



uMGUNGUNDOVU

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D I S T R I C T M U N I C I P A L I T Y
D I S T R I K M U N I S I P A L I T E I T

UMGUNGUNDOVU DISTRICT MUNICIPALITY
Annual Financial Statements
for the year ended June 30, 2012

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

General Information

Executive Committee

Mayor

Y Bhamjee (ANC)

Deputy Mayor: T Zondi (ANC) Resigned 20 May 2011

Deputy Mayor : T R Zungu (ANC) Appointed 20 May 2011

Councillors

N B Z Cele (ANC) Resigned 20 May 2011

T R Zuma (ANC) Resigned 20 May 2011

J B Mtolo (ANC) Resigned 20 May 2011

R.P ASHE (DA) Appointed 20 May 2011

P Bhengu (IFP) Resigned 20 May 2011

T R Zungu (ANC) Resigned 20 May 2011

M Schalkwyk (ANC) Appointed 20 May 2011

S E Mkhize (ANC) Appointed 20 May 2011

B A Mchunu(ANC) Appointed 20 May 2011

E Z Ntombela(ANC) Appointed 20 May 2011

B E Zuma(IFP) Appointed 20 May 2011

J S Majola(DA)

PART TIME COUNCILLORS

M S Bond (DA)

D Buthelezi (ANC) Resigned 20 May 2011

M M Cekwane (ANC) Resigned 20 May 2011

P Cele (ANC) Resigned 20 May 2011

L P Chiya (ANC) Resigned 20 May 2011

B A Dlamini (ANC) Resigned 20 May 2011

N V Duze (ANC)

S C Gabela (ANC) Resigned 20 May 2011

J E P Green (DA) Resigned 20 May 2011

R T Khanyile (IFP) Resigned 20 May 2011

A M Lukhele (ANC) Resigned 20 May 2011

N C Mabhida (ANC) Resigned 20 May 2011

M E Madlala (IFP)

N B Ahmed (ANC) Resigned 20 May 2011

S D Mbanjwa (IFP) Resigned 20 May 2011

A D Mbense (ANC) Resigned 20 May 2011

B A Mchunu (ANC)- Resigned 20 May 2011

M P Mkhize (ANC) Resigned 20 May 2011

P W Moon (ANC) Appointed 20 May 2011

B M Zuma(ANC) Appointed 20 May 2011

S N Mkhize (ANC)

M S Mthethwa (ANC) - Resigned 20 May 2011

V J Mkhize (ANC) Resigned 20 May 2011

B I Mncwabe (IFP) Resigned 20 May 2011

N Msimang(ANC) Appointed 20 May 2011

V M Mncwabe (IFP)

S A Mkhize(ANC) Appointed 20 May 2011

M L Msimang (ANC) Resigned 20 May 2011

S N Naidoo (ANC) Resigned 20 May 2011

D A Ndlela (ANC)

M D Ndlovu (DA)

M E Ngcongco (DA) Resigned 20 May 2011

P Nsidi (ANC) Appointed 20 May 2011

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

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General Information

	S M Ngubane (ANC) Resigned 20 May 2011 M M Nkala (ANC) Resigned 20 May 2011 E Z Ntombela (ANC) Resigned 20 May 2011 S D Mbajwa(NFP) Deceased B E Zuma (IFP) Resigned 20 May 2011 B I Mncwabe (NFP) Appointed 25 May 2012 STJ Ndlovu(ANC) Appointed 20 May 2011 M Ngcobo (ANC) Appointed 20 May 2011 M A Tarr(ANC) Appointed 20 May 2011 P Jaca (ANC) Appointed 20 May 2011 B Shози(ANC) Appointed 20 May 2011 G S Maseko(ANC) Appointed 20 May 2011 S M Mbatha-Ntuli(ANC) Appointed 20 May 2011 Shabalala J (ANC) Appointed 20 May 2011 C D Gwala (ANC) Appointed 20 May 2011 P Moonsamy (ANC) Appointed 20 May 2011 M Maphumulo (ANC) Appointed 20 May 2011 T A Gwala (ANC) Appointed 20 May 2011 E L M N Peterson (DA) Appointed 20 May 2011 M J Grueneberg (DA) Appointed 20 May 2011 M Maphumulo(NFP) Appointed 20 May 2011 C Bradely (DA) Appointed 20 May 2011 L Skhakhane (DA) Appointed 20 May 2011
Grading of local authority	Grade 4
WHIP	A Lukhele(ANC) Resigned 20 May 2011 S C Gabela (ANC) Appointed 20 May 2011
SPEAKER	E M Dladla (ANC) Appointed 20 MAY 2011 G H Zondi (ANC) Resigned 20 May 2011
MANAGEMENT	Municipal Manager- T L S Khuzwayo Strategic Executive Manager - Community Services - S E Gwala Acting Strategic Executive Manager - Corporate Services - S D Mkhize (Resigned 31 January 2012) Executive Manager - Financial Services - B Ndlovu Executive Manager- Corporate Services (Appointed 01 February 2012) Executive Manager - Technical Services - E B Mbambo
Registered office	242 Langalibalele Street (Longmarket) Pietermaritzburg 3201
Postal address	P O Box 3235 Pietermaritzburg 3200
Bankers	First National Bank
Auditors	Auditor General
Website	www.umdm.gov.za

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

General Information

Other Information

Telephone: 033 897 6700 Fax : 033 342 5502

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

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Annual Financial Statements for the year ended June 30, 2012

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Abbreviations

DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
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 (Previously CMIP)
GEPF	Government Employees Pension Fund
VAT	Value Added Tax
PPE	Property Plant and Equipment
SALGA	South African Local Government Association
NJMP	Natal Joint Municipal Pension
ANC	African National Congress
DA	Democratic Alliance
IFP	Inkatha Freedom Party
NFP	National Freedom Party
HOD	Head Of Department

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Officer's Responsibilities and Approval

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

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

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

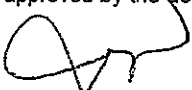
The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Auditor General is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by Auditor General and his report is presented to the speaker of the council upon completion of the audit.

The annual financial statements set out on pages 7 to 37, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:



Accounting Officer
Municipal Manager

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Officer's Report

Operating capital ratio 2.1:1 (2.0:1)

There is an improvement in nett current assets compared to prior year, we have enough short term assets to finance short term liabilities.

Solvency ratio 8.9:1 (9.8)

Assets are almost 6 times the liabilities, the Municipality will be able to meet all its short and long term obligations.

Cash to interest cover ration 89.84:1 (27.73:1)

The cash flow is sufficient enough to finance interest from long term liabilities.

Cash ratio 1.57% (1.35)

There is sufficient cash to pay short term liabilities.

1. Going concern

We draw attention to the fact that at 30 June 2012 , the municipality had an accumulated a surplus of R770 718 643 (R695 844 980 at 30 June 2011 .

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

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

2. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Receivables from exchange transactions	3	40,265,883	40,108,307
Consumer debtors	4	3,293,451	-
Cash and cash equivalents	5	131,161,554	83,864,715
		<u>174,720,888</u>	<u>123,973,022</u>
Non-Current Assets			
Property, plant and equipment	2	693,308,034	671,548,340
Total Assets		<u>868,028,922</u>	<u>795,521,362</u>
Liabilities			
Current Liabilities			
Long term liabilities-Short term portion	6	3,016,230	1,567,896
Payables from exchange transactions	8	40,440,214	36,686,015
VAT payable	9	5,504,598	5,295,830
Consumer deposits	10	4,305,858	4,007,216
Unspent conditional grants and receipts	7	30,049,640	14,662,990
Bank overdraft	5	723	-
		<u>83,317,263</u>	<u>62,219,947</u>
Non-Current Liabilities			
Long term liabilities	6	13,993,016	18,684,697
Total Liabilities		<u>97,310,279</u>	<u>80,904,644</u>
Net Assets		<u>770,718,643</u>	<u>714,616,718</u>
Net Assets			
Reserves			
Revaluation reserve	29&29	18,771,738	18,771,738
Accumulated surplus		751,946,905	695,844,980
Total Net Assets		<u>770,718,643</u>	<u>714,616,718</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Detailed Income statement

Figures in Rand	Note(s)	2012	2011
Revenue			
Service charges	12	44,282,389	39,968,307
Government grants & subsidies	13	386,535,236	308,075,389
Rental income		334,946	238,198
Other income	14	2,141,569	8,858,738
Interest received - investment	19	16,688,183	4,802,129
Gains on disposal of assets		133,909	810,080
Total Revenue		450,116,232	362,752,841
Expenditure			
Personnel	16	(130,233,381)	(102,889,789)
Remuneration of councillors	17	(7,160,679)	(7,851,788)
Administration	37	(3,541,781)	287,842
Depreciation and amortisation	20	(78,452,766)	(47,317,810)
Revision of useful life	39	65,926,857	-
Finance costs	21	(1,459,970)	(3,024,090)
Debt impairment	18	(29,129,652)	(54,403,681)
Repairs and maintenance		(2,870,221)	(1,310,810)
Bulk purchases	28	(43,384,577)	(39,679,905)
Contracted services	23	(103,835,725)	(51,972,514)
Loss on disposal of assets		(1,288,920)	(2,536,552)
General Expenses	15	(59,098,046)	(45,212,372)
Total Expenditure		(394,528,861)	(355,911,469)
Fair value adjustments	38	514,554	2,204,863
Surplus for the year		56,101,925	9,046,235

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Balance at July 01, 2010	13,575,808	686,798,745	700,374,553
Changes in net assets			
Fair value gains, Land and buildings	5,195,930	-	5,195,930
Net income (losses) recognised directly in net assets	5,195,930	-	5,195,930
Surplus for the year	-	9,046,235	9,046,235
Total recognised income and expenses for the year	5,195,930	9,046,235	14,242,165
Total changes	5,195,930	9,046,235	14,242,165
Balance at July 01, 2011	18,771,738	695,844,980	714,616,718
Changes in net assets			
Surplus for the year	-	56,101,925	56,101,925
Total changes	-	56,101,925	56,101,925
Balance at June 30, 2012	18,771,738	751,946,905	770,718,643

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UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		33,800,377	37,765,025
Grants		386,535,236	307,995,097
Interest income		16,688,183	4,802,129
Other receipts		2,476,516	9,097,199
		<u>439,500,312</u>	<u>359,659,450</u>
Payments			
Employee costs		(137,394,060)	(110,693,031)
Suppliers		(43,384,577)	(51,759,906)
Finance costs		(1,459,970)	(3,024,090)
Other payments		(75,526,263)	(101,240,887)
		<u>(257,764,870)</u>	<u>(266,717,914)</u>
Net cash flows from operating activities	24	<u>181,735,442</u>	<u>92,941,536</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(132,289,593)	(47,202,727)
Proceeds from sale of property, plant and equipment	2	579,060	3,343,644
Proceeds from sale of financial assets		514,554	2,204,863
Net cash flows from investing activities		<u>(131,195,979)</u>	<u>(41,654,220)</u>
Cash flows from financing activities			
Repayment of long term liabilities		(3,243,347)	(2,865,641)
Net cash flows from financing activities		<u>(3,243,347)</u>	<u>(2,865,641)</u>
Net increase/(decrease) in cash and cash equivalents		47,296,116	48,421,675
Cash and cash equivalents at the beginning of the year		83,864,715	35,443,040
Cash and cash equivalents at the end of the year	5	<u>131,160,831</u>	<u>83,864,715</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

1.1 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except when the asset has been fully depreciated but still has economic value, the resale value is used as the carrying amount of that property, plant and equipment.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.1 Property, plant and equipment (continued)

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

All property plant and equipment under work in progress are capitalised using stage of completion. Assets under work in progress get transferred infrastructure assets when they are fully completed and are depreciated from date of commissioning.

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

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

Item	Average useful life
Buildings	Fair Value (30 Years)
Furniture and fixtures	10 Years
Motor vehicles	5 Years
Pant and equipment	10 Years
IT equipment	3 Years
Computer software	3 Years
Infrastructure	
• Water	50 Years
• Sewerage	50 Years
Capital work in progress	Not depreciated (Until Completed)
Fire Engines	20 Years
Mobile Offices	20 years

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

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

1.2 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

UMGUNGUNDOLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.2 Financial instruments (continued)

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in profit or loss.

Regular way purchases of financial assets are accounted for at settlement date.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Trade and other receivables are classified as loans and receivables. We have used the method of recovery in the current year and non recovery was then used to create a doubtful debt provision hence we did not discount the debtors because of the materiality of the provision.

Payables from exchange transactions

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

Cash and cash equivalents

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

Bank overdraft and borrowings

Derivatives

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.2 Financial instruments (continued)

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.3 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.

Operating leases – lessee

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.3 Leases (continued)

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.4 Impairment of 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.

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

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

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

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

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

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

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

Useful life is either:

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

1.5 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.6 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.6 Employee benefits (continued)

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the statement of financial performance over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. An annual charge to income is made to cover both these liabilities.

1.7 Provisions and contingencies

Provisions are recognised when:

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

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.7 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.8 Revenue from exchange transactions

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

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

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

1.9 Revenue

Revenue comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.10 Investment income

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

1.11 Borrowing costs

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

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

1.12 Comparative figures

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

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.13 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.14 Fruitless and wasteful expenditure

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

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

1.15 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

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

1.16 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.17 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised when municipal valuation is more than carrying amount of the buildings. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.18 Conditional Grants and receipts

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

1.19 Budget information

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

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

The 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 annual financial statements.

UMGUNGUNDOLOU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

2012 2011

2. Property, plant and equipment

	2012		2011	
	Cost / Valuation	Accumulated depreciation and impairment	Cost / Valuation	Accumulated depreciation and impairment
Land	6,481,000	-	6,481,000	-
Buildings	27,400,059	-	27,400,059	-
Plant and machinery	5,446,781	(3,130,953)	2,315,828	(1,760,791)
Furniture and fixtures	3,534,882	(1,733,065)	1,801,817	(1,437,934)
Motor vehicles	7,459,196	(6,412,284)	1,046,912	(5,172,682)
IT equipment	4,357,550	(2,334,660)	2,022,890	(1,916,053)
Infrastructure	1,622,764,494	(1,074,822,498)	547,941,996	(1,001,321,709)
Other property, plant and equipment	5,818,228	(360,546)	5,457,682	(138,775)
Mobile Offices	392,440	(41,445)	350,995	(21,855)
Work in Progress	98,488,855	-	98,488,855	-
Total	1,782,143,485	(1,088,835,451)	1,683,318,139	(1,011,769,799)

Reconciliation of property, plant and equipment - 2012

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

	Opening balance	Additions	Disposals	Transfers	Revision of useful life	Depreciation	Impairment loss	Total
Land	6,481,000	-	-	-	-	-	-	6,481,000
Buildings	27,400,059	-	-	-	-	-	-	27,400,059
Plant and machinery	5,731,705	8,450	(1,358,920)	-	-	(274,638)	(1,790,769)	2,315,828
Furniture and fixtures	1,750,347	236,062	-	-	112,238	(296,830)	-	1,801,817
Motor vehicles	2,204,602	-	-	-	807,143	(1,918,433)	(46,400)	1,046,912
IT equipment	2,052,581	464,772	(285,151)	-	209,296	(1,036,487)	617,879	2,022,890
Infrastructure	463,714,486	91,891,441	(90,000)	-	65,926,857	(73,573,078)	72,290	547,941,996
Other property, plant and equipment	3,792,774	1,886,679	-	-	-	(221,771)	-	5,457,682
Mobile Offices	370,585	-	-	-	-	(19,590)	-	350,995
Work in Progress	158,050,201	37,802,189	-	(97,363,535)	-	-	-	98,488,855
	671,548,340	132,289,593	(1,734,071)	(97,363,535)	67,055,534	(77,340,827)	(1,147,000)	693,308,034

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
Land	6,481,000	-	-	-	-	-	6,481,000
Buildings	27,818,212	-	-	(418,153)	-	-	27,400,059
Plant and machinery	9,388,643	-	(3,114,786)	-	-	(542,152)	5,731,705
Furniture and fixtures	771,043	62,238	(87,222)	272,188	849,230	(117,130)	1,750,347
Motor vehicles	270,552	-	(17,624)	-	2,204,600	(252,926)	2,204,602
IT equipment	1,329,270	534,405	(124,012)	-	810,080	(497,162)	2,052,581
Infrastructure	508,510,900	-	-	975,308	-	(45,771,722)	463,714,486
Other property, plant and equipment	1,960,159	1,914,556	-	-	-	(81,941)	3,792,774
Mobile Offices	-	116,568	-	269,621	-	(15,604)	370,585
Work in Progress	113,475,241	44,574,960	-	-	-	-	158,050,201
	670,005,020	47,202,727	(3,343,644)	1,098,964	3,863,910	(47,278,637)	671,548,340

Details of properties

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
2. Property, plant and equipment (continued)		
242 Langalibalele Street		
The Property is a free hold and is used as Administration Building		
- Revalued Amount	<u>22,000,000</u>	<u>22,000,000</u>
176 Langalibalele		
The Property is a free hold and is used as second Administration Building		
- Revalued Amount	<u>6,600,000</u>	<u>6,600,000</u>
Lot 997 Howick Old Main Road		
The Property is a free hold and is used as an Operational Office for water services		
- Revalued Amount	<u>4,530,450</u>	<u>4,530,450</u>
Erf 501 in Richmond		
Revalued Amount	<u>485,000</u>	<u>485,000</u>
Erf 95 and Portion of 224 of 1412 Farm BE in Richmond		
Revalued Amount	<u>265,609</u>	<u>265,609</u>
3. Receivables from exchange transactions		
Deposits	379,879	336,119
Agency Agreements	755,086	3,466,415
Accrued Income	37,001,313	34,517,123
Prepaid expenses	1,575,185	1,106,875
Clearing account	554,420	681,775
	<u>40,265,883</u>	<u>40,108,307</u>
4. Consumer debtors		
Gross balances		
Water	<u>161,056,636</u>	<u>135,395,513</u>
Less: Provision for debt impairment		
Water	<u>(157,763,185)</u>	<u>(135,395,513)</u>
Net balance		
Water	<u>3,293,451</u>	<u>-</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
4. Consumer debtors (continued)		
Water		
Current (0 -30 days)	7,248,368	4,044,825
31 - 60 days	2,536,419	3,042,920
61 - 90 days	2,006,440	3,468,547
91 - 120 days	2,784,217	2,984,007
121 - 365 days	3,689,555	5,623,091
> 365 days	149,799,843	122,230,144
Provision	(157,763,185)	(135,395,513)
Discounting Effect	(7,008,206)	(5,998,021)
	<u>3,293,451</u>	<u>-</u>
Reconciliation of debt impairment provision		
Balance at beginning of the year	(135,395,513)	(95,880,141)
Contributions to provision	(22,367,672)	(35,758,910)
Debt impairment written off against provision	-	(3,756,462)
	<u>(157,763,185)</u>	<u>(135,395,513)</u>
<p>The debtors are initially recorded at fair value being the invoice value, these are subsequently amortised at an effective rate determined as current average interest on FNB call accounts. We calculated the estimated effect of discounting resulting in an amount of R7 266 174. We assumed that debtors will pay in six months time. The interest rate used in discounting was 6.93 % per annum. Debtors and revenue have been disclosed net of discounting.</p>		
<p>The provision for bad debts has been calculated based on the individual risk profile of customers, i.e. customer have been categorised as high risk, very high risk, medium risk, low risk, and deceased customers. All government customers have been excluded from the provision from bad debts provision. No indigent consumers have been identified.</p>		
5. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	5,339	8,388
Bank balances	48,092,475	31,215,678
Short-term deposits	83,063,740	52,640,649
Bank overdraft	(723)	-
	<u>131,160,831</u>	<u>83,864,715</u>
Current assets	131,161,554	83,864,715
Current liabilities	(723)	-
	<u>131,160,831</u>	<u>83,864,715</u>
6. Long term liabilities		
Held at amortised cost		
Other financial liability	<u>17,009,246</u>	<u>20,252,593</u>
Non-current liabilities		
At amortised cost	<u>13,993,016</u>	<u>18,684,697</u>
Current liabilities		
At amortised cost	<u>3,016,230</u>	<u>1,567,896</u>
	<u>17,009,246</u>	<u>20,252,593</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
7. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Water Purification Grant	2,244,800	2,244,800
Technical Grant	-	525,785
MIG	(12,362,962)	(14,431,603)
Drought Relief WSA	-	387,249
Public Works	-	431,382
GIS Grant	738,855	2,273,966
Corridor Development Grant	15,003,972	5,450,000
KZN Sports	1,333,215	2,063,547
Massification Grant	15,146,845	7,403,424
HIV Awareness Grant	716,038	1,000,000
Water and Sewer Works	4,716,955	6,853,560
Rural Transport Grant	1,233,772	-
Water Demand Management Grant	969,333	-
PTP Grant	308,817	308,817
IEC- ID Campaign	-	8,580
2010 Waste Management Grant	-	75,662
IDP Review	-	44,998
Regional Bulk Scheme Programme	-	7,867
Disaster Management Grant	-	14,956
	<u>30,049,640</u>	<u>14,662,990</u>
Movement during the year		
Balance at the beginning of the year	14,662,990	14,817,589
Additions during the year	115,902,886	48,690,911
Income recognition during the year	(100,516,236)	(48,845,510)
	<u>30,049,640</u>	<u>14,662,990</u>
<p>The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and</p> <p>Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.</p> <p>See note 8 for reconciliation of grants from National/Provincial Government.</p> <p>These amounts are invested in a ring-fenced investment until utilised.</p>		
8. Payables from exchange transactions		
Trade payables	19,432,033	20,212,364
Retention	5,315,894	6,215,890
Other accrued expenses	15,692,287	10,257,761
	<u>40,440,214</u>	<u>36,686,015</u>
Trade Payable Ageing		
0 - 30 Days	12,472,632	12,973,490
30-60 Days	4,553,538	4,736,392
60-90 Days	2,405,862	2,502,474
	<u>19,432,032</u>	<u>20,212,356</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
9. VAT payable		
Tax refunds payables	<u>5,504,598</u>	<u>5,295,830</u>
10. Consumer deposits		
Water	<u>4,305,858</u>	<u>4,007,216</u>
<p>The water deposits relates to amounts paid by customers and are refundable as and when the customer closes their water accounts. The municipality does not pay nor accrue any interest on these deposits.</p>		
11. Revenue		
Service charges	44,282,389	39,968,307
Government grants & subsidies	386,535,236	308,075,389
	<u>430,817,625</u>	<u>348,043,696</u>
<p>The amount included in revenue arising from exchanges of goods or services are as follows:</p>		
Service charges	<u>44,282,389</u>	<u>39,968,307</u>
<p>The amount included in revenue arising from non-exchange transactions is as follows:</p>		
Transfer revenue		
Levies	<u>386,535,236</u>	<u>308,075,389</u>
12. Service charges		
Service charges	171,629	-
Sale of water	37,241,191	33,699,493
Sewerage and sanitation charges	6,869,569	6,268,814
	<u>44,282,389</u>	<u>39,968,307</u>

The municipality averages water loss to be approximately 58%. The loss is calculated by comparing quantity of water sold to quantity bought. The calculation was determined by a reputable engineering company. The average water loss in rand value is approximately R25 833 410.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
13. Government grants and subsidies		
Equitable share	286,019,000	258,183,382
Public Works	431,382	-
MIG	83,781,359	43,463,327
FMG	1,250,000	1,000,000
Corridor Development	446,028	-
MSIG	790,000	750,000
SETA Grant	487,936	401,381
Shared Services Grant	-	205,652
DIMS Grant	-	45,204
Disaster Management Grant	14,956	45,204
Drought Relief	387,249	193,647
Sport and Recreation	1,052,457	881,298
GIS Shared Services	1,535,111	1,314,661
Intergovernmental Relations	2,523,050	90,152
Casino Tax Levy	-	1,046,497
Rural Transport Grant	453,228	-
Massification Grant	6,374,579	354,984
Growth and Development Summit	-	100,000
Intergrated Waste	267,867	-
H.I.V Grant	283,962	-
Water Demand Management grant	437,072	-
	386,535,236	308,075,389
14. Other income		
Project Income	71,696	72,158
Sundry income	2,069,873	8,786,580
	2,141,569	8,858,738

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
15. General expenses		
Advertising	761,490	428,778
Auditors remuneration	1,387,812	1,029,131
Bank charges	179,446	187,859
Consulting and professional fees	4,817,995	3,867,374
Consumables	728,524	791,623
Entertainment	1,916,617	790,131
Hire	744,311	586,127
Insurance	336,054	305,846
Conferences and seminars	640,077	759,605
Lease rentals on operating lease	488,744	481,421
Levies	503,662	450,849
Magazines, books and periodicals	21,943	26,488
Medical expenses	97,100	180
Motor vehicle expenses	10,068,070	8,199,944
Postage and courier	556,270	553,938
Printing and stationery	1,435,312	927,221
Communication	2,054,899	3,248,181
Protective clothing	563,972	360,240
Royalties and license fees	1,262,158	683,863
Security (Guarding of municipal property)	5,541,175	3,704,643
Staff welfare	104,682	-
Subscriptions and membership fees	31,730	24,408
Telephone and fax	5,515,027	5,108,941
Training	186,070	1,012,767
Travel - local	1,833,064	505,122
Assets under R5000	460	185,132
Electricity	4,760,182	1,879,714
Social services	2,127,151	3,514,990
Grant Expenditure	10,434,049	5,597,856
	59,098,046	45,212,372

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
16. Employee related costs		
Basic	74,310,443	63,240,684
Medical aid - company contributions	4,943,753	4,167,952
UIF	479,108	561,881
WCA	1,348,902	118,531
SDL	1,064,111	849,190
Salgbc levies	19,556	19,602
Leave pay provision charge	1,983,383	(2,319,777)
Life group Insurance	2,314,576	1,860,523
Fire shift and services allowance	2,893,358	1,610,501
Post-employment benefits - Pension - Defined contribution plan	18,667,118	12,354,834
Travel, motor car, accommodation, subsistence and other allowances	7,920,764	8,076,982
Overtime payments	2,898,056	2,642,558
Long-service awards	1,219,728	882,510
Acting allowances	1,627,575	1,574,968
Housing benefits and allowances	560,706	517,582
Holiday Bonus	6,195,261	5,435,985
Stand by allowance	1,685,438	1,161,384
Telephone	43,200	73,129
Clothing Allowance	58,345	60,770
	<u>130,233,381</u>	<u>102,889,789</u>
Remuneration of municipal manager		
Annual Remuneration	947,332	805,396
Car Allowance	90,000	140,000
Performance Bonuses	-	133,365
	<u>1,037,332</u>	<u>1,078,761</u>
Remuneration of chief finance officer		
Annual Remuneration	493,065	464,805
Car Allowance	270,395	257,415
Contributions to UIF, Medical and Pension Funds	108,618	100,661
Acting Allowance	128,850	97,296
	<u>1,000,928</u>	<u>920,177</u>
Remuneration of other senior managers		
Annual Remuneration	461,399	464,805
Car Allowance	229,729	257,415
Contributions to UIF, Medical and Pension Funds	174,582	100,661
Acting Allowance	106,788	97,296
	<u>972,498</u>	<u>920,177</u>
17. Remuneration of councillors		
Mayor	7,160,679	7,851,788
Deputy Mayor	654,204	593,374
Speaker	235,525	464,690
Whip	527,114	496,503
Other Councillors	495,346	449,305
	5,288,826	6,019,461
	(7,201,015)	(8,023,333)
	<u>7,160,679</u>	<u>7,851,788</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
18. Debt impairment		
Contributions to debt impairment provision	22,367,672	35,758,910
Debts impaired	6,771,980	18,644,771
	<u>29,139,652</u>	<u>54,403,681</u>
19. Investment revenue		
Interest revenue		
Bank	16,688,183	4,802,129
20. Depreciation and amortisation		
Property, plant and equipment	78,452,766	47,317,810
21. Finance costs		
Other interest paid	1,459,970	3,024,090
22. Auditors' remuneration		
Fees	1,387,812	1,029,131
23. Contracted services		
Fleet Services	5,964,707	-
Operating Leases	39,373,115	41,199,356
Other Contractors	58,497,903	10,773,158
	<u>103,835,725</u>	<u>51,972,514</u>
24. Cash generated from operations		
Surplus	56,101,925	9,046,235
Adjustments for:		
Depreciation and amortisation	78,452,766	47,317,810
Gain on sale of assets and liabilities	1,155,011	-
Fair value adjustments	(514,554)	(2,204,863)
Impairment reversals	(65,926,857)	-
Debt impairment	29,129,652	54,403,681
Proir year error	-	7,595,183
Other non-cash items	96,269,912	-
Changes in working capital:		
Receivables from exchange transactions	(157,576)	(2,203,282)
Consumer debtors	(32,423,103)	(13,635,654)
Payables from exchange transactions	3,754,206	(13,150,097)
VAT	208,768	5,754,414
Unspent conditional grants and receipts	15,386,650	(154,599)
Consumer deposits	298,642	172,708
	<u>181,735,442</u>	<u>92,941,536</u>
25. Employee benefit obligations		
Defined contribution plan		

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

25. Employee benefit obligations (continued)

It is the policy of the municipality to provide retirement benefits to all its employees. The Municipal staff are members of the following benefit schemes: Natal Joint Municipal Pension Fund (Retirement Registration Number 12/8/6676/2-a State and Multi Employer Defined Benefit Plan, Natal Joint Municipal Pension Fund, superannuation, (a State and Multi employer Defined Benefit Fund and the Kwazulu Natal Provident Fund (a State and Multi Employer defined Contribution Plan). Along with other municipalities in the province of Kwazulu Natal, Umgungundlovu participates in a multi employer defined plan. The Plan exposes the participating entities to actuarial risks associated with the current and former employees of other municipalities participating in the plan. There is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual municipalities participating in the plan. Umgungundlovu therefore accounts for the plan as if it were a defined contribution plan. A funding valuation which is not drawn up on the basis of assumptions compatible with GRAP 25 Employee benefits as at 31 March 2011 reflected the following: The fund could not produce Audited Financial Statements on time hence we are unable to report on the performance of 2012

Superannuation Fund

Fund assets increased from 5.1 billion to 5.6 billion. The total rate of contribution required from employer, including the surcharge is 34.22% (surcharge of 17.5%) of pensionable salaries payable for a period of 8 years

Retirement Fund

Asset value increased from 1.84 billion to 2.06 billion. The total rate of contribution required from employer, including the surcharge is 31.13% (surcharge of 9.5%) of pensionable salaries payable for a period of 8 years

Provident Fund

Asset value increased from 835 million to 1.06 billion. The total rate of contribution required from employer is 18% of pensionable salaries.

26. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	56,101,925	9,046,235
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27. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

Operating activities

Actual amount as presented in the budget statement	181,735,442	92,941,799
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Investing activities

Actual amount as presented in the budget statement	(131,195,979)	(41,654,483)
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Financing activities

Actual amount as presented in the budget statement	(3,243,347)	(2,865,641)
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Net cash generated from operating, investing and financing activities	47,296,116	48,421,675
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28. Bulk purchases

Water	43,384,577	39,679,905
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29. Revaluation reserve

The revaluation reserve arose due to land and buildings recorded at market values. The valuation was performed by a professional valuer appointed by Local Municipalities where valued properties are situated. The municipality used valuation roll values to revalue its land and buildings. The valuation roll was implemented on 01 July 2009.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
29. Revaluation reserve (continued)		
Opening balance	18,771,738	13,575,808
Change during the year	-	5,195,930
	<u>18,771,738</u>	<u>18,771,738</u>
30. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	<u>97,268,440</u>	<u>54,232,665</u>
Contracted for operating commitments		
• Office Rental	850,328	786,250
• Equipment Rental	905,250	828,303
• Security	7,845,916	6,260,964
• Communication	78,432	-
• Maintenance	231,797	212,094
• Water Tankering	29,322,985	1,250,000
	<u>39,234,708</u>	<u>9,337,611</u>
This committed expenditure relates to property and will be financed by available government grant being MIG.		
31. Contingencies		
Litigations are in the process against the municipality relating to: (1) damages suffered on two individuals motor vehicles due to collision with municipal vehicles driven by municipal employees(2)The subcontractor is suing the municipality for loss suffered when they were subcontracted by Municipal main contractor. The municipality's lawyers and management consider the claim against the municipality to be R90 000 and R1 771 690 respectively.		
Contingent assets		
The Municipality is suing security services company for damages it suffered on one of its motor vehicles when a security guard employed by the company unlawfully drove the vehicle and caused a collision. The Municipality is suing for R150 000. The Municipality is suing former Chief Financial Officer , Municipal Manager and Amathonga Institute for payment made without services being performed. The transaction took place in 2007 and the Municipality is suing for R192 000. The municipality also procured TLB's with service contract but the srvice provider did not honour the contract by not servicing the plant when it was due for service. The Municipality is suing the service provider for the amount still to be determined , currently estimated to be less than R100 000.		
32. Prior period errors		
Accounts payable were understated by bonus provision in prior year. The error has been corrected by adjusting opening retained earnings.		
The correction of the error(s) results in adjustments as follows:		
Statement of financial position		
Accounts Payable	-	(2,111,170)
Opening Accumulated Surplus or Deficit	-	2,111,170
33. Fruitless and wasteful expenditure		
Fruitless and wasteful expenditure in respect of interest due late submission of earnings return from 2007 tax year	-	1,029,441
Other interest due to late payment of creditors	122,564	216,238
	<u>122,564</u>	<u>1,245,679</u>

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
34. Irregular expenditure		
Opening balance	-	2,263,220
Add: Irregular Expenditure - current year	204,434	2,211,983
Less: Amounts recoverable (not condoned)	(81,895)	1,045,368
	<u>122,539</u>	<u>5,520,571</u>

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 accounting officer and includes a note to the annual financial statements.

Various items 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 accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The majority of the deviations were due to water services emergencies and is approximately 4% of operating expenditure. The municipality recorded deviations totalling to R1 284 442.96 in the last financial year and R17 145 696 during the current financial year.

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

36. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Service charges	79,286,561	59,286,561	59,286,561	44,282,389	15,004,172	75 %	56 %
Investment revenue	5,000,000	5,000,000	5,000,000	16,688,183	(11,688,183)	334 %	334 %
Transfers recognised - operational	403,027,000	432,063,000	432,063,000	378,718,528	53,344,472	88 %	94 %
Other own revenue	429,278	429,278	429,278	3,124,978	(2,695,700)	728 %	728 %
Total revenue (excluding capital transfers and contributions)	487,742,839	496,778,839	496,778,839	442,814,078	53,964,761	89 %	91 %
Employee costs	(122,570,368)	(122,570,368)	(122,570,368)	(130,233,381)	7,663,013	106 %	106 %
Remuneration of councillors	(10,000,000)	(10,000,000)	(10,000,000)	(7,160,679)	(2,839,321)	72 %	72 %
Debt impairment	(37,250,000)	(25,250,000)	(25,250,000)	(29,129,652)	3,879,652	115 %	78 %
Depreciation and asset impairment	(48,174,551)	(50,174,551)	(50,174,551)	(12,525,909)	(37,648,642)	25 %	26 %
Finance charges	(5,165,342)	(5,165,342)	(5,165,342)	(1,459,970)	(3,705,372)	28 %	28 %
Materials and bulk purchases	(42,161,664)	(43,561,664)	(43,561,664)	(43,384,577)	(177,087)	100 %	103 %
Other expenditure	(153,087,224)	(147,996,224)	(147,996,224)	(170,634,693)	22,638,469	115 %	111 %
Total expenditure	(418,409,149)	(404,718,149)	(404,718,149)	(394,528,861)	(10,189,288)	97 %	94 %
Surplus/(Deficit)	69,333,690	92,060,690	92,060,690	48,285,217	43,775,473	52 %	70 %

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

36. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	1,688,000	1,688,000	1,688,000	7,816,708	(6,128,708)	463 %	463 %
Surplus (Deficit) after capital transfers and contributions	71,021,690	93,748,690	93,748,690	56,101,925	37,646,765	60 %	79 %
Surplus/(Deficit) for the year	71,021,690	93,748,690	93,748,690	56,101,925	37,646,765	60 %	79 %

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

36. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Cash flows							
Net cash from (used) operating	67,121,000	74,521,000	74,521,000	181,735,442	(107,214,442)	244 %	271 %
Net cash from (used) investing	(9,377,000)	3,677,000	3,677,000	(131,195,979)	134,872,979	(3,568)%	1,399 %
Net cash from (used) financing	-	-	-	(3,243,347)	3,243,347	(100)%	(100)%
Net increase/(decrease) in cash and cash equivalents	57,744,000	78,198,000	78,198,000	47,296,116	30,901,884	60 %	82 %
Cash and cash equivalents at the beginning of the year	-	-	-	83,864,715	(83,864,715)	100 %	100 %
Cash and cash equivalents at year end	57,744,000	78,198,000	78,198,000	131,160,831	(52,962,831)	168 %	227 %
37. Administrative expenditure							
Administration and management fees - third party			3,541,781	(287,842)			
38. Fair value adjustments							
Other financial assets							
• Other financial assets (Designated as at FV through P&L)		514,554		2,204,863			

UMGUNGUNDLOVU DISTRICT MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
39. Revision of useful lives		
Revision of useful lives		
Property, plant and equipment	(65,926,857)	-
At year, management revised the useful lives of assets per category. The depreciated replacement cost were introduced in 2010/11 financial when the Municipality as the medium capacity fully implemented all GRAP standard .The prior year comparative was restated and entries were recorded in the statement of changes in net assets.Asset classes affected by revision of useful lives are per note 2		

June 30, 2012

		Current Year 2012 -	Prior Year 2011 -
		Rand	Rand
Bank Balances			
FNB Main Account	50940026773	25,277,100.83	12,697,853.00
FNB Salaries Account	50940092196	63,075.44	157,054.00
FNB Call Account	61094008971	44,169.87	42,263.00
FNB Stadium Grant	62170274311	65,629.44	65,205.00
FNB WSA Projects	62023616462	2,642,498.72	4,413,956.00
FNB NSTD Call Account	62215748289	29,313,740.00	18,298,806.00
FNB Public Sector Cheque Account	62243484417	-722.60	8,762,869.00
FNB CBWP	62012438603		480,046.00
Petty Cah		2,888.75	10,000.00
Cashier Float		2,450.00	2,450.00
FNB ID Campaign	62056927357		6,792.00
FNB Stadium Account	62025307506		20,142.00
FNB LED	62107013790		49,544.00
		57,410,830.45	45,006,980.00
Shaort Term Deposits			
ABSA	2070530459	10,000,000.00	10,000,000.00
STD Bank	358610095-002	20,000,000.00	5,000,000.00
Investec	50003728655	20,000,000.00	10,111,794.00
NedBank	196000028	20,000,000.00	10,000,000.00
FNB Investments	71101199555	3,750,000.00	3,750,000.00
		73,750,000.00	38,861,794.00
		131,160,830.45	83,868,774.00

UMGUNGUNDLOVU DISTRICT MUNICIPALITY
Appendix G - GRANTS & SUBSIDIES

June 30, 2012

NAME OF GRANTS	Name of Organ of state/ Municipality	Amount Received	Expenditure @ 30 June 2012 - Rand	Balance @ 30 June 2012 - Rand
Corridor Development Grant	CoGTA	15,450,000.10	446,028.33	15,003,971.77
Water Purification Grant	CoGTA	2,244,800.00	0.00	2,244,800.00
Massification Grant	CoGTA	11,521,423.74	6,374,578.63	5,146,845.11
Camperdown Waste Water Works	CoGTA	6,000,000.00	1,732,307.45	4,267,692.55
New Waste Water Works & Bulk Sewer Line	CoGTA	10,000,000.00	0.00	10,000,000.00
Energy Sector	CoGTA	150,439.76	0.00	150,439.76
Intergovernmental Relations Grant	CoGTA	443,120.00	144,298.11	298,821.89
Rural Transport Grant	National Treasury	1,687,000.00	453,227.86	1,233,772.14
Water Demand Management Grant	DBSA	1,409,333.00	440,000.00	969,333.00
MSIG	National Treasury	1,250,000.00	1,250,000.00	0.00
FMG	National Treasury	790,000.00	790,000.00	0.00
KZN Sports	Department of Sports	2,385,671.51	1,052,456.83	1,333,214.68
MIG	National Treasury	85,850,000.00	98,212,962.19	-12,362,962.19
PTP Grant	CoGTA	308,816.64	0.00	308,816.64
DPSS	CoGTA	2,273,965.87	1,535,111.36	738,854.51
HIV Awareness Grant	CoGTA	1,000,000.00	283,962.27	716,037.73
Technical Support		525,785.09	525,785.09	0.00
Intergrated Waste Management Plan		260,000.00	260,000.00	0.00
2010 Waste Management Grant	CoGTA	75,662.28	75,662.28	0.00
Disaster management Grant	CoGTA	14,955.53	14,955.53	0.00
Regional Bulk Scheme Programme	CoGTA	7,867.15	7,867.15	0.00
IDP Review	CoGTA	44,997.68	44,997.68	0.00
IEC ID Campaign		8,580.16	8,580.16	0.00
Public Works	Public Works	431,382.17	431,382.17	
Balance		144,133,800.68	114,084,163.09	30,049,637.59