



**Annual Financial Statements
for the year ended 30 June 2014**

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

Nature of business and principal activities

Providing services to the community of Umzumbe

Executive Committee

Councillor Gumede ST (Mayor)
Councillor Dlamini NY (Deputy Mayor)
Councillor Ngcobo (Speaker)
Councillor Duma YL (Exco Member)
Councillor Mntambo JP (Exco Member)
Councillor Ndlovu M (Exco Member)
Councillor Shoji MP (Exco Member)
Councillor Zungu MPL (Exco Member)

Councillors

Councillor Caluza B
Councillor Caluza N
Councillor Cele SR
Councillor Doncabe KS
Councillor Gwabe CS
Councillor Hlongwa M
Councillor Hlongwa PA
Councillor Khuzwayo M
Councillor Khuzwayo T
Councillor Lushaba S
Councillor Luthuli MZ
Councillor Maluleka SP
Councillor Mbambo OJ
Councillor Mbayi TM
Councillor Mbhele BI
Councillor Mbhele KBM
Councillor Mbuto N
Councillor Mdletshe MS
Councillor Mhlangu NE
Councillor Mkhize MJ
Councillor Mqadi MR
Councillor Msomi DK
Councillor Ngcobo LMR
Councillor Peters TL
Councillor Radebe SP
Councillor Shezi CL
Councillor Shoji NB
Councillor Shoji Z
Councillor Sikhosana B
Councillor Zindela AE

Accounting Officer

Ms NC Mgijima

Registered office

Sipofu Road
Mathulini Tribal Authority
4220

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

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

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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

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Abbreviations

VAT	Value Added Tax
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

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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 2015 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 28 August 2014 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 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	Restated 2013
Current Assets			
Receivables from exchange transactions	4	77 663	92 204
VAT Receivable	5	4 725 026	1 726 951
Trade and other receivables from non exchange transactions	6	3 176 419	1 247 342
Cash and Cash Equivalents	7	91 786 002	77 557 478
		99 765 110	80 623 975
Non-Current Assets			
Property, plant and equipment	2	194 866 712	165 773 658
Intangible Assets	3	183 296	101 424
		195 050 008	165 875 082
Total Assets		294 815 118	246 499 057
Liabilities			
Current Liabilities			
Operating lease liability	10	9 464	1 565
Trade and Other Payables	11	11 436 688	8 650 912
Unspent Conditional Grants and Receipts	8	7 701 559	12 123 525
Provisions	9	2 730 665	2 580 033
		21 878 376	23 356 035
Non-Current Liabilities			
Provisions	9	509 000	424 526
Total Liabilities		22 387 375	23 780 560
Net Assets		272 427 743	222 718 497
Net Assets			
Accumulated Surplus		272 427 743	222 718 497

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	Restated 2013
Revenue			
Other income	15	445 113	700 706
Interest received - investment	14	4 503 583	3 465 211
Property rates	12	4 977 152	3 100 795
Government grants & subsidies	13	138 242 006	133 780 733
Total revenue		148 167 854	141 047 445
Expenditure			
Employee Related Costs	17	26 538 744	22 456 185
Remuneration of Councillors	18	11 386 533	10 827 765
Depreciation Amortisation and Impairment	20	11 197 883	8 441 841
Finance costs	9	37 000	31 000
Debt Impairment	19	397 010	277 655
Repairs and Maintenance		7 741 171	1 515 253
Community Participation		1 132 308	1 056 920
General Expenses	16	38 679 568	30 173 915
Total expenditure		97 110 217	74 780 534
Operating surplus		51 057 637	66 266 911
Loss on Disposal of Assets		(1 348 391)	(265 867)
Surplus for the year		49 709 246	66 001 044

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
Opening balance as previously reported	158 142 646	158 142 646
Adjustments		
Prior year adjustments	(184 254)	(184 254)
Reatated Balance at 01 July 2012	157 958 392	157 958 392
Changes in net assets		
Surplus for the year	66 001 044	66 001 044
Prior Adjustment	(1 240 939)	(1 240 939)
Total changes	64 760 105	64 760 105
Restated Balance at 30 June 2013	222 718 497	222 718 497
Changes in net assets		
Surplus for the year	49 709 246	49 709 246
Total changes	49 709 246	49 709 246
Balance at 30 June 2014	272 427 743	272 427 743
See Notes 27 and 28		

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	Restated 2013
Cash flows from operating activities			
Receipts			
Government grants and subsidies		133 820 040	133 735 000
Receipts from Customers		2 652 128	2 716 108
Interest Income		4 503 583	3 465 211
		<u>140 975 751</u>	<u>139 916 319</u>
Payments			
Finance costs		(37 000)	(31 000)
Cash Paid to Suppliers and Employees		(85 034 029)	(65 464 965)
		<u>(85 071 029)</u>	<u>(65 495 965)</u>
Net Cash Flows From Operating Activities	22	<u>55 904 722</u>	<u>74 420 354</u>
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	2	(42 464 760)	(48 390 423)
Proceeds from Sale of Property, Plant and Equipment	2	915 003	146 049
Purchase of other intangible assets	3	(126 441)	(42 334)
Net Cash Flows From Investing Activities		<u>(41 676 198)</u>	<u>(48 286 708)</u>
Net (Decrease)/Increase in Cash and Cash Equivalents		14 228 524	26 133 646
Cash and Cash Equivalents at the Beginning of the Year		77 557 478	51 423 832
Cash and Cash Equivalents at the End of the Year	7	<u>91 786 002</u>	<u>77 557 478</u>

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Other income	130 000	16 463 927	16 593 927	445 113	(16 148 814)
Interest Earned - External Investments	1 600 000	1 500 000	3 100 000	4 503 583	1 403 583
Total revenue from exchange transactions	1 730 000	17 963 927	19 693 927	4 948 696	(14 745 231)

Revenue from non-exchange transactions

Taxation revenue

Property rates	4 157 557	-	4 157 557	4 977 152	819 595
Government grants & subsidies	137 274 000	(4 000 000)	133 274 000	138 242 006	4 968 006
Total revenue from non-exchange transactions	141 431 557	(4 000 000)	137 431 557	143 219 158	5 787 601

Total revenue

143 161 557	13 963 927	157 125 484	148 167 854	(8 957 630)
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Expenditure

Employee Related Costs	(41 063 163)	-	(41 063 163)	(37 925 277)	3 137 886
Repairs and maintenance	(7 645 000)	(700 000)	(8 345 000)	(7 741 171)	603 829
Community Participation	(1 650 000)	(220 000)	(1 870 000)	(1 132 308)	737 692
General and Other Expenses	(48 534 394)	(8 843 927)	(57 378 321)	(51 659 852)	5 718 469

Total expenditure	(98 892 557)	(9 763 927)	(108 656 484)	(98 458 608)	10 197 876
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Surplus / (Deficit)	44 269 000	4 200 000	48 469 000	49 709 246	1 240 246
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Capital

Capital Expenditure	(44 269 000)	(4 200 000)	(48 469 000)	(42 636 202)	5 832 798
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Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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

Cash flows from operating activities

Net cash (from) from operating activities	44 269 000	4 200 000	48 469 000	55 904 722	7 435 722	
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Cash flows from investing activities

Net cash from (used) investing activities	(44 269 000)	(4 200 000)	(48 469 000)	(41 676 198)	6 792 802	
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Net increase/(decrease) in cash and cash equivalents	-	-	-	14 228 524	14 228 524	
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Cash and cash equivalents at the beginning of the year	-	-	-	77 557 478	77 557 478	
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Cash and cash equivalents at the end of the year	-	-	-	91 786 002	91 786 002	
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Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, 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

GRAP 32 Service concession agreements : Grantor

GRAP 108 Statutory Receivables

1.1 Presentation currency

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

1.2 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.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.2 Property, plant and equipment (continued)

Where an asset is acquired through a non-exchange transaction or at a nominal cost, its cost is its fair value as at date of acquisition. Where the actual acquisition date or period in respect of assets can not be determined with accuracy, the assets are recognised at fair value on the date that they were identified.

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.

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

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

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.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.2 Property, plant and equipment (continued)

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.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising 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.

1.3 Intangible Assets

An intangible asset is identifiable if it either:

- is separable, i.e. 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, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

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.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.3 Intangible Assets (continued)

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software	3-5 years

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.4 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.

1.5 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 2014

Accounting Policies

1.5 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.

1.6 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 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.

Long Service Awards

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

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.6 Employee Benefits (continued)

Pension, Provident, Retirement Benefits and Group Life Scheme

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.

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.

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.

1.8 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:

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.8 Revenue (continued)

- 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.

1.9 Comparative Figures

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

1.10 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.

1.11 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.

1.12 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.

1.13 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.

Umzumbe Local Municipality

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Accounting Policies

1.14 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.

1.15 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.

1.16 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.

1.17 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

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Notes to the Annual Financial Statements

Figures in Rand 2014 2013

2. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Machinery Equipment	9 309 064	(1 133 919)	8 175 145	5 774 997	(1 541 973)	4 233 024
Furniture and Office Equipment	3 004 326	(1 790 397)	1 213 929	2 547 360	(1 586 460)	960 900
Transport Assets	3 699 829	(1 087 845)	2 611 984	3 351 331	(929 181)	2 422 150
Computer Equipment	1 933 120	(1 089 430)	843 690	1 583 748	(948 100)	635 648
Solid Waste Disposal	234 044	(31 393)	202 651	234 044	(16 545)	217 499
Dwellings	942 676	(308 378)	634 298	806 776	(218 789)	587 987
Non Residential Dwellings	58 677 633	(14 408 474)	44 269 159	51 111 707	(12 278 300)	38 833 407
Roads	118 145 762	(24 356 983)	93 788 779	84 083 644	(17 282 438)	66 801 206
Assets under construction	43 127 077	-	43 127 077	51 081 837	-	51 081 837
Total	239 073 531	(44 206 819)	194 866 712	200 575 444	(34 801 786)	165 773 658

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Fair value adjustments	Donated	Transfers	Depreciation	Impairment loss	Total
Machinery Equipment	4 233 024	5 528 129	(1 123 907)	3 406	5 994	-	(417 157)	(54 344)	8 175 145
Furniture and Office Equipment	960 900	521 572	(32 562)	15 780	18 598	-	(270 359)	-	1 213 929
Transport Assets	2 422 150	963 950	(352 933)	-	-	-	(377 106)	(44 077)	2 611 984
Computer Equipment	635 648	461 857	(38 147)	1 223	-	-	(216 891)	-	843 690
Solid Waste Disposal	217 499	-	-	-	-	-	(14 848)	-	202 651
Dwellings	587 987	135 900	-	-	-	-	(89 589)	-	634 298
Assets Under Construction	51 081 837	34 853 352	-	-	-	(42 808 112)	-	-	43 127 077
Non Residential Dwellings	38 833 407	-	(22 698)	-	-	7 667 826	(2 087 817)	(121 559)	44 269 159
Roads	66 801 206	-	(690 080)	-	-	35 140 286	(7 462 634)	-	93 788 779
	165 773 658	42 464 760	(2 260 327)	20 409	24 592	-	(10 936 401)	(219 980)	194 866 712

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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	Transfers	Fair value adjustments	Donations	Depreciation	Impairment loss	Total
Machinery Equipment	1 835 847	2 556 442	(162)	-	2 459	41 545	(203 107)	-	4 233 024
Furniture and Office Equipment	1 038 309	236 894	(33 424)	-	355	-	(280 745)	(489)	960 900
Transport Assets	2 563 839	556 578	(303 520)	-	-	-	(394 747)	-	2 422 150
Computer Equipment	538 888	339 825	(69 573)	-	27 180	-	(182 805)	(17 867)	635 648
Solid Waste Disposal	31 196	197 750	(1 420)	-	-	-	(10 027)	-	217 499
Dwellings	282 521	375 000	-	-	-	-	(69 534)	-	587 987
Assets Under construction	24 069 142	44 047 083	-	(17 034 388)	-	-	-	-	51 081 837
Non Residential Dwellings	37 888 182	-	-	2 578 306	-	-	(1 571 902)	(61 179)	38 833 407
Roads	57 890 941	71 820	-	14 456 082	-	-	(5 617 637)	-	66 801 206
	126 138 865	48 381 392	(408 099)	-	29 994	41 545	(8 330 504)	(79 535)	165 773 658

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 2014

Notes to the Annual Financial Statements

Figures in Rand 2014 2013

3. Intangible Assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	346 180	(162 884)	183 296	228 516	(127 092)	101 424

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	101 424	126 441	(3 067)	(41 502)	183 296

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Net Disposal	Amortisation	Total
Computer software	94 713	42 334	(3 817)	(31 806)	101 424

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
4. Receivables from exchange transactions		
Sundry debtors	72 652	71 366
Interest	5 011	20 838
Rei Management	2 379 003	2 379 003
Rei Management (Provision for Bad debts)	(2 379 003)	(2 379 003)
	77 663	92 204
5. VAT receivable		
Value Added Tax (VAT)	4 725 026	1 726 951
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.		
6. Trade and other receivables from non exchange transactions		
Gross balances		
Rates	4 517 694	2 191 607
Less: Allowance for impairment		
Rates	(1 341 275)	(944 265)
Net balance		
Rates	3 176 419	1 247 342
Rates		
121 - 365 days	3 175 356	1 247 342
Reconciliation of allowance for impairment		
Balance at beginning of the year	(944 265)	(615 614)
Contributions to allowance	(397 010)	(277 655)
Fair Valuing of Debtors	-	(50 996)
	(1 341 275)	(944 265)

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
7. Cash and Cash Equivalents		
Cash and cash equivalents consist of:		
Cash on hand	-	128
Bank balances	82 221 589	67 991 284
Short-term deposits	9 564 413	9 566 066
	91 786 002	77 557 478

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 2014	30 June 2013	30 June 2014	30 June 2013
ABSA BANK LTD - Port Shepstone - 40-7276-2850	82 666 837	67 513 375	81 564 462	67 359 361
ABSA Housing Account - Port Shepstone - 40-7278-0715	533 918	512 878	533 918	512 877
ABSA MIG Account - Port Shepstone 40 - 7277-6506	123 210	119 046	123 209	119 046
FNB - Money market account	3 880 727	3 882 380	3 880 727	3 882 380
FNB 32 day fixed deposit account	5 683 686	5 683 686	5 683 686	5 683 686
Total	92 888 378	77 711 365	91 786 002	77 557 350

8. Unspent Conditional Grants and Receipts

Unspent conditional grants and receipts comprises of:

Project Consolidate	99 885	99 885
GIS grant	7 985	7 985
Low cost housing grant	533 953	512 913
Ntelezi Msane	578 620	1 000 000
Municipal Infrastructure Grant	249 496	-
Disaster Management Grant	730 839	7 428 965
KZN Sports	475 585	114 050
National Electrification	5 025 196	2 959 727
	7 701 559	12 123 525

Movement during the year

Balance at the beginning of the year	12 123 525	13 147 101
Additions during the year	39 275 040	47 580 156
Income recognition during the year	(43 697 006)	(48 603 732)
	7 701 559	12 123 525

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

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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9. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service cost	Finance Cost	Total
Provision for Bonus	634 290	680 206	(634 290)	-	-	-	680 206
Long Service Awards	455 000	-	(30 474)	(13 526)	93 000	37 000	541 000
Leave Pay	1 915 269	464 813	(361 623)	-	-	-	2 018 459
	3 004 559	1 145 019	(1 026 387)	(13 526)	93 000	37 000	3 239 665

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Actuarial Loss (Gain)	Current Service Cost	Finance Cost	Total
Provision for Bonus	458 572	634 290	(458 572)	-	-	-	634 290
Long Service Awards	351 000	-	(13 943)	11 943	75 000	31 000	455 000
Leave Pay	1 435 984	739 735	(260 450)	-	-	-	1 915 269
	2 245 556	1 374 025	(732 965)	11 943	75 000	31 000	3 004 559

Non-current liabilities	509 000	424 526
Current liabilities	2 730 665	2 580 033
	3 239 665	3 004 559

Provision for Long Service Awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2014 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2014 by a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount Rate	7.96%	7.40%
CPI (Consumer Price Inflation)	6.33%	5.66%
Normal Salary Increase Rate	7.33%	6.66%
Net Effective Discount Rate	0.59%	0.69%

The effect of a 1 % increase movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	597 000	503 000
Current Service Cost	121 000	105 000
Interest Cost	51 000	41 000
	769 000	649 000

The effect of a 1 % decrease movement in the assumed rate of salary inflation is as follows:

Total Accrued Liability	491 000	413 000
Current Service Cost	95 000	83 000
Interest Cost	42 000	33 000
	628 000	529 000

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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10. Operating lease asset (liability)

Current assets	-	-
Current liabilities	(9 464)	(1 565)
	(9 464)	(1 565)

Office equipment was leased by the Municipality. 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	69 007
-in second to fifth year inclusive	57 506	126 513
	126 513	195 520

11. Trade and Other Payables

Trade payables	4 445 031	2 916 678
Other payables	73 659	110 325
Rental Deposits	20 000	20 000
Retention	6 897 998	5 603 909
	11 436 688	8 650 912

12. Property rates

Rates

Property Rates Billed	4 977 152	3 100 795
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Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
13. Government grants and subsidies		
Grants Realised		
Equitable share	94 545 000	86 177 000
Municipal Systems Improvement Grant	890 000	800 000
Low Cost Housing Grant	-	107 990
Financial Management Grant	1 650 000	1 500 000
Municipal Infrastructure Grant	-	-
Internal Audit	-	141 782
Disaster Management Grant	6 698 126	771 035
Ntelezi Msane	421 380	-
Municipal Infrastructure Grant	30 939 504	40 178 348
Intergrated National Electrification Programme	2 934 531	4 040 273
GIS Grant	-	28 355
KZN Sports Grant	163 465	35 950
	138 242 006	133 780 733
Project Consolidate		
Balance unspent at beginning of year	99 885	99 885
Municipal Systems Improvement Grant		
Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(890 000)	(800 000)
	-	-
GIS Grant		
Balance unspent at beginning of year	7 985	36 340
Conditions met - transferred to revenue	-	(28 355)
	7 985	7 985
Low Cost Housing Grant		
Balance unspent at beginning of year	512 913	598 746
Interest received	21 040	22 157
Conditions met - transferred to revenue	-	(107 990)
	533 953	512 913

Umzumbe Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
13. Government grants and subsidies (continued)		
Internal Auditor Grant		
Balance unspent at beginning of year	-	141 782
Conditions met - transferred to revenue	-	(141 782)
	-	-
KZN Pounds Act Grant		
Balance unspent at beginning of year	-	1 000 000
Transferred back to COGTA	-	(1 000 000)
	-	-
Ntelezi Msane Grant		
Balance unspent at beginning of year	1 000 000	1 000 000
Conditions met - transferred to revenue	(421 380)	-
	578 620	1 000 000
Financial Management Grant		
Current-year receipts	1 650 000	1 500 000
Conditions met - transferred to revenue	(1 650 000)	(1 500 000)
	-	-
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	10 270 348
Current-year receipts	31 189 000	29 908 000
Conditions met - transferred to revenue	(30 939 504)	(40 178 348)
	249 496	-
Conditions still to be met - remain liabilities (see note 8)		
Provide explanations of conditions still to be met and other relevant information		
Disaster Management Grant		
Balance unspent at beginning of year	7 428 965	-
Current-year receipts	-	8 200 000
Conditions met - transferred to revenue	(6 698 126)	(771 035)
	730 839	7 428 965
Conditions still to be met - remain liabilities (see note 8)		
KZN Sports		
Balance unspent at beginning of year	114 050	-
Current-year receipts	525 000	150 000
Conditions met - transferred to revenue	(163 465)	(35 950)
	475 585	114 050
Conditions still to be met - remain liabilities (see note 8).		

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
13. Government grants and subsidies (continued)		
National Electrification Grant		
Balance unspent at beginning of year	2 959 727	-
Current-year receipts	5 000 000	7 000 000
Conditions met - transferred to revenue	(2 934 531)	(4 040 273)
	5 025 196	2 959 727
Conditions still to be met - remain liabilities (see note 8).		
14. Investment revenue		
Interest revenue		
Interest Received on Investments	4 503 583	3 465 211
15. Other income		
Rental Income	-	38 772
Tender Income	188 412	106 842
Miscellaneous income	256 701	555 092
	445 113	700 706
16. General expenses		
Advertising	425 327	474 811
Auditors remuneration	1 159 504	847 218
Bank charges	137 769	92 394
Consulting and professional fees	1 571 118	1 844 207
Consumables	182 938	146 255
Functions and refreshments	271 536	193 781
Insurance	511 027	324 821
Bursaries	452 145	445 321
Conferences and seminars	440 763	118 840
IT expenses	140 758	38 791
Lease rentals on operating lease	189 543	177 842
Marketing	314 275	245 018
Motor vehicle expenses	879 934	828 843
Printing and stationery	440 685	443 240
Security (Guarding of municipal property)	799 109	303 067
Telephone and fax	1 578 105	1 357 948
Training	446 130	607 982
Subsistence and Travel	1 462 015	830 380
Electricity	463 987	37 114
Free basic services (Electricity)	6 164 072	6 004 691
Uniforms	227 072	63 283
Tourism development	2 088 848	1 420 631
Project Expenditure	11 379 153	8 760 546
Other expenses	6 953 755	4 566 891
	38 679 568	30 173 915

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
17. Employee related costs		
Basic Salary	17 019 938	14 104 693
Bonus	1 660 181	1 150 068
Medical aid - company contributions	837 454	619 285
Unemployment Insurance Fund	122 283	102 619
Skills Development Levy	228 787	189 304
Leave pay provision charge	464 813	901 510
Pension Contribution	1 775 716	1 451 997
Travel, motor car, accommodation, subsistence and other allowances	3 626 553	3 250 113
Overtime payments	501 774	324 271
Acting allowances	113 387	66 918
Other Salary costs	187 858	295 407
	26 538 744	22 456 185

Remuneration of Municipal Manager

Annual Remuneration	674 390	678 339
Car Allowance	235 021	204 969
Performance Bonus	98 485	-
Other	44 327	25 375
	1 052 223	908 683

Remuneration of Chief Financial Officer

Annual Remuneration	585 867	554 333
Car Allowance	204 171	176 639
Performance Bonuses	119 780	50 960
Leave Payout	164 270	-
Other	43 261	11 085
	1 117 349	793 017

Remuneration Corporate Services Director

Annual Remuneration	547 953	517 036
Car Allowance	190 958	166 655
Performance Bonuses	124 029	-
Acting Allowance	15 387	-
Other	35 279	8 486
	913 606	692 177

Remuneration of Technical Services Director

Annual Remuneration	585 867	554 333
Car Allowance	204 171	173 667
Performance Bonuses	111 225	-
Other	39 900	6 957
	941 163	734 957

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
17. Employee related costs (continued)		
Remuneration of Social & Economic Development Director		
Annual Remuneration	547 953	515 885
Car Allowance	190 958	196 026
Performance Bonuses	80 021	34 044
Other	46 836	8 590
	865 768	754 545
18. Remuneration of councillors		
Mayor	642 035	612 782
Deputy Mayor	605 474	590 493
Speaker	591 892	569 233
Councillors	9 547 132	9 055 257
	11 386 533	10 827 765
19. Debt impairment		
Contributions to debt impairment provision	397 010	277 655
20. Depreciation, amortisation and Impairment		
Property, plant and equipment	11 156 381	8 410 036
Intangible assets	41 502	31 805
	11 197 883	8 441 841
21. Auditors' remuneration		
Fees	1 159 504	847 218
22. Cash generated from operations		
Surplus	49 709 246	66 001 044
Adjustments for:		
Depreciation and amortisation	11 197 883	8 441 841
Loss on sale of assets	1 348 391	265 867
Debt impairment	397 010	277 655
Movement in operating lease accrual	7 899	-
Movements in provisions	235 106	641 060
Other non-cash items	(45 002)	56 997
Prior Year Adjustments	-	(1 240 937)
Changes in working capital:		
Receivables from exchange transactions	14 541	152 405
Trade and other receivables from non exchange transactions	(2 326 087)	(876 182)
Trade and Other Payables	2 785 776	3 330 513
VAT	(2 998 075)	(1 606 333)
Unspent Conditional Grants and Receipts	(4 421 966)	(1 023 576)
	55 904 722	74 420 354

Umzumbe Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
23. Commitments		
Authorised capital expenditure		
Approved and contracted for:		
• Infrastructure	14 698 136	23 316 092
Approved but not yet contracted for:		
• Infrastructure	125 278 338	108 818 145
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	-	-
	2 379 003	2 379 003
25. Fruitless and wasteful expenditure		
Opening balance	15 864	14 779
Current year expenditure	69 072	40 835
Less: Amounts condoned	(84 936)	(39 750)
	-	15 864

Incident

The municipality also incurred penalties and interest on PAYE, SDL, UIF and VAT amounting to R 51 169.64. The expenditure was tabled to council for condonement.

Incident

The municipality incurred fruitless and wasteful expenditure of R13 701.90 due to interest and penalties arising from late payments. The expenditure was tabled to council for condonement.

Incident

The municipality incurred fruitless and wasteful expenditure of R4 200.00 as a result of costs incurred in the processes with the South Africa Local Government Bargaining Council. The expenditure was tabled to council for condonement.

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26. Irregular expenditure		
Opening balance	7 241 157	7 387 669
Add: Irregular Expenditure - current year	19 408 291	11 567 039
Less: Amounts condoned	(26 649 448)	(11 713 551)
	-	7 241 157

Details of irregular expenditure – current year (2014)

Incident	Action	
		-
During the year, the accounting officer ratified minor breaches amounting to R 771 332	The expenditure was tabled to council for condonment.	771 332
The municipality incurred irregular expenditure as a result of incomplete procurement processes being followed during the allocation of projects to consulting engineers. This irregular expenditure relates to a prior year audit query which has affected the current year. The payment made in this respect amounts to R18 636 959 for the current year.	The expenditure was tabled to council for condonment.	18 636 959
		19 408 291

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27. Prior year adjustments

An adjustment of R 166 745.98 was passed on the opening accumulated depreciation to correct errors in depreciation calculations. (Refer to note 28)

Long service award provision was restated in the prior year resulting in an opening balance adjustment of R351 000. (Refer to note 28)

Vat amounting to R1 240 939 was written off in the prior year as it was not supported by any outstanding invoices. (Refer to note 28)

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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

Statement of Financial Position

	Note	As previously reported	Correction of errors	Total
Receivables from exchange transactions	4	92 204	-	92 204
VAT Receivable	5	1 726 951	-	1 726 951
Trade and Other Receivables from Non Exchange Transactions	6	1 247 342	-	1 247 342
Cash and Cash Equivalents	7	77 557 478	-	77 557 478
Property , Plant and Equipment	2	165 619 824	153 834	165 773 658
Intangible Assets	3	101 466	(42)	101 424
Total Assets	-	246 345 265	153 792	246 499 057
Operating Lease Liability	10	(1 565)	-	(1 565)
Trade and Other Payables	11	(8 650 912)	-	(8 650 912)
Unspent Conditional Grants and Receipts	8	(12 123 525)	-	(12 123 525)
Current : Provisions	9	(2 535 616)	(44 417)	(2 580 033)
Non Current Provisions	9	-	(424 526)	(424 526)
Accumulated Surplus	-	(223 033 647)	315 151	(222 718 496)
	-	-	-	-

Statement of financial performance

	Note	As previously reported	Correction of errors	Reclassification	Total
Other Income	15	700 706	-	-	700 706
Interest Received - Investment	14	3 465 211	-	-	3 465 211
Property Rates	12	3 100 795	-	-	3 100 795
Government Grants & Subsidies	13	133 780 733	-	-	133 780 733
Total Revenue	-	141 047 445	-	-	141 047 445
Employee Related Costs	17	(22 381 185)	(75 000)	-	(22 456 185)
Remuneration of Councillors	18	(10 827 765)	-	-	(10 827 765)
Depreciation Amortisation and Impairment	20	(8 428 887)	(12 954)	-	(8 441 841)
Finance Cost	-	-	(31 000)	-	(31 000)
Debt Impairment	19	(277 655)	-	-	(277 655)
Repairs and Maintenance	-	(807 649)	-	(707 604)	(1 515 253)
Community Participation	-	(1 056 920)	-	-	(1 056 920)
General Expenses	16	(30 869 577)	(11 943)	707 604	(30 173 915)

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

Loss on Disposal of Assets	-	(265 867)	-	-	(265 867)
Surplus for the year	-	66 131 940	(130 897)	-	66 001 044

Cashflow Statement

	Note	As previously reported	Correction of errors	Total
Cash Receipts for Equitable Share, Conditional Grants	-	133 735 000	-	133 735 000
Cash Receipts from Customers	-	2 716 108	-	2 716 108
Interest Income	-	3 465 211	-	3 465 211
Finance Costs	-	-	(31 000)	(31 000)
Cash Paid to Suppliers and Employees	-	(65 495 965)	-	(65 464 965)
Purchase of Property, Plant and Equipment	2	(48 390 423)	-	(48 390 423)
Purchase of intangible assets	3	(42 334)	-	(42 334)
Proceeds from Sale of Assets	-	146 049	-	146 049
Net increase in cash and cash equivalents	-	26 133 646	(31 000)	26 133 646

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 2013 and 30 June 2014 year-ends.

Umzumbe Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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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 564 412.85 (2013 - R9 566 066). 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)	3 225 148	1 376 817
Absa bank	82 221 589	67 991 284

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

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Notes to the Annual Financial Statements

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32. Additional disclosure in terms of Municipal Finance Management Act		
Contribution to Local Government Associations		
Current year subscription	751 799	-
Amount paid	(751 799)	-
	-	-
Audit fees		
Current year fee	1 159 504	887 607
Amount paid - current year	(1 159 504)	(887 607)
	-	-
PAYE and UIF		
Current year deductions	6 359 899	5 778 902
Amount paid	(6 359 899)	(5 778 902)
	-	-
Pension and Medical Aid Deductions		
Current year	4 255 604	4 458 639
Amount paid	(4 255 604)	(4 458 639)
	-	-

Umzumbe Local Municipality

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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.

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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 1056,2) 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 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.

35. Section 36 deviations

During the year the Accounting Officer approved minor breaches amounting to R771 332.00 (2013 - R504 525)