hoog Street
Paulpietersburg
3180

Private Bag x 308
Paulpietersburg
3180

Telephone (034) 995 1650

Fax (034) 995 1192

E-mail address

edumbekz261@mweb.co.za

MUNICIPAL MANAGER

TV Mkhize

CHIEF FINANCIAL OFFICER

SQ Mntambo

eDumbe municipality

REPORT OF THE AUDITOR-GENERAL

30 JUNE 2012

The report of the Auditor-General South Africa will be inserted after the audit.

STATEMENT OF THE MUNICIPAL MANAGERS RESPONSIBILITY

**eDumbe municipality
Annual financial statements
For the year ended
30 June2012**

I am responsible for the preparation of these financial statements, which are set out on page 1 to 27 in terms of Section 126 (1) of the Municipal Finance Management Act, Act 56 of 2003 which I have signed on behalf of the Municipality.

.....
**TV Mkhize
Municipal Manager**

31 August 2012

Audit Committee Report

The legal responsibilities of the Audit Committee are set out in terms of the Municipal Finance Management Act, No. 56 of 2003 (Section 166) (MFMA). The Audit Committee also functions as the Performance Audit Committee in terms of section 14(2)(c) of the Local Government: Municipal Planning and Performance Management Regulations, 2001 (Regulations) issued in terms of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Audit Committee is pleased to present below its report to Council for the financial year ending 30 June 2012 in terms of section 14(4)(a)(iii) of the Regulations.

Audit Committee members and attendance at meetings

The Performance Audit Committee comprises of 3 independent, external members and is required to meet at least twice during the financial year of the municipality as per section 14(3)(a) of the Regulations. Additional meetings may be called for as the need arises. Members' attendance at the meetings is listed below:

<u>Name</u>	<u>Number of</u>
<u>meetings attended</u>	
Mr D C Bosch	5
Mr J L W de Clercq	5
Mr B V Thabethe	5

The Performance Audit Committee members were appointed to the Audit Committee on 10 August 2011 and the meetings were held on 12 October 2011, 19 December 2011, 17 January 2012, 24 April 2012 and 26 June 2012 respectively.

Audit Committee responsibility

The Audit Committee has been set up in accordance with the MFMA and Regulations and operates within other applicable legislation and in terms of the Audit Committee Charter as approved by the Council of eDumbe Municipality.

In the conduct of its duties, the Performance Audit Committee has to perform the following statutory duties:

1. Review the quarterly reports submitted by the internal auditors

The internal audit function was operational for the financial year starting with the Province of KwaZulu-Natal Internal Audit Unit and replaced by Umnotho Business Consulting.

The internal audit plan for the financial year ending 30 June 2012 was circulated and approved by the members of the Audit Committee on 23 January 2012. The internal audit plan gives consideration to the critical risks of the operations of the Municipality, addresses the findings of the Auditor-General, and is prepared for a period of 3 years. The plan also included the hours for each audit in terms of capacity available.

Internal audit did not submit any internal audit reports to the Committee during the period August 2011 to March 2012. Subsequently a report by the Province of KwaZulu-Natal Internal Audit Unit dated April 2012 covering the first two quarters and a report by Umnotho Business Consulting covering the third quarter were submitted to the Committee and areas of concern with a high risk rating included the following:

- Baseline information not included in the scorecard.
- The IDP did not reflect input, output and outcome indicators.
- Performance management documents not on the municipality's website as required in terms of section 75(1)(d), (e) and (k) of the MFMA.
- Inadequate control over the collection of performance information.
- Certain key performance objectives and KPI's as per the IDP not reported on in the third quarter.

- Inadequate alignment between performance reports, IDP and SDBIP.
- Certain objectives as per the IDP did not include KPI's and targets.
- Certain KPI's and performance targets did not comply with the SMART principles) specific, measurable, attainable, realistic and time bound.
- Inadequate evidence to support reported actual achievements.
- Remedial action not provided for all the "not achieved" targets.
- The SDBIP was not approved within the stipulated timeframe.
- KPI's were not included in the performance agreements in terms of section 57(4)(a) of the MSA.
- Quarterly performance assessments as required in terms of the Municipal Performance Regulations, 2006 were not done for the first two quarters.
- The fourth quarter internal audit report was not submitted to the Audit Committee.

Internal audit reports include recommendations to improve internal controls together with agreed management action plans to resolve the issues reported on. To further enhance the processes in place, internal audit conducts follow up audits on previously reported internal audit findings and report progress to senior management and the Audit Committee.

2. Review of the Performance Management System(PMS)

During the reviews of the internal audit reports the Audit Committee has expressed concern that the PMS is not functioning adequately at the municipality. The majority of areas covered by internal audit received a low control effectiveness rating. A limited control framework is in place resulting in significant control weaknesses and non-compliance with the MSA, MFMA and Regulations being noted. Management is required to implement appropriate systems of internal controls and/or corrective action to address the identified weaknesses and possible irregularities. Although there are some controls in place, the existing systems and procedures require enhancement and continued monitoring.

An evaluation panel had been established as required by the Local Government: Municipal Performance Regulations for Municipal managers and managers directly accountable to municipal managers, 2006. Although the Chairperson of the Audit Committee attended the evaluation meetings on 18 and 19 July 2012, the process has not been finalised owing mainly to outstanding supporting documentation.

3. Recommendations

3.1 Council should monitor progress made with management's action plan to address the audit findings on a monthly basis.

3.2 The current PMS is not effective and the Audit Committee recommends that a competent and skilled candidate be appointed at a senior level to ensure an efficient and effective Performance Management System.

3.3 Council should ensure that all quarterly reviews of section 57 employees are conducted on a timely basis. In addition, Council should set timelines for the completion of the 2011/12 process.

3.4 Council should ensure that the quarterly performance reports are accurate, complete and reliable and are submitted on time.

3.5 Council should allocate adequate resources for internal audit to audit the quarterly reports timely to contribute to creditable performance information.

On behalf of the Audit Committee

Mr D C Bosch
Chairperson

eDumbe municipality
Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	5	354,079	160,558
Other receivables from exchange transactions	5	3,291,485	-
Receivables from exchange transactions	6	34,022,621	13,206,404
Cash and cash equivalents	7	3,691,027	868,118
		41,359,213	14,235,081
Non-Current Assets			
Property, plant and equipment	2	405,278,750	36,202,416
Intangible assets	3	303,878	419,103
Investments property	4	27,333,450	-
		432,916,077	36,621,519
Total Assets		474,275,290	50,856,600
Liabilities			
Current Liabilities			
Short term liabilities	9	-	-
Payables from exchange transactions	12	7,305,667	3,216,741
VAT payable	13	-	699,942
Finance lease		(949,490)	247,612
Bank overdraft	7	30,420	-
Consumer deposits	14	223,818	214,708
Unspent conditional grants and receipts	10	680,114	2,945,009
Provisions	11	4,611,159	2,357,333
		11,901,688	9,681,345
Non-Current Liabilities			
Long term liabilities	9	1,351,366	1,200,000
Finance lease		-	-
Retirement benefit obligation		7,829,389	-
		9,180,755	1,200,000
Total Liabilities		21,082,443	10,881,345
Net Assets		453,192,847	39,975,255
Net Assets			
Housing Development Fund	8	100,348	100,348
Accumulated surplus		453,092,499	39,874,907
Total Net Assets		453,192,847	39,975,255

eDumbe municipality

Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	16	11,957,112	4,233,625
Service charges	17	27,385,452	17,657,419
Property rates - penalties imposed and collection charges		546,993	811,939
Rental of facilities and equipment		389,656	94,825
Bad debts adjustment	38	0	3,446,883
Fines		564,566	564,861
Licences and permits		1,037,842	932,412
Government grants & subsidies	18	35,465,699	35,462,382
Other income	19	3,899,888	258,952
Interest received - investment	23	337,281	102,888
Gains on disposal of assets	23	0	0
Total Revenue	15	81,584,488	63,566,186
Expenditure			
Employee related costs	21 / 39	26,326,641	19,061,717
Remuneration of councillors	22	2,917,536	2,699,460
Depreciation and amortisation	24	21,222,196	3,073,566
Finance costs	25	677,998	12,227
Repairs and maintenance		3,203,230	2,291,816
Bulk purchases	28	11,215,559	7,984,409
Contracted services	37	3,710,989	1,131,755
Grants and subsidies paid	36	2,051,635	4,746,551
General Expenses	20	11,356,614	10,085,993
Total Expenditure		82,682,398	51,087,494
Surplus (deficit) for the year		-1,097,910	12,478,692

eDumbe municipality

Financial Statements for the year ended 30 June 2012

Statement of Changes in Net Assets

Figures in Rand	Housing Fund	Accumulated surplus	Total net assets
Balance at 01 July 2010	100,348	27,396,215	27,496,563
Changes in net assets		-	-
Surplus for the year	-	12,478,692	12,478,692
Total changes	100,348	39,874,907	39,975,255
Balance at 01 July 2011	100,348	39,874,907	39,975,255
Changes in net assets		414,315,504	414,315,504
Surplus for the year	-	(1,097,910)	(1,097,910)
Housing Development Fund	-	-	-
Balance at 30 June 2012	100,348	453,092,501	453,192,849

Note(s)

eDumbe municipality

Financial Statements for the year ended 30 June 2012

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		22,700,397	29,896,387
Grants and Subsidies		35,465,699	35,462,382
Interest income-external investments		337,281	102,888
		58,503,377	65,461,657
Payments			
Employee costs		29,244,178	21,761,177
Suppliers		42,570,398	34,682,455
Finance costs		677,998	12,227
		72,492,574	56,455,859
Net cash flows from operating activities	29	7,039,477	9,005,798
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(369,076,333)	(4,563,887)
Proceeds from sale of property, plant and equipment	2	-	-
(Decrease)/Increase in Non-Current Investments		(27,333,450)	-
(Decrease)/Increase in Reserves		393,208,531	-
Net cash flows from investing activities		(3,201,252)	(4,563,887)
Cash flows from financing activities			
		(1,045,736)	(441,865)
Finance lease		-	(441,865)
Short term liabilities		(1,045,736)	-
Net increase/(decrease) in cash and cash equivalents		2,792,488	4,000,046
Cash and cash equivalents at the beginning of the year		868,119	3,131,927
Cash and cash equivalents at the end of the year	7	3,660,607	868,119

eDumbe municipality
Accounting policies
for the year ended 30 June 2012

1 Basis of accounting

1.1 Basis of presentation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These annual financial statements have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statement
GRAP 3	Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 102	Intangible Assets

Accounting policies for material transaction, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraph 7,11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The principal accounting policies adopted in the preparation of the annual financial statement are set out

Asset, liabilities, revenue and expense have not been offset except when offsetting is required or permitted by a Standard of GRAP

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

1.2 Presentation currency

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

eDumbe municipality
Accounting policies
for the year ended 30 June 2012

1.3 Going concern assumption

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

1.4 Standards, amendments to standards and interpretation issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 21	Impairment of Non-Cash-generating-assets - issued March 2009
GRAP 23	Revenue from Non-Exchange Transactions - issued February 2008
GRAP 24	Presentation of Budget Information - issued November 2007
GRAP 25	Employee Benefits - effective 1 January 2009
GRAP 26	Impairment of Cash-generating-assets - issued March 2009
GRAP 103	Heritage Assets - issued July 2008
GRAP 104	Financial instruments - October 2009

All other standards as listed above only be effective when a date is announced by the Minister of Finance. The date is not currently available

Management has considered all above-mentioned GRAP standards issued but not yet effective and anticipate that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flow of the municipality.

2 Property, plant and equipment

2.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent measurement - cost model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. **Land** is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

eDumbe municipality
Accounting policies
for the year ended 30 June 2012

2.4 Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

	<u>Years</u>	<i>Other</i>	<u>Years</u>
Infrastructure			
Roads and Paving	30	Buildings	30
Pedestrian Malls	30	Other vehicles	5
Electricity	20-80	Office equipment	3-7
		Furniture and fittings	7-10
Community			
Buildings	30	Bins and containers	5
Recreational Facilities	20-30	Other items of plant and equipment	2-5
Security	5	Landfill sites	15

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

2.5 Derecognition

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**eDumbe municipality
Accounting policies
for the year ended 30 June 2012**

3 Intangible assets

3.1 Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only 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.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset 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.

3.2 Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

3.3 Amortization and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	5 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

3.4 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 on 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.

eDumbe municipality
Accounting policies
for the year ended 30 June 2012

4 Financial instruments

4.1 Subsequent measurement

Financial instruments are initially recognised at fair value.

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

4.2 Receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

4.3 Impairment of receivables

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

4.4 Financial liabilities : accounts payables

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

4.5 Cash and cash equivalents

Cash includes cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

4.6 Unauthorised expenditure

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

4.7 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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality'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.

eDumbe municipality
Accounting policies
for the year ended 30 June 2012

4.8 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

4.9 Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met: (a)

The municipality has a detailed formal plan for the restructuring identifying at least: - the business or part of a business concerned;- the principal locations affected - the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

5 Comparative information

5.1 Current year comparatives

Budgeted amount have been included in an annexure to these financial statements for current financial year only.

Prior year comparatives

5.2

When presentation or classification of items in the annual financial statements is amended, prior period comparatives amounts are restated. The nature and reason for the reclassification is disclosed. When there has been a change in the accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparative is restated accordingly.

eDumbe municipality
Accounting policies
for the year ended 30 June 2012

Investment property

7.1 Initial recognition

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

7.2 Subsequent measurement - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Land is not depreciated.

The useful life of buildings is 7 years

eDumbe municipality
Accounting policies
for the year ended 30 June 2012

1 Investments

Investments, which include listed, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

2 Inventories

9.1 Initial recognition

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

9.2 Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The basis of allocating cost to inventory items is the first-in, first-out method.

3 Leases

Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

eDumbe municipality
Accounting policies
for the year ended 30 June 2012

4 Revenue

11 Revenue from exchange transactions.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. 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.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

11 Revenue from non-exchange transactions.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

Revenue from public contributions and donations 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 of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

11 Grants, transfers and donations received or receivable

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

12 Borrowing costs

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

13 Employee benefits

13.1 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 treats its provision for leave pay as an accrual.

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 shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

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 shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

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13.2 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 plans. 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.

13.3 Defined Benefit Plans

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

13.3.1 Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The defined benefit fund was last actuarially valued during the reporting period ending 30 June 2009.

The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment hereof is made in the course of the municipality's normal budgeting processes."

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

13.3.2 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 recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

13.3.3 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, as well as additional once-off leave 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 has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

eDumbe municipality
Financial Statements for the year ended 30 June 2012

Notes to the Financial Statements

Figures in Rand 2012 2011

2. Property, plant and equipment

	2012			2011		
	Cost Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	16,235,386	0	16,235,386	11,118,809	-	11,118,809
Buildings	61,539,597	-9,372,089	52,167,508	11,044,517	-4,686,045	6,358,472
Electricity	19,565,481	-3,235,411	16,330,070	3,098,095	-2,424,570	673,525
Roads & Infrastructure	351,121,926	-36,912,015	314,209,911	18,611,584	-17,524,485	1,087,099
Vehicles	8,874,159	-5,622,873	3,251,286	1,960,902	-2,811,436	-850,534
Landfill site	3,201,250	0	3,201,250	0	0	0
Other property, plant and equipment	5,565,688	-5,682,350	-116,662	3,854,095	-1,973,413	1,880,682
Total	466,103,488	-60,824,738	405,278,750	49,688,001	-29,419,949	20,268,052

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	11,118,809	5,116,577	0	16,235,386
Buildings	11,044,517	50,495,081	(4,686,044.67)	66,225,642
Electricity	3,098,095	16,467,386	-810,841	20,376,322
Roads & Infrastructure	18,611,584	332,510,342	-19,387,530	370,509,456
Vehicles	1,960,902	6,913,257	-2,811,436	11,685,596
Landfill site	0	3,201,250	-	3,201,250
Other property, plant and equipment	3,854,095	1,711,593	-3,708,937	1,856,751
	49,688,001	416,415,486	-31,404,789	490,090,403

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	11,118,809	0		11,118,809
Buildings	11,044,517	0	(5,950,685.33)	5,093,831
Infrastructure	3,098,095	0	-810,841	2,287,254
Community	18,611,584	0	0	18,611,584
Heritage	1,960,902	0	-2,811,436	-850,534

Other property, plant and equipment	3,854,095	0	-3,912,622	-58,527
	49,688,001	0	-13,485,585	36,202,416

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

3. Intangible assets

	2012			2011		
	Cost Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets 1	419,103	-115,225	303,878	792,546	-373,443	419,103

3. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Intangible assets 1	792,546	0	792,546

Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Intangible assets 1	792,546	0	792,546

4. Investments property

Non-current assets

Investments property	27,333,450	0
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5. Inventories

Consumable stores	354,079	160,558
	354,079	160,558

6. Receivables from exchange transactions

Trade debtors	34,022,621	13,206,404
Other debtors	0	0
	34,022,621	13,206,404

CONSUMER DEBTORS

Rates	7,966,412	505,286
Refuse	44,451,689	40,552,946
Electricity	14,585,540	5,129,192
Total service debtors	67,003,641	46,187,424
Less provision for bad debts	(32,981,020)	(32,981,020)

Total	34,022,621	13,206,404
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Plus Debtor Discounting	-	-
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Total	34,022,621	13,206,404
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Rates: Ageing

Current (0 – 30 days)	-	-4,325,697
31 - 60 Days	386,093	246,129
61 - 90 Days	351,308	186,766
91 - 120 Days	328,840	388,379
Greater than 120 days.	7,219,679	4,009,709
Total	8,285,920	505,286

Electricity: Ageing.

Current (0 – 30 days)	-	2,902,950
31 - 60 Days	1,284,352	1,309,093
61 - 90 Days	1,005,371	331,199
91 - 120 Days	1,549,249	220,494
Greater than 120 days.	4,133,279	365,457
Total	7,972,251	5,129,193

Refuse: Ageing.

Current (0 – 30 days)	-	569,676
31 - 60 Days	362,988	347,022
61 - 90 Days	392,918	341,960
91 - 120 Days	389,842	338,069
Greater than 120 days.	43,032,004	38,956,220
Total	44,177,752	40,552,947

Add Back credits included above: Ageing.

Current (0 – 30 days)	-305,712	-
31 - 60 Days	-1,952	-
61 - 90 Days	-	-
91 - 120 Days	-	-
Greater than 120 days.	-	-
Total	-307,664	-

OTHER DEBTORS

Sundry Debtors		
Other debtors	99,700	
VAT Recievables	3,191,785	
Total Other Debtors	3,291,485	-

7. Cash and cash equivalents

Cash and cash equivalents consist of the following:

Cash on hand and Petty cash	2,000	2,000
Bank balances	0	268,431
Short-term deposits	3,689,027	597,687
	3,691,027	868,118

BANK BALANCES AND CASH

Cash and cash equivalents consist of the following:

Cash on hand	-	-
Petty Cash	2,000	2,000
	2000	2,000

The Municipality has the following main bank accounts: -

Bank Account

Bank statement

FNB call account 61328003233	531,252	590,485
FNB call account 62033660376	1,055	1,023
FNB call accounts62219848746	1,997	6,178
Current account - 532830005944	0	268,431
Merchant West	3,154,723	-
	3,689,027	866,117

Bank Account

Cash book

FNB call account 61328003233	531,252	590,485
FNB call account 62033660376	1,055	1,023
FNB call accounts62219848746	1,997	6,178
Current account - 532830005944	-	268,431
Merchant West	3,154,723	-

3,689,027	866,117
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Bank Overdraft

Current account - 532830005944

-30,420	0
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8. Housing development fund

Housing Development Fund	100,348.00	100,348
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9. Long term liabilities

DBSA loan	1,200,000	1,200,000
Finance cost	151,366	0
	1,351,365.93	1,200,000.00

Current liabilities

At amortised cost	1,351,366	1,200,000
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Loan granted to the municipality by DBSA at an interest rate of 6.75% per annum, being redeemed in six monthly instalments, including interest, in April and October until 2014 only commencing repayment after two years.

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Integrated National Electrification Grant	73,163	753,485
Municipal Infrastructure Grant	586,644	1,784,161
Municipal System Improvement Grant	20,296	408,430
Finance Management Grant	0	(1,066.35)
Art and Culture Grant	12	-
	680,114	2,945,009

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. See note 18 for reconciliation of grants from National/Provincial Government and receipts. These amounts are committed and are invested in a ring-fenced investment until utilised.

11. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Enviromental rehabilitation	355,170	3,201,250	3,556,420
Leave pay	1,597,859	(1,044,386)	553,473
Bonus	404,304	96,962	501,266
			4,611,159

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Enviromental rehabilitation	355,170.00	0	355,170
Leave pay	1,327,076	270783	1,597,859
Bonus	370,032	34,272	404,304
			2,357,333

12. Payables from exchange transactions

Trade payables	22,849,597	19,788,809
Other creditors	6,800,299	2,351,881
	29,649,896	22,140,690

TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Trade creditors	4,442,783	2,047,634
Payments received in advance	-267	-267
Sundry creditors	1,857,716	1,014,344
Unallocated funds	1,005,434	155,030
Total creditors	7,305,667	3,216,741

13. VAT payable from exchange transactions

VAT payables	-3,191,785	699,942
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14. Consumer deposits

Electricity	223,818	214,708
	223,818	214,708

15. Revenue

Property rates	11,957,112	4,233,625
Property rates – Penalties imposed and collection charges	546,993	811,939
Service charges	27,385,452	17,657,419
Rental of facilities & equipment	389,656	94,825
Interest received – trading	337,281	102,888
Gain on asset disposal	0	-
Fines	564,566	564,861
Licences and permits	1,037,842	932,412

Government grants & subsidies	35,465,699	35,462,382
	77,684,600	59,860,351

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	24,399,357	17,657,419
Rental of facilities & equipment	389,656	94,825
Interest received – trading	337,281	102,888
Licences and permits	1,037,842	932,412
	26,164,136	18,787,544

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

Taxation revenue

Property rates	11,957,112	4,233,625
Property rates – Penalties imposed and collection charges	546,993	811,939
Fines	564,566	564,861

Transfer revenue

Grants and Subsidies	35,465,699	35,462,382
	48,534,370	41,072,807

16. Property rates

Rates received

	11,957,112	4,233,625
Property rates - penalties imposed and collection charges	564,566	811,939
	12,521,678	5,045,564

Valuations

Agriculture	372,935,000	372,935,000
Residential	405,575,000	405,575,000
Business	273,508,000	273,508,000
State owned Property	89,253,000	89,253,000
State owned Land	1,300,000	1,300,000
Vacant Land	11,012,000	11,012,000
	1,153,583,000	1,153,583,000

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on a yearly basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on monthly basis with the final date for payment being the 9th of every month. Interest at prime plus 1% per annum is levied on outstanding rates.

17. Service charges

Sale of electricity	22,922,433	
Refuse removal	4,463,019	
	27,385,452	0

18. Government grants and subsidies

Equitable share	32,113,000	26,394,581
Integrated National Electrification Grant	680,322	1,754,515
Municipal Infrastructure Grant	13,943,517	5,010,546

Municipal System Improvement Grant	1,178,134	668,770
Finance Management Grant	1,448,934	1,200,339
Art and Culture Grant	458,861	433,631
	49,822,768	35,462,382

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Equitable share

Current year receipts	32,113,000	26,394,581
Conditions met-transferred to revenue	17,709,768	9,067,801
	49,822,768	35,462,382

Municipal Systems Improvement Grant

Balance unspent at beginning of year	408,430	77,200
Current-year receipts	790,000	1,000,000
Conditions met - transferred to revenue	-1,178,134	-668,770
Correction	-	0
	20,296	408,430

Conditions still to be met - remain liabilities (see note 10).

Provide explanations of conditions still to be met and other relevant information.

Intergrated National Electrification Programme Grant

Balance unspent at beginning of year	753,485	0
Current-year receipts	0	2,508,000
Conditions met - transferred to revenue	-680,322	-1,754,515
	73,163	753,485

Conditions still to be met - remain liabilities (see note 10).

Provide explanations of conditions still to be met and other relevant information.

Municipal Infrastructure Grant

Balance unspent at beginning of year	1,784,161	1,047,706
Current-year receipts	12,746,000	5,598,000
Conditions met - transferred to revenue	-13,943,517	-4,861,545
	586,644	1,784,161

Finance Management Grant

Balance unspent at beginning of year	-1066	-727
Current-year receipts	1,450,000	1,200,000
Conditions met - transferred to revenue	-1,448,934	-1,200,339
	-	-1066

Conditions still to be met - remain liabilities (see note 10).

Provide explanations of conditions still to be met and other relevant information.

Art and Culture Grant

Balance unspent at beginning of year	0	-
Current-year receipts	458,873	433,631
Conditions met - transferred to revenue	-458,861	-433,631
	12	0

Conditions still to be met - remain liabilities (see note 10).

Provide explanations of conditions still to be met and other relevant information.

19. Other income

Burial Fees	14,165	7,735
Photostat copies	144	700
Plan fees	52,602	8,301
VAT Income	1,494,072	0
Rates clearance	4,778	1,160
Mayor marathon	129	0
Hall and Library bookings	43,120	0
Provision for leave adjustment	1,044,386	0
Tender documents	75,550	21,650
Other income	206,057	2,638
Connections fees	10,581	0
Meter box sale	71,729	0
Insurance claims	240,015	216,768
Wood for sale	642,561.62	0
	3,899,888	258,952

20. General expenses

Advertising	242,513	114,827
Stores and material	52,857	0
Audit committee	126,353	0
Auditors remuneration	1,232,584	710,299
Bank charges	65,311	52,308
Zoning of land	768,526	0
Legal expenses	741,458	0
Mayarol sport gear	575,571	0
Water Services	160,120	0
Insurance	640,994	705,871
Community development	558,954	300,850
Uniform	245,270	0
Mayarol special projects	526,000	0
Consultant	430,239	0
Fuel and oil	708,043	238,538
Postage and courier	29,615	35,488
Printing and stationery	216,861	289,455
Communication and publicity	99,630	0
Local economic development	292,950	0
District and local mayors cup	454,005	0
Membership fees	183,240	0
Telephone and fax	335,544	684,879
Training	220,565	1,111,062

Other expenses	2,449,410	5,842,416
	11,356,614	10,085,993

21. Employee related costs

Employee related cost salaries and wages	19,989,704	15,985,886
Bonus	576,499	354,236
Employee related costs-Contributons for UIF, Pensions and Medical aids	4,008,472	659,571
Travel, motor car, accommodation, subsistence and other allowances	1,494,601	1,966,659
Overtime payments	257,365	95,365
	26,326,641	19,061,717

Remuneration of municipal manager

Annual Remuneration	255,000	580,668
Travel, motor car and other allowance	199,128	59,739
	454,128	640,407

Remuneration of Chief Finance Officer

Annual Remuneration	360,004	374,345
Travel, motor car and other allowance	264,862	0
	624,866	374,345

Remuneration Director Technical Services

Annual Remuneration	280,236	265,013
Travel, motor car and other allowance	263,283	176,675
	543,519	441,688

Remuneration Director Corporate Services

Annual Remuneration	89,499	327,690
Travel motor car and other allowance	56,030	229,918
	145,529	557,608

Remuneration Director Community Services

Annual Remuneration	329,811	327,690
Travel, motor car and other allowance	241,621	113,998
	571,432	441,688

Remuneration director planning & development

Annual Remuneration	300,000	0
Travel, motor car and other allowance	359,219	0
	659,219	0

22. Remuneration of Councillors

Mayor	0	0
Councillors	2,917,536	2,699,460
	2,917,536	2,699,460

23. Investment revenue**Interest revenue**

Investments	337,281	102,888
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24. Depreciation and amortisation

Property, plant and equipment	0	3,073,566
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25. Finance costs

Interest on external loan	677,998	122,270
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Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit .

26. Auditors' remuneration

Fees	1,232,584	710,299
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27. Rental of facilities and equipment**Facilities and equipment**

Rental income	389,656	94,825
	389,656	94,825

28. Bulk purchases

Electricity	11,215,559	7,984,409
	11,215,559	7,984,409

29. Cash generated from operations

Surplus (deficit)	-1,097,910	12,478,692
Adjustments for:		
Depreciation and amortisation	21,222,196	3,073,566
Loss on sale of assets and liabilities	0	0
Movements in retirement benefit assets and liabilities	7,829,389	0
Movements in provisions	2,253,826.30	2,357,333
Prior Year Adjustment	0	9,585,292
Interest earned	0	0
Changes in working capital:		
Inventories	-193,521	-160,558

Receivables from exchange transactions	-20,816,217	-19,789,851
Payables from exchange transactions	797,440	815,287
VAT	-699,942	0
Unspent conditional grants and receipts	-2,264,895	646,037
Consumer deposits	9,110	0
Long service awards contribution	0	0
	7,039,477	9,005,798

30. Additional Note

30.2 Audit fees

Amount paid-current year	1,232,584	710,299
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30.3 PAYE and UIF

Current year payroll deductions	3,473,153	
Amount paid-current year	2,622,749	
	850,404.42	-

30.4 Pension and Medical aid deduction

Current year payroll deductions and council contributions	2,445,940	
Amount paid current year	2,445,940	
	0.00	-

30.5 Councillor's arrear consumer accounts

as at 30 June 2012		-
RC Gevers		7,502
IAT Mbatha		5596
		13,098
as at 30 June 2011		
RC Gevers		6,335
IAT Mbatha		4246.38
Total Councillor arrear consumer accounts		10,582

31. Risk management

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis in terms of council policy. Sales to consumer customers are settled in cash.

32. Unauthorised expenditure

Opening balance	4,877,698	0
Add: Irregular Expenditure - current year	0	4877698
Condoned or written off by Council	-4877698	0
Transfer to receivables for recovery-not condoned		0
	0	4,877,698

33. Fruitless and wasteful expenditure

Opening balance	359,871	0
Add: Irregular Expenditure - current year	303999	359871
Condoned or written off by Council	-663870	0
Transfer to receivables for recovery-not condoned		0
	0	359,871

34. Irregular expenditure

SCM Deviations

Opening balance	12,904,954	0
Add: Irregular Expenditure - current year	0	12,904,954
Condoned or written off by Council	-12,904,954	0
Transfer to receivables for recovery-not condoned	-	0
	0	12,904,954

Incident-Awards of tenders to people in service of the state.

Irregular expenditure - Non compliance with

Supply Chain Management Regulations

	0	0
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35. 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 them to the next meeting of the and includes a note to the financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations.

36. Grants and subsidies paid

Grants Expenditure	2,051,635	4,746,551
	2,051,635	4,746,551

37. Contracted Services

Contracted services for:

Internal Audit	329,091.95	0
Vodacom cellphones	571,634.34	0
Security	1,136,893.02	684,879
Photocopiers & Faxes	444,493	446,876
Lease of Vehicles	1,228,877	0
	3,710,989	1,131,755

38. Interest earned - outstanding debtors

Sundry debtors	17,477	17,540
Debtor discounting	-	596,381
	17,477	613,921

39. Retirement benefits

Pension benefits

The Municipality's personnel are members of one of the three Natal Joint Municipal Pension Funds i.e. (Superannuation, Provident and Retirement).

The independent valuer carries out a statutory valuation on a triennial basis and an interim valuation on an annual basis (the 2009 interim has been completed). No valuation was performed in 2010.

Superannuation

An interim actuarial valuation of the Fund was carried out for the period ending 31 March 2009. The actuarial value of total assets was more (less) than the actuarial value of liabilities for the service of members to that date and for pensioners by:

4,687,200,000 4,687,200,000

made up as follows:

For service to 31 March 2009

for pensioners - surplus funding level 123.3%

398,500,000 398,500,000

for members - deficit funding level 98.80%

-29,900,000 -29,900,000

an Investment Reserve of R 5 670 000.00:

RETIREMENT BENEFITS (continued)

For service after 31 March 2009

The total contribution rate payable (excluding the surcharge) exceeded that required for future service by 1.5% (2005 : 1.0%) of pensionable emoluments, or per year

Conclusion

The funding level of the Fund improved over the valuation period. The actuary is satisfied that the self-reinsurance arrangement is appropriate for the Fund; the asset composition of the Fund is appropriate to the nature of the liabilities;

The contributions being paid to the Fund are sufficient to meet the expected cost of future benefits:

A recent study undertaken of the expected impact that A I D S will have on the Fund shows that although the Fund is fairly well protected in relation to other funds,

A I D S is likely to result in an increase in the required rate of contribution of members' pensionable emoluments by 2010 of some

0 0

However, once the deficit in the Fund has been met the excess contributions will meet the increased cost resulting from A I D S for the foreseeable future. It is therefore not necessary at this stage to adjust either the benefits or the contributions.

Provident Fund

The salient features of the Statutory (Interim) Valuation Report on the fund as at 31 March 2009 were that the net market value of the Fund's assets were sufficient to fully cover the members' share account and to provide total	573,952,000	573,952,000
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The total interim rate of bonus credited over the year to members was compound	0	0
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A further bonus to all members at 31 October 2007 has been approved by the Committee of Management	0	0
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The Actuary is satisfied that the asset composition of the Fund is appropriate to the nature of the liabilities and the Fund was in a sound financial condition at 31 March 2009.

Retirement Fund

The salient features of the Statutory (Interim) valuation of the fund at 31 March 2009 are:

The actuarial value of total assets of the fund was less than the actuarial value of the liabilities for the service of members to that date and for pensioners by made up as follows:	-1,667,600,000	-1,667,600,000
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For service to 31 March 2009

for pensioners - funding level 119.1%	134,100,000	134,100,000
for members - funding level 79.50%	-214,200,000	-214,200,000
The fund was thus funded	1	1

The fund did not hold an Investment Reser

Retirement benefits (continued)

For service after 31 March 2009

The total contribution rate payable, including the total surcharge of 17% payable by and on behalf of pre 01 July 2002 members and by employers, exceeded that required for future service of members' pensionable emoluments of	0	0
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Conclusion

The funding level is	1	1
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The actuary is satisfied that the self-insurance arrangement is appropriate for the Fund, the asset composition of the Fund is appropriate to the nature of the liabilities.

The contributions being paid to the Fund are sufficient to meet the expected cost of future benefits

A study undertaken in 2002 of the expected impact that A I D S will have on the Fund shows that although the Fund is fairly well protected in relation to other funds

A I D S is likely to result in an increase in the required rate of contribution of members' pensionable emoluments by 2010 of some

0 0

The matter will be addressed again at a future date.

Post-employment medical benefits

† present value of liability 7,829,389
 Asset value 2,795,507

Retirement age	
Male	63
Female	60

General increase to medical 12.0%
 Annual Salary Inflation 8.0%
 Discount rates used 7.5%
 Proportion continuing membership at retirement 100.0%
 Proportion of retiring members who are married 90.0%
 % of Salary contributing to n 20.0%
 Future pensioners medica 12.0%

Mortality of in-service memb 2.0% In accordance with the SA 85 - 90 (Light) ultimate table (rated down 3 years for fer
 Mortality of pensioners 12.00 In accordance with the PA (90) ultimate male and female tables

Percentage of in-service members withdrawing before retirement : 30% 47

age 20	70.00%			
age 25	65.67%	8	2	0.30
age 30	50.20%	34	12	0.34
age 35	20.31%	25	12	0.50
age 40	6.23%	20	16	0.80
age 45	4.00%	16	15	0.94
age 50	2.00%	19	18	0.96
age 55	1.00%	17	17	0.98
age 60	0.00%	13	13	0.90
age 65+	0.00%	5	5	1.00
		157	110	
Employees under review	1	All employees		

Asset provision

All employees value of asset to be put aside R	7,829,389	at the beginning of 2012 year
Med aid contributors value of asset to be put aside R	2,795,507	
Annual return on asset prc	10.00%	
Admin costs and net fees as % of asset	2.00%	

40. Finance lease obligation - lessee

Minimum lease payments due

Within one year

In the second to fifth year inclusive

Total

Present value of minimum lease payments

Non current liabilities

Current liabilities

41. Change in accounting policy

No adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and/or changes to existing policies:

42. Distribution losses.

Electricity

Number of consumers (Residential & Commercial)	1,250	1527
Units purchased. (kwh)	17,846,476	17,856,476
Units sold (Total)	15,123,857	15,123,857
Units lost in Distribution	2,722,619	2,732,619

% Lost in distribution	15.26%	15%
Total Costs (Expenses)	11,215,559	7 984 409
Cost per unit purchased.	R 0.63	0.47
Total cost lost through distribution	1,711,021	1,272,752

43. Capital Commitment

Commitments in respect of capital expenditure

'-approved and contracted for	4,231,703
'-approved but not yet contracted for	9,704,410
	-
	13,936,113

This expenditure will be financed from

'-internal sources	
'-external sources	
Other sources	4,231,703
Provincial government	9,704,410
	-
	13,936,113

44. Contingent liability

44.1 Claim for damage - Cox and Partner

The Municipality is being sued by Cox and Partner for collection of debtors. Council is contesting the claim based on legal advice. A court date has not yet been set. The contingent liability includes legal costs of R 900 000. Should Council be unsuccessful in defending the claim, there is a possibility that the claim will be settled from R 2 500 000

44.2 Claim for damages - AMT Putini

The Municipality is being sued by AMT Putini for termination of contract. Council is contesting the claim based on legal advice. A court date has not yet been set. The contingent liability includes legal costs of R 250 000. Should Council be unsuccessful in defending the claim, there is a possibility that the claim will be settled from R 3 500 000.

44.3 Guarantee with Eskom

The Municipality has call account amounting R530 000 has been invested with First National Bank as guarantee for Eskom licence

45. Going concern

Management acknowledges the unfavourable financial health of the Municipality, characterised by Payables in note 08, grants are not cashed backed and penalties and interests due to payments on summons. Despite this, the municipality is working on collecting revenue generated from service debtors. The municipality is guaranteed equitable share allocations that cash on a continuous basis. Management will table an adjustment budget cutting back some expenditure

46. EVENTS AFTER THE REPORTING DATE

There are no identified events after reporting date which required disclosure or adjustment

47. Related parties

Compensation to councillors and other key management (refer to note 20 & 21):

Councillor RC Gevers & IAT Mbatha has a financial interest in which they own eDumbe Municipality

Related party balances

Amounts included in trade receivables regarding related parties relate to amount owed by Cllr RC Gevers and IAT Mbatha

13,098 10,582

Related party transactions

Services charges from related parties amount owed by Cllr RC Gevers and IAT Mbatha

13098 10582

47. Comparative figures budget versus actual

	Final budget	Actual Outcome	Variance	Reason
Property rates	6,684,613	11,957,112	(5,272,498.67)	New property which were not billed
Service charges	11,530,593	27,385,452	(15,854,859.11)	New tariff applicable
Transfers recognised grants	48,557,215	35,465,699	13,091,515.82	Grants was with held due to unspent 2009/10
Other own revenue	8,098,625	6,776,225	1,322,399.86	Land sale amount was not received
TOTAL INCOME	74,871,046	81,584,488	(6,713,442.10)	
Employee costs	21,617,295	26,326,641	4,709,346.44	Employment of contract staff and new Sec 57
Remuneration of councillors	3,322,895	2,917,536	(405,358.75)	As per approved by MEC
Transfers and grants	2,240,000	2,051,635	(188,365.16)	As per DORA allocation
Other own expenditure	47,690,856	51,386,585	3,695,729.41	reduce expenditure due to cashflow
TOTAL EXPENDITURE	74,871,046	82,682,398	7,811,351.94	
Surplus/(Deficits)				