



**Annual Financial Statements  
for the year ended 30 June 2013**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## General Information

---

<b>Legal form of entity</b>	Municipality
<b>Nature of business and principal activities</b>	Providing services to the community of Umzumbe
<b>Executive Committee</b>	Councillor Gumede ST (Mayor) Councillor Dlamini NY (Deputy Mayor) Councillor Ngcobo (Speaker) Councillor Mntambo JP (Exco Member) Councillor Zungu MPL (Exco Member) Councillor Shozi MP (Exco Member) Councillor Duma YL (Exco Member) Councillor Ndlovu M (Exco Member)
<b>Councillors</b>	Councillor Gwabe CS Councillor Mqadi MR Councillor Maluleka SP Councillor Radebe SP Councillor Peters TL Councillor Mkhize MJ Councillor Mbayi TM Councillor Mhlangu NE Councillor Mbhele KBM Councillor Cele SR Councillor Mdletshe MS Councillor Luthuli MZ Councillor Hlongwa PA Councillor Mbambo OJ Councillor Zindela AE Councillor Caluza N Councillor Mbhele BI Councillor Shezi CL Councillor Z Shozi Councillor LMR Ngcobo Councillor Khuzwayo M Councillor Caluza B Councillor Doncabe KS Councillor Gasas SC Councillor Shozi NB Councillor M Hlongwa Councillor Khuzwayo T Councillor Lushaba S Councillor Msomi DK Councillor Sikhosana B
<b>Accounting Officer</b>	Ms NC Mgijima
<b>Registered office</b>	Sipofu Road Mathulini Tribal Authority 4220

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## General Information

---

<b>Business address</b>	Sipofu Road Mathulini Tribal Authority 4220
<b>Postal address</b>	P.O. Box 561 Hibberdene 4220
<b>Bankers</b>	ABSA Bank Limited
<b>Auditors</b>	Auditor General South Africa

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Index

---

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

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	11 - 19
Notes to the Annual Financial Statements	20 - 42

### Abbreviations

SDL	Skills Development Levy
GRAP	Generally Recognised Accounting Practice
GIS	Geographical Information Systems
COGTA	Department of Cooperative Governance and Traditional Affairs
IAS	International Accounting Standards
DORA	Division of Revenue Act
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn
MSIG	Municipal Systems Improvement Grant

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Officer's Responsibilities and Approval

---

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

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

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

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets 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 30 June 2014 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the grant allocations through the Division of revenue act (Dora) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Umzumbe Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's Chief Financial Officer.

The annual financial statements set out on pages 5 to 42, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by the accounting officer:

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 18 of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

---

**Ms NC Mgijima**  
**Municipal Manager**

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	Restated 2012
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	4	92 204	244 609
VAT Receivable	5	1 726 951	120 618
Trade and other receivables from non exchange transactions	6	1 247 342	648 815
Cash and Cash Equivalents	7	77 557 478	51 423 832
		<b>80 623 975</b>	<b>52 437 874</b>
<b>Non-Current Assets</b>			
Property, Plant and Equipment	2	165 619 824	125 972 084
Intangible Assets	3	101 466	94 744
		<b>165 721 290</b>	<b>126 066 828</b>
<b>Total Assets</b>		<b>246 345 265</b>	<b>178 504 702</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	10	1 565	-
Trade and Other Payables	11	8 650 912	5 320 399
Unspent Conditional Grants and Receipts	8	12 123 525	13 147 101
Provisions	9	2 535 616	1 894 556
		<b>23 311 618</b>	<b>20 362 056</b>
<b>Total Liabilities</b>		<b>23 311 618</b>	<b>20 362 056</b>
<b>Net Assets</b>		<b>223 033 647</b>	<b>158 142 646</b>
<b>Net Assets</b>			
Accumulated Surplus		223 033 647	158 142 646

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand	Note(s)	2013	Restated 2012
<b>Revenue</b>			
Other income	15	700 706	900 983
Interest received - investment	14	3 465 211	1 893 608
Property rates	12	3 100 795	2 359 115
Government grants & subsidies	13	133 780 733	92 595 949
<b>Total revenue</b>		<b>141 047 445</b>	<b>97 749 655</b>
<b>Expenditure</b>			
Employee Related Costs	17	22 381 185	18 949 799
Remuneration of Councillors	18	10 827 765	9 079 546
Depreciation Amortisation and Impairment	20	8 428 887	7 958 767
Debt Impairment	19	277 655	254 718
Repairs and Maintenance		807 649	1 083 048
Community Participation		1 056 920	1 539 892
General Expenses	16	30 869 577	26 369 319
<b>Total expenditure</b>		<b>74 649 638</b>	<b>65 235 089</b>
<b>Operating surplus</b>		<b>66 397 807</b>	<b>32 514 566</b>
Loss on Disposal of Assets		(265 867)	(85 481)
<b>Surplus for the year</b>		<b>66 131 940</b>	<b>32 429 085</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
<b>Balance at 01 July 2011</b>	<b>129 154 875</b>	<b>129 154 875</b>
Changes in net assets		
Surplus for the year	32 429 085	32 429 085
Prior year adjustment	(3 441 314)	(3 441 314)
Total changes	28 987 771	28 987 771
<b>Balance at 01 July 2012 restated</b>	<b>158 142 646</b>	<b>158 142 646</b>
Changes in net assets		
Surplus for the year	66 131 940	66 131 940
Correction of prior year errors	(1 240 939)	(1 240 939)
Total changes	64 891 001	64 891 001
<b>Balance at 30 June 2013</b>	<b>223 033 647</b>	<b>223 033 647</b>



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand	Note(s)	2013	Restated 2012
<b>Cash Flows From Operating Activities</b>			
<b>Receipts</b>			
Government grants and subsidies		133 735 000	104 309 997
Receipts from customers		2 716 108	2 828 337
Interest Income		3 465 211	1 893 608
		<u>139 916 319</u>	<u>109 031 942</u>
<b>Payments</b>			
Cash Paid to Suppliers and Employees		(65 495 965)	(55 654 807)
<b>Net Cash Flows From Operating Activities</b>	22	<u><b>74 420 354</b></u>	<u><b>53 377 135</b></u>
<b>Cash Flows From Investing Activities</b>			
Purchase of Property, Plant and Equipment	2	(48 390 423)	(17 553 346)
Purchase of other intangible assets	3	(42 334)	(17 474)
Proceeds from sale of assets		146 049	-
<b>Net Cash Flows From Investing Activities</b>		<u><b>(48 286 708)</b></u>	<u><b>(17 570 820)</b></u>
<b>Net (Decrease)/Increase in Cash and Cash Equivalents</b>		<b>26 133 646</b>	<b>35 806 315</b>
Cash and Cash Equivalents at the Beginning of the Year		<u>51 423 832</u>	<u>15 617 517</u>
<b>Cash and Cash Equivalents at the End of the Year</b>	7	<u><b>77 557 478</b></u>	<u><b>51 423 832</b></u>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue by source</b>						
Property rates	2 842 921	-	<b>2 842 921</b>	3 100 795	<b>257 874</b>	
Interest earned - external investment	1 000 000	-	<b>1 000 000</b>	3 465 211	<b>2 465 211</b>	
Government grants and subsidies	125 535 000	10 270 348	<b>135 805 348</b>	133 780 733	<b>(2 024 615)</b>	
Other own revenue	90 000	-	<b>90 000</b>	700 706	<b>610 706</b>	
<b>Total Revenue</b>	<b>129 467 921</b>	<b>10 270 348</b>	<b>139 738 269</b>	<b>141 047 445</b>	<b>1 309 176</b>	
<b>Expenditure by type</b>						
Employee related cost	(36 103 830)	-	<b>(36 103 830)</b>	(33 208 950)	<b>2 894 880</b>	
Repairs and maintenance, depreciation and debt impairment	(12 165 000)	(15 000)	<b>(12 180 000)</b>	(9 780 058)	<b>2 399 942</b>	
Community participation	(900 000)	(150 000)	<b>(1 050 000)</b>	(1 056 920)	<b>(6 920)</b>	
General expenses	(36 680 091)	(290 000)	<b>(36 970 091)</b>	(30 869 577)	<b>6 100 514</b>	
<b>Total expenditure</b>	<b>(85 848 921)</b>	<b>(455 000)</b>	<b>(86 303 921)</b>	<b>(74 915 505)</b>	<b>11 388 416</b>	
<b>Suplus /(Deficit)</b>	<b>43 619 000</b>	<b>9 815 348</b>	<b>53 434 348</b>	<b>66 131 940</b>	<b>12 697 592</b>	
CAPITAL	-	-	-	-	-	
Capital expenditure	42 709 000	10 725 348	<b>53 434 348</b>	51 988 207	<b>1 446 141</b>	
	-	-	-	-	-	

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	-----------------	-------------	--------------	------------------------------------	--	-----------

Figures in Rand

### Cash Flow Statement

Net cash from (used) operating	85 848 921	455 000	<b>86 303 921</b>	74 420 354	<b>11 883 567</b>	
Net cash from (used) investing	42 709 000	10 725 348	<b>53 434 348</b>	(48 286 708)	<b>5 147 640</b>	
Cash/cash equivalents at the year begin:	-	-	-	51 423 832	-	
<b>Cash and cash equivalents at the end of the year</b>	<b>128 557 921</b>	<b>11 180 348</b>	<b>139 738 269</b>	<b>77 557 478</b>	<b>62 180 791</b>	

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements

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

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.

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.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below:

GRAP - 1 Presentation of Financial Statements

GRAP - 2 Cashflow Statements

GRAP - 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP - 9 Revenue from Exchange Transactions

GRAP - 13 Leases

GRAP - 17 Property Plant and Equipment

GRAP - 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP - 26 Impairment of Cash Generating Assets

GRAP - 31 Intangible Assets

GRAP - 14 Events after the reporting date

GRAP - 24 Presentation of Budget Information in Financial Statements

GRAP - 23 Revenue from Non-exchange Transactions

GRAP - 25 Employee Benefits

GRAP - 104 Financial Instruments

#### **The following GRAP standards have been issued but are not yet effective**

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

GRAP 18 - Segment Reporting

GRAP 105 - Transfer of functions between entities under common control

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

GRAP 107 - Mergers

GRAP 20 - Related party disclosures

#### **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.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1.1 Property, Plant and Equipment (continued)

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.

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

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

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

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

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

Item	Average useful life (Years)
• Dwellings	5-30
• Electricity	3-80
• Non Residential Dwellings	10-30
• Solid Waste Disposal	5-55
• Roads	3-100
• Furniture and Office Equipment	3-10
• Transport Assets	4-20
• Computer Equipment	5-10
• Machinery and Equipment	2-20

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. The depreciation formula changes when any of these parameters (Remaining useful life, Residual value, impairment) are changed or adjusted.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1.1 Property, Plant and Equipment (continued)

Items of municipality are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

### 1.2 Intangible Assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible Assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

<b>Item</b>	<b>Useful life (Years)</b>
Computer Software	3-5

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1.3 Financial Instruments

#### 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 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

#### 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 fair value.

#### Bank Overdraft and Borrowings

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

#### Receivables from non exchange transactions

Trade receivables from non-exchange transactions 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 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Where the initial credit period granted is not in line with practices or legislation in the public sector, the effect of discounting is considered if it is material.

### 1.4 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.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1.4 Leases (continued)

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

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

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

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating Leases - Lessee

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

### 1.5 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 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.

The Municipality's employees are members of the Kwazulu - Natal Joint Municipal Pension Fund (a State and Multi Employer Defined Benefit Plan) and Kwazulu Natal Joint Provident Fund (a State and Multi Employer Defined Contribution Plan). Along with other Municipalities in the province of Kwazulu Natal, uMzumbe participates in a multi employer defined plan. As 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. uMzumbe therefore accounts for the plan as if it were defined contribution plan.

#### Pension, Provident, Retirement Benefits and Group Life Scheme



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1.5 Employee Benefits (continued)

The municipality provides retirement benefits for its employees in the form of both defined benefit and defined contribution plans. The municipality is no longer providing retirement benefits for the Councillors as they are now getting a total cost to company package.

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement. A defined contribution plan is a plan under which the municipality pays a fixed contribution into a separate entity. The municipality has no legal or constructive obligation to pay further contribution if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior period.

The contributions to fund obligations for the payment of retirement benefits are charged against the revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method basis. Deficits identified are recognized as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1.6 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.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

Contingent assets and contingent liabilities are not recognised but disclosed as a note in the financial statements.

### 1.7 Revenue

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.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from unconditional grants are recognised immediately upon receipt.

Revenue from tender sales is recognised when the bidders have actually bought the tender documents and cash has been received.

#### Rates

Revenue from rates is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Conditional Grants and Receipts

Conditional grants, donations and funding are recognised as revenue when:

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

If grants are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1.8 Comparative Figures

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

### 1.9 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.10 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.

### 1.11 Irregular expenditure

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

### 1.12 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP 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.

### 1.13 Presentation of currency

These annual financial statements are presented in South African Rand.

### 1.14 Offsetting

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

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 1.15 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

---

### 1.16 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### 1.17 Value Added Tax (VAT)

The municipality accounts for Value Added Tax on the cash basis with respect to the South African Revenue Service

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 1.18 Commitments

Commitments may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits.

Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

2013

Restated 2012

### 2. Property, Plant and Equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Solid Waste Disposal	234 044	(16 537)	217 507	37 794	(6 597)	31 197
Dwellings	806 776	(218 687)	588 089	431 776	(149 209)	282 567
Computer Equipment	1 583 748	(947 912)	635 836	1 416 030	(876 933)	539 097
Furniture & Office Equipment	2 547 360	(1 585 379)	961 981	2 404 264	(1 365 252)	1 039 012
Non Residential Dwellings	51 111 707	(12 288 868)	38 822 839	48 533 401	(10 657 369)	37 876 032
Transport Assets	3 351 331	(942 004)	2 409 327	3 462 679	(914 977)	2 547 702
Machinery & Equipment	5 774 997	(1 673 436)	4 101 561	3 175 427	(1 489 883)	1 685 544
Roads	84 083 644	(17 282 797)	66 800 847	69 555 742	(11 653 951)	57 901 791
Assets under construction	51 081 837	-	51 081 837	24 069 142	-	24 069 142
<b>Total</b>	<b>200 575 444</b>	<b>(34 955 620)</b>	<b>165 619 824</b>	<b>153 086 255</b>	<b>(27 114 171)</b>	<b>125 972 084</b>

# Umzumbé Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Fair value adjustments	Donated	Transfers	Depreciation	Impairment loss	Total
Solid Waste Disposal	31 197	197 750	(1 420)	-	-	-	(10 020)	-	217 507
Dwellings	282 567	375 000	-	-	-	-	(69 478)	-	588 089
Computer Equipment	539 097	339 825	(69 573)	27 180	-	-	(182 826)	(17 867)	635 836
Assets Under Construction	24 069 142	44 047 083	-	-	-	(17 034 388)	-	-	51 081 837
Furniture & Office Equipment	1 039 012	236 894	(33 424)	355	-	-	(280 367)	(489)	961 981
Non Residential Dwellings	37 876 032	-	-	-	-	2 578 306	(1 570 320)	(61 179)	38 822 839
Transport Assets	2 547 702	556 578	(303 520)	-	-	-	(391 433)	-	2 409 327
Machinery Equipment	1 685 544	2 556 442	(162)	2 459	41 545	-	(184 267)	-	4 101 561
Roads	57 901 791	71 820	-	-	-	14 456 082	(5 628 846)	-	66 800 847
	<b>125 972 084</b>	<b>48 381 392</b>	<b>(408 099)</b>	<b>29 994</b>	<b>41 545</b>	<b>-</b>	<b>(8 317 557)</b>	<b>(79 535)</b>	<b>165 619 824</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

### 2. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Fair value adjustments	Disposal Accumulated Depreciation	Depreciation	Impairment loss	Total
Solid Waste Disposal	32 902	-	-	-	-	-	(1 705)	-	31 197
Dwellings	325 833	-	-	-	-	-	(43 266)	-	282 567
Computer Equipment	631 880	168 999	(42 948)	-	747	-	(196 803)	(22 778)	539 097
Assets Under construction	8 643 342	19 641 048	-	(4 215 248)	-	-	-	-	24 069 142
Furniture & Office Equipment	1 085 504	243 176	(19 352)	-	-	-	(266 232)	(4 084)	1 039 012
Non Residential Dwellings	39 473 786	-	-	82 488	-	-	(1 663 000)	(17 242)	37 876 032
Transport Assets	1 970 940	877 237	(6 416)	-	-	1 468	(295 527)	-	2 547 702
Machinery Equipment	1 906 989	-	(6 397)	-	-	4 600	(217 819)	(1 829)	1 685 544
Roads	58 860 242	96 161	-	4 132 760	-	-	(5 178 442)	(8 930)	57 901 791
	<b>112 931 418</b>	<b>21 026 621</b>	<b>(75 113)</b>	<b>-</b>	<b>747</b>	<b>6 068</b>	<b>(7 862 794)</b>	<b>(54 863)</b>	<b>125 972 084</b>

#### Impairment of assets

Impairment of the assets above are as a result of a conditional assessment performed during the physical verification of assets exercise.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand 2013 Restated 2012

### 3. Intangible Assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	242 550	(141 084)	101 466	204 033	(109 289)	94 744

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Net Disposal	Amortisation	Total
Computer software, other	94 744	42 334	(3 817)	(31 795)	101 466

#### Reconciliation of intangible assets - 2012

	Opening balance	Additions	Net Disposal	Amortisation	Total
Computer software, other	134 817	17 474	(16 437)	(41 110)	94 744



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>4. Receivables from exchange transactions</b>		
Sundry debtors	71 366	231 580
Interest	20 838	13 029
Rei Management	2 379 003	2 379 003
Rei Management (Provision for Bad debts)	(2 379 003)	(2 379 003)
	<b>92 204</b>	<b>244 609</b>
<b>5. VAT receivable</b>		
Value Added Tax (VAT)	1 726 951	120 618
The municipality is predominantly funded by Government Grants which are zero rated. Therefore VAT input has been claimed which has not been received as yet.		
<b>6. Trade and other receivables from non exchange transactions</b>		
<b>Gross balances</b>		
Rates	2 191 607	1 264 429
<b>Less: Allowance for impairment</b>		
Rates	(944 265)	(615 614)
<b>Net balance</b>		
Rates	1 247 342	648 815
<b>Rates</b>		
121 - 365 days	1 247 343	648 815
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(615 614)	(282 417)
Contributions to provision	(277 655)	(254 718)
Fair valuing of debtors	(50 996)	(78 479)
	<b>(944 265)</b>	<b>(615 614)</b>

Debtors have been fair valued as the initial credit period was not consistent with the terms used in the public sector.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand 2013 Restated 2012

### 7. Cash and Cash Equivalents

Cash and cash equivalents consist of:

Cash on hand		128	1 264
Bank balances		67 991 284	41 853 142
Short-term deposits		9 566 066	9 569 426
		<b>77 557 478</b>	<b>51 423 832</b>

The short-term deposits refer to investments held in First National Bank Ltd in Port Shepstone.

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
ABSA BANK LTD - Port Shepstone - 40-7276-2850	67 513 375	41 200 689	67 359 361	41 138 958
ABSA Housing Account - Port Shepstone - 40-7278-0715	512 878	598 710	512 877	598 710
ABSA MIG Account - Port Shepstone 40 - 7277-6506	119 046	115 474	119 046	115 474
FNB - Money market account	3 882 380	3 882 380	3 882 380	3 885 740
FNB 32 day fixed deposit account	5 683 686	5 683 686	5 683 686	5 683 686
<b>Total</b>	<b>77 711 365</b>	<b>51 480 939</b>	<b>77 557 350</b>	<b>51 422 568</b>

### 8. Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Project Consolidate		99 885	99 885
Municipal infrastructure grant		-	10 270 348
GIS grant		7 985	36 340
Low cost housing grant		512 913	598 746
Internal Auditor		-	141 782
KZN Pounds Act		-	1 000 000
Ntelezi Msane		1 000 000	1 000 000
Disaster Management Grant		7 428 965	-
KZN Sports		114 050	-
National Electrification		2 959 727	-
		<b>12 123 525</b>	<b>13 147 101</b>

#### Movement during the year

Balance at the beginning of the year		13 147 101	1 445 624
Adjustment to opening balance		-	(12 573)
Additions during the year		47 580 156	28 111 997
Income recognition during the year		(48 603 732)	(16 397 947)
		<b>12 123 525</b>	<b>13 147 101</b>

See Note13 for reconciliation of grants from National/Provincial Government.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand 2013 Restated 2012

### 9. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Leave pay	1 894 556	901 510	(260 450)	2 535 616

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Leave pay	1 306 192	816 172	(227 808)	1 894 556

### 10. Operating lease asset (liability)

Current assets			-	-
Current liabilities			(1 565)	-
			<b>(1 565)</b>	<b>-</b>

Operating lease payments are recognised as an expense on a straight line basis over the lease term.

#### Minimum Lease Payments due

-within one year	69 007	-
-in second to fifth year inclusive	126 513	-
	<b>195 520</b>	<b>-</b>

### 11. Trade and Other Payables

Trade payables	2 916 678	1 482 003
Other payables	110 325	365 686
Rental Deposits	20 000	20 000
Retention	5 603 909	3 452 710
	<b>8 650 912</b>	<b>5 320 399</b>

### 12. Property rates

#### Rates received

Property Rates billed	3 100 795	2 359 115
-----------------------	-----------	-----------

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>13. Government grants and subsidies</b>		
Equitable share	86 177 000	76 198 000
MIG	40 178 348	13 661 004
MSIG	800 000	948 002
Low Cost Housing Grant	107 990	145 725
Financial Management Grant	1 500 000	1 500 000
Internal Audit	141 782	143 218
Disaster Management Grant	771 035	-
Intergrated National Electrification Programme	4 040 273	-
GIS Grant	28 355	-
KZN Sports Grant	35 950	-
	<b>133 780 733</b>	<b>92 595 949</b>
<b>Project Consolidate</b>		
Balance unspent at beginning of year	99 885	74 951
	-	24 934
	<b>99 885</b>	<b>99 885</b>
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	-	158 002
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(948 002)
	-	-
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	10 270 348	(723 648)
Current-year receipts	29 908 000	24 655 000
Conditions met - transferred to revenue	(40 178 348)	(13 661 004)
	-	<b>10 270 348</b>
<b>GIS Grant</b>		
Balance unspent at beginning of year	36 340	73 846
Opening balance correction	-	(37 506)
Conditions met - transferred to revenue	(28 355)	-
	<b>7 985</b>	<b>36 340</b>
<b>Low Cost Housing Grant</b>		
Balance unspent at beginning of year	598 746	577 473
Current-year receipts	-	166 997
Interest received	22 157	-
Conditions met - transferred to revenue	(107 990)	(145 724)
	<b>512 913</b>	<b>598 746</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>13. Government grants and subsidies (continued)</b>		
<b>Internal Auditor Grant</b>		
Balance unspent at beginning of year	141 782	285 000
Conditions met - transferred to revenue	(141 782)	(143 218)
	<b>-</b>	<b>141 782</b>
<b>KZN Pounds Act Grant</b>		
Balance unspent at beginning of year	1 000 000	1 000 000
Transferred back to COGTA	(1 000 000)	-
	<b>-</b>	<b>1 000 000</b>
<b>Ntelezi Msane Grant</b>		
Balance unspent at beginning of year	1 000 000	-
Current-year receipts	-	1 000 000
	<b>1 000 000</b>	<b>1 000 000</b>
<b>Financial Management Grant</b>		
Current-year receipts	1 500 000	1 500 000
Conditions met - transferred to revenue	(1 500 000)	(1 500 000)
	<b>-</b>	<b>-</b>
<b>Disaster Management Grant</b>		
Current-year receipts	8 200 000	-
Conditions met - transferred to revenue	(771 035)	-
	<b>7 428 965</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 8)		
<b>KZN Sports</b>		
Current-year receipts	150 000	-
Conditions met - transferred to revenue	(35 950)	-
	<b>114 050</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 8).		
<b>National Electrification Grant</b>		
Current-year receipts	7 000 000	-
Conditions met - transferred to revenue	(4 040 273)	-
	<b>2 959 727</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 8).		
<b>14. Investment revenue</b>		
<b>Interest revenue</b>		
Interest Received on Investments	3 465 211	1 893 608

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>15. Other income</b>		
Rental Income	38 772	108 772
Tender Income	106 842	62 500
Miscellaneous income	555 092	729 711
	<b>700 706</b>	<b>900 983</b>
<b>16. General expenses</b>		
Advertising	474 811	357 480
Auditors remuneration	847 218	701 528
Bank charges	92 394	85 276
Consulting and professional fees	1 844 207	1 444 076
Consumables	146 255	109 329
Functions and refreshments	193 781	154 004
Insurance	324 821	307 954
Bursaries	445 321	459 323
Conferences and seminars	118 840	182 523
IT expenses	38 791	-
Lease rentals on operating lease	177 842	249 173
Marketing	245 018	96 886
Magazines, books and periodicals	-	1 163
Motor vehicle expenses	828 843	701 435
Printing and stationery	443 240	295 574
Security (Guarding of municipal property)	303 067	236 630
Telephone and fax	1 357 948	1 044 964
Training	607 982	479 671
Subsistence and Travel	830 380	1 004 374
Electricity	37 114	54 390
Free basic services (Electricity)	6 004 691	2 895 911
Uniforms	63 283	25 439
Tourism development	1 420 631	435 928
Project Expenditure	8 760 546	7 422 598
Other expenses	5 262 553	7 623 690
	<b>30 869 577</b>	<b>26 369 319</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>17. Employee related costs</b>		
Basic Salary	14 104 693	12 059 274
Bonus	1 150 068	1 403 243
Medical aid - company contributions	619 285	606 993
Unemployment Insurance Fund	102 619	82 486
Skills Development Levy	189 304	225 219
Leave pay provision charge	901 510	357 601
Pension Contribution	1 451 997	1 311 750
Travel, motor car, accommodation, subsistence and other allowances	3 250 113	2 576 058
Overtime payments	324 271	144 771
Acting allowances	66 918	40 053
Other Salary costs	220 407	142 351
	<b>22 381 185</b>	<b>18 949 799</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	678 339	242 965
Car Allowance, Entertainment and Telephone Allowance	204 969	80 772
Acting Allowance	-	22 053
Other	25 375	31 232
	<b>908 683</b>	<b>377 022</b>
<b>Remuneration of Chief Financial Officer</b>		
Annual Remuneration	554 333	450 853
Car, Entertainment and Telephone Allowances	176 639	127 000
Performance Bonuses	50 960	96 525
Other	11 085	8 527
	<b>793 017</b>	<b>682 905</b>
<b>Remuneration Corporate Services Director</b>		
Annual Remuneration	517 036	318 268
Car, Entertainment and telephone Allowances	166 655	98 453
Leave Payout	-	35 560
Other	8 486	4 326
	<b>692 177</b>	<b>456 607</b>
<b>Remuneration of Technical Services Director</b>		
Annual Remuneration	554 333	450 853
Car, Entertainment and Telephone Allowances	173 667	127 000
Other	6 957	5 065
	<b>734 957</b>	<b>582 918</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>17. Employee related costs (continued)</b>		
<b>Remuneration of Social &amp; Economic Development Director</b>		
Annual Remuneration	515 885	363 627
Car, Entertainment and Telephone Allowances	196 026	192 000
Performance Bonuses	34 044	27 781
Other	8 590	17 200
	<b>754 545</b>	<b>600 608</b>
<b>18. Remuneration of councillors</b>		
Mayor	612 782	565 098
Deputy Mayor	590 493	528 550
Speaker	569 233	523 816
Councillors	9 055 257	7 462 082
	<b>10 827 765</b>	<b>9 079 546</b>
<b>19. Debt impairment</b>		
Contributions to debt impairment provision	277 655	254 718
<b>20. Depreciation and amortisation</b>		
Property, Plant and Equipment	8 397 092	7 917 657
Intangible assets	31 795	41 110
	<b>8 428 887</b>	<b>7 958 767</b>
<b>21. Auditors' remuneration</b>		
Fees	847 218	701 528
<b>22. Cash generated from operations</b>		
Surplus	66 131 940	32 429 085
<b>Adjustments for:</b>		
Depreciation and amortisation	8 428 887	7 958 767
Loss on sale of assets	265 867	85 481
Debt impairment	277 655	254 718
Movement in operating lease accrual	-	179 897
Movements in provisions	641 060	588 364
Other non-cash items	(60 945)	(21 311)
Prior year adjustments	(1 240 937)	1 954 214
<b>Changes in working capital:</b>		
Receivables from exchange transactions	152 405	59 868
Trade and other receivables from non exchange transactions	(876 182)	(454 234)
Trade and Other Payables	3 330 513	(3 408 605)
VAT	(1 606 333)	2 049 414
Unspent Conditional Grants and Receipts	(1 023 576)	11 701 477
	<b>74 420 354</b>	<b>53 377 135</b>



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand 2013 Restated 2012

### 23. Commitments

#### Authorised capital expenditure

##### Approved and contracted for:

• Infrastructure	23 316 092	11 405 866
------------------	------------	------------

##### Approved but not yet contracted for:

• Infrastructure	108 818 145	35 518 388
------------------	-------------	------------

This committed expenditure relates to Infrastructure and will be financed by Government grants.

### 24. Unauthorised expenditure

Opening balance	2 379 003	2 379 003
Less: Amounts condoned	-	-
	<b>2 379 003</b>	<b>2 379 003</b>

### 25. Fruitless and wasteful expenditure

Opening balance	14 779	30 253
Current year expenditure	40 835	14 779
Less: Amounts condoned	(39 750)	(30 253)
	<b>15 864</b>	<b>14 779</b>

#### Incident

The municipality also incurred penalties and interest on PAYE, SDL & UIF during December 2012 amounting to R 24 970.57. The municipality had experienced electricity problems which had delayed the process. The expenditure was tabled to council for condonement.

#### Incident

The municipality incurred fruitless and wasteful expenditure of R15864.69 due to interest and penalties arising from late payments. The expenditure will tabled to council for condonement.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>26. Irregular expenditure</b>		
Opening balance	7 387 669	1 225 369
Add: Irregular Expenditure - current year	11 567 039	7 387 669
Less: Amounts condoned	(11 713 551)	(1 225 369)
	<b>7 241 157</b>	<b>7 387 669</b>

### Details of irregular expenditure – current year (2013)

Incident	Action	
		-
The municipality did not apply the preference point system in the procurement of goods and services above R30 000. As a result the municipality incurred irregular expenditure amounting to R4 264 034	The expenditure was reported to the Council.	4 264 034
During the year, the accounting officer ratified minor breaches amounting to R 61 847.93	The expenditure was reported to the Council.	61 848
The municipality could not obtain a tax clearance certificate from a supplier. The payment made in this respect amounts to R48 336.	The expenditure will be tabled to council for condonment.	48 336
The municipality incurred irregular expenditure as a result of internal audit assignments being separated and thereafter outsourced. The payment made in this respect amounts to R 207 858.40	The expenditure will be tabled to council for condonment.	207 858
The municipality incurred irregular expenditure as a result of incomplete procurement processes being followed during the allocation of projects to consulting engineers. The payment made in this respect amounts to R6 984 963.00 for the current year.	The expenditure will be tabled to council for condonment.	6 984 963
		<b>11 567 039</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>27. Prior year adjustments</b>		
<b>Adjustment for prior year errors</b>		
Correction of operating lease asset : These are corrections on wrong lease calculations in the prior years. All of the leases ended in the current year.	-	179 897
Correction on of uspent portion on Project consolidate grant and GIS Grant - These are prior year grant misallocations	-	(12 573)
Reversal of prior year takeon balances. These are duplicated accrual when pastel evolution was implemented and accrued expenses that were already paid.	-	(2 058 025)
Correction of RTS reversed in the wrong year. This was a return to supplier which was processed in the wrong financial year.	-	(66 316)
Correction of prior year billing. Restatement of billing errors in prior year.	-	6 375
Correction of credit balance. These are prior year errors on creditors which where corrected in the current year.	-	(3 572)
Correction of prior year payroll control accounts	-	314 773
Creditors with long outstanding debit balances	-	46 505
Correction of prior year VAT	1 240 939	5 034 250
	<b>1 240 939</b>	<b>3 441 314</b>

A debtor of R4 024 was not previously billed in the prior financial year. The prior financial statements have been restated to correct the error.

An amount of R40 235 relating to the purchase of an item of Property , Plant and Equipment was expensed in the prior year. The financial statements have been restated to correct the error.

Bank charges amonting R2 975 where not accounted for in the prior year. The financial statements have been restated to correct the error.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

### 28. Effects of correction of prior year errors on financial statements

#### Statement of Financial Position

	Note	As previously reported	Correction of errors	Reclassification	Total
Receivables from exchange transactions	4	480 903	(314 773)	78 490	244 609
VAT Receivable	5	5 154 868	(5 034 250)	-	120 618
Trade and Other Receivables from Non Exchange Transactions	6	723 270	4 024	(78 490)	648 815
Cash and Cash Equivalents	7	51 426 807	(2 975)	-	51 423 832
Property, Plant and Equipment	2	122 573 883	3 398 201	-	125 972 084
Intangible Assets	3	-	94 744	-	94 744
<b>Total Assets</b>	-	<b>180 359 731</b>	<b>(1 855 029)</b>	<b>-</b>	<b>178 504 702</b>
Trade and Other Payables	11	(1 821 184)	(3 499 215)	-	(5 320 399)
Unspent Conditional Grants and Receipts	8	(13 147 101)	-	-	(13 147 101)
Provisions	9	(1 894 556)	-	-	(1 894 556)
Accumulated Surplus	-	(163 496 890)	5 354 244	-	(158 142 646)
	-	-	-	-	-

#### Statement of financial performance

	Note	As previously reported	Correction of errors	Total
Other Income	15	900 983	-	900 983
Interest Received - Investment	14	1 893 608	-	1 893 608
Property Rates	12	2 355 091	4 024	2 359 115
Government Grants & Subsidies	13	92 595 949	-	92 595 949
<b>Total Revenue</b>	-	<b>97 745 631</b>	<b>4 024</b>	<b>97 749 655</b>
Employee Related Costs	17	(18 949 799)	-	(18 949 799)
Remuneration of Councillors	18	(9 079 546)	-	(9 079 546)
Depreciation Amortisation and Impairment	20	(7 958 767)	-	(7 958 767)
Debt Impairment	19	(254 718)	-	(254 718)
Repairs and Maintenance	-	(1 123 283)	40 235	(1 083 048)
Community Participation	-	(1 539 892)	-	(1 539 892)
General Expenses	16	(26 366 344)	(2 975)	(26 369 319)
Loss on Disposal of Assets	-	(85 481)	-	(85 481)
<b>Surplus for the year</b>	-	<b>32 387 801</b>	<b>41 284</b>	<b>32 429 085</b>

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

### Cashflow Statement

	Note	As previously reported	Correction of errors	Total
Cash Receipts for Equitable Share, Conditional Grants	-	104 309 997	-	104 309 997
Cash Receipts from Customers	-	2 828 337	-	2 828 337
Interest Income	-	1 893 608	-	1 893 608
Cash Paid to Suppliers and Employees	-	(57 601 035)	1 946 228	(55 654 807)
Purchase of Property, Plant and Equipment	2	(17 490 350)	(62 996)	(17 553 346)
Purchase of intangible assets	3	-	(17 474)	(17 474)
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>33 940 557</b>	<b>1 865 758</b>	<b>35 806 315</b>

### 29. Contingent liability

#### Incidents.

The municipality is currently involved in a legal dispute with Only If Management CC regarding waste collection services. The municipality believes that it is in a favourable position of winning the case. Should the municipality be held liable, the estimated cost regarding this matter will be R 526 315.26.

The municipality has not completed any employee job evaluations as prescribed in terms of the Salary and wage collective agreement between SALGA, IMATU and SAMWU - 27 July 2012. As a result the municipality is unable to measure, with sufficient reliability, the amount of such obligation for both the 30 June 2012 and 30 June 2013 year-ends.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

---

Figures in Rand	2013	Restated 2012
-----------------	------	---------------

---

### 30. 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.

#### Interest rate risk

The municipality has interest-bearing assets of R9 566 066 (2012 - R9 572 401). However, 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 rates debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

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

Financial instrument		
Trade and other receivables from non exchange transactions (Rates)	1 376 817	723 270
Absa bank	67 991 284	41 914 873

### 31. Going concern

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.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	Restated 2012
<b>32. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contribution to Local Government Associations</b>		
Current year subscription	-	243 975
Amount paid	-	(243 975)
	-	-
<b>Audit fees</b>		
Current year fee	887 607	701 528
Amount paid - current year	(887 607)	(701 528)
	-	-
<b>PAYE and UIF</b>		
Current year deductions	5 778 902	4 203 304
Amount paid	(5 778 902)	(4 203 304)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year	4 458 639	3 206 547
Amount paid	(4 458 639)	(3 206 547)
	-	-

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

2013

Restated 2012

### 33. Multi employer retirement benefit

Umzumbe Local Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All full-time employees belong to the KwaZulu Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. Councillors have the option to belong to the Pension Fund for Municipal Councillors.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation. For both the Superannuation and Retirement Funds valuations making use of the Discontinuance Method Approach have been included as well.

#### DEFINED BENEFIT SCHEMES

##### Retirement Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els and Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R 251,2 (31 March 2011: shortfall of R 382,3) million, with a funding level of 90,6% (31 March 2011: 84,1%). The contribution rate, including the surcharges below, paid by the members (8,65%) and municipalities (29,00%) should be sufficient to eradicate the shortfall in the fund by 31 March 2015. However, the basic contribution payable is 4,72% less than the required contribution rate.

The actuarial shortfall is taken into account by determining surcharges, to be met by increased contributions. These surcharges amount to 17% of pensionable emoluments, of which 1,65% is payable by members and 15,85% is payable by the local authority. This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 17,5% and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 34,22% with effect from 1 July 2012 for a period of 8 years.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund.

##### Superannuation Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els and Associates.



# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand 2013 Restated 2012

The interim actuarial valuation performed as at 31 March 2012 revealed that the fund had a shortfall of R 270,0 (31 March 2011: shortfall of R 549,5) million, with a funding level of 96,0% (31 March 2011: 90,9%). The contribution rate paid by the members (9,25%) and municipalities (18,00%) is 3,63% (31 March 2013: 3,63%) less than the required contribution rate for future service and will be reviewed at the next interim valuation. The deficit in respect of active members is being met by a surcharge of 9,5% (31 March 2013 7,0%) of pensionable salaries. It was expected that the deficit will be fully funded by 2016.

This surcharge is payable until 31 March 2015. It is necessary that the basic employer contribution be increased by 4,72% to 18,37% and the surcharge be increased to 17,5% and extended by a further 3 years to 31 March 2018. This position will be monitored on an annual basis. Subsequently, notice has been served that the surcharge will be increased to 31,13% with effect from 1 July 2012 for a period of 8 years.

The fund has effectively been closed to new members, and it is therefore assumed for the valuation, that no new members will join the fund. However, at present, members of the three Natal Joint Funds are permitted to transfer between the funds and this flow of members may affect the rate of contribution required to be paid to the Fund. It is intended that the Fund will merge with the Retirement Fund in the near future.

### DEFINED CONTRIBUTION SCHEMES

#### Municipal Councillors Pension Fund:

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2011.

The interim valuation performed as at 30 June 2011 revealed that the assets of the fund amounted to R 1 483,786 381 (30 June 2010: R 1 123,672 020) million. The contribution rate paid by the members (13,75%) and the municipalities (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

As reported by the Actuaries, the Fund was in a sound financial condition as at 30 June 2011.

#### Provident Fund:

The scheme is subject to a tri-annual actuarial valuation. The last interim actuarial valuation was performed as at 31 March 2012 by Arthur Els and Associates.

The interim actuarial valuation performed as at 31 March 2012 revealed that the market value of the fund was R 1 288,3 (31 March 2011: R 1 056,2) million. The contribution rate payable (either 5,00%, 7,00% or 9,25% by the member and 6,00%, 9,90% or 14,25% plus an additional 3,75% by the employer), is sufficient to cover the cost of benefits and expenses and the fund was certified to be in sound financial condition as at 31 March 2012.

None of the above mentioned plans are State Plans.

### 34. Related Party Transactions

#### Section 45 and 44 of SCM Regulations

##### Purchases from a company owned by a councillor (MA Sikhosana)

Zophaka Catering and Trading Enterprise	-	5 000
---	---	-------

##### Purchases from related parties

Lacosta sound and stage	2 800	-
Vuba Imagineers	389 418	-

Lacosta sound and stage - The company is owned by SA Jali who is an employee of the municipality.

Vuba Imagineers - The company is owned by the spouse of the municipal manager.

# Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

---

Figures in Rand

2013

Restated 2012

---

### 35. Section 36 of SCM regulations

During the year, the accounting officer approved an amount of R 504 525 relating to accommodation for ward councillors. As it was impractical to follow the tender processes, the municipality applied the three quotation system.