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uThukela Water (Pty) Ltd

Annual Financial Statements

Year Ended 30 June 2021

I am responsible for the preparation of these annual financial statements which are set out on pages 3 to 65, in terms of section 126 (2) of the Municipal Finance Management Act, 56 of 2003 and the Companies Act, 71 of 2008 and which I have signed on behalf of the company.

Acting Managing Director	31/08/2021 Date
Moola Acting Chief Financial Officer	31- Aug - 21 Date

UTHUKELA WATER (PTY) LTD
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

Contents

uThukela Water (Pty) Ltd

Annual Financial Statements for the year ending 30 June 2021

GENERAL INFORMATION

Province: Kwazulu-Natal

AFS rounding: SA Rand only, no cents.

Contact Information

Acting Managing Director: Luiz Lionel Cunha [Resigned, 25 August 2021]

Acting Chief Financial Officer: Farida Moola

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Chairman of the Board: Poovalingum Subramoney Naidoo [Resigned, 19 July 2021]

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Auditor General Contact: Amos Zungu

Telephone: 033 264 7400

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General Information

Legal form of business

uThukela Water (Pty) Ltd is an interim Water Service Provider operating under Provincial Council authority dated 6 June 2012, and via a water services provider agreement signed with the Shareholder municipalities of; Newcastle, Umzinyathi and Amajuba Districts, in accordance with the provisions of section 78 of the Municipal Systems Act 32/2000, for the purposes of providing Bulk water services to these municipalities.

The National Minister of Water Affairs and Sanitation via government gazette number 39491 dated 15 December 2015 determined that the Entity will be incorporated into a new single Water Board proposed for the whole of KwaZulu Natal.

The entity operates as a Bulk water services provider to its controlling Shareholders, and performs no other functions outside the scope of the draft agreement between the parties.

The entity is governed by the provisions of the Companies Act 71/2008, Municipal Finance Management Act 56/2003, Municipal Systems Act 32/2000, Water services Act 108/1997 and the Public Audit Service Act 25/2004.

Members of the Board

Mr. PS Naidoo (Chairman of the Board) [Resigned, 19 July 2021]

Mr. A Evetts (COGTA representative)

Mr. M Msiwa (Independent non-executive Director)

Mrs. A Masefield (Department of Water and Sanitation representative)

The three Municipal Managers of the Shareholder municipalities, of Newcastle Local Municipality, Umzinyathi District Municipality and Amajuba District Municipality.

Auditors: Auditor General

Bankers: Standard Bank of South Africa

Registered Office: 79 Harding Street, Newcastle

Physical Address: 79 Harding Street, Newcastle

Postal Address: P O Box 729, Newcastle 2940

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Email Address: luiz.cunha@uthukelawater.co.za

DIRECTORS REPORT

In terms of the Companies Act, 71/2008, as amended, and read with the Municipal Systems Act 32/2000, as amended, the Board of uThukela Water (Pty) Ltd, is the accounting authority and the bulk water services provider to the municipalities of Newcastle, Amajuba and Umzinyathi District, and the Directors have pleasure in presenting their report for the year ended 30 June 2021.

Nature of business

uThukela Water (Pty) Ltd, is an interim multijurisdictional water entity, originally established in 2003 to provide the whole spectrum of water and sanitation services, and then subsequently with effect from the 1 July 2013, was re-constituted to supply only potable bulk water to its parent municipalities. The activities of uThukela Water are in line with the provisions of the Water Act, Act 108/1997.

The primary activities in terms of section 29 of the Act are:

(a) To treat raw water and to distribute the treated water via its infrastructure to its Shareholder municipalities.

(b) To provide Bulk water quality assurance to its Shareholders via its laboratory analyses and measurement in terms of National Water Standards.

In terms of section 30 of the Act, uThukela Water (Pty) Ltd also engages in other services that complement bulk water services such as laboratory services, water quality monitoring and environmental management within the water reticulation systems of the Shareholders, and also acts as an implementing agent for any sphere of government for projects related to water service delivery.

The services are provided on behalf of the following parent municipalities who are also the Water Service Authorities for their respective jurisdictions:

Amajuba District Municipality
Newcastle Municipality
Umzinyathi District Municipality

Compliance with legislation

The annual financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such accounts issued by the Accounting Practices Board, with the effective standards of Generally Recognized Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statements as indicated in the accounting policies of the Board. The requirements of the following relevant statutes were also taken into account when preparing the annual financial statements:

(a) Water Services Act 108/1997,
(b) Municipal Finance Management Act 56/2003,
(c) Municipal Systems Act 32/2000,
(d) Companies Act 71/2008 and
(e) Public Audit Service Act 25/2004.

These acts require preparation of the financial information to be in compliance with the Companies Act 71/2008, as amended.

Corporate governance and risk management

The Board supports the principles of the code of Corporate Practices and Conduct as set out in the King IV report. The organizations policies, procedures and processes are continuously reviewed to align with King IV and the Board provides the required oversight and is pleased with the commitment that prevails at all spheres of the organization in as far as compliance with King IV is concerned.

The Board is responsible for monitoring the risk management process.

Share capital and Director's interests

The share capital of the Company has been issued in one hundred (100) ordinary shares, and is valued at R100.

The authorized number of ordinary shares is 10 000, with a par value of R 1 per share.

The parent municipalities (Water Service Authorities) are the sole Shareholders of the company, and their individual shareholding is as follows;

Amajuba District Municipality; 33%
Newcastle Municipality; 34%
Umzinyathi District Municipality; 33%

The details of the shares, and share certificates, are recorded in the Register of Shareholders of the Company, in terms of the provisions of the Companies Act 71/2008, as amended.

The MEC responsible for Co-operative Governance and Traditional Affairs, The Honorable N. Dube, on the 18 June 2012, released a decision of the Provincial Executive Committee taken at a Cabinet meeting held on the 25 April 2012, wherein it was resolved that;

(a) The section 139 (1) (b) of the Constitution of the RSA, Act 108/1996, intervention instituted by the Provincial Executive was terminated with immediate effect, and that the Water Service Authorities would immediately resume and be accountable for water service functions previously assumed by the Provincial Executive of the Province of KZN together with the rights and obligations pertaining to uThukela Water (Pty) Ltd.

(b) The Directive also governed that in relation to the delivery of water services operated by uThukela Water (Pty) Ltd, that in terms of section 139 (1) (a) of the Constitution, the following orders, amongst others things to be done, would be implemented;

- All retail/reticulation water service functions would be de-centralized and returned to the respective municipalities.
- Bulk water services would be regionalized.
- uThukela Water (Pty) Ltd would continue to provide water services as the Bulk water service provider until such time that the National Minister for Water Affairs makes a decision concerning the future composition of the new or reconstituted Regional Bulk water service authority.
- That uThukela Water (Pty) Ltd would be de-registered in terms of the Companies Act once the Minister of Water Affairs had made a decision regarding the new or reconstituted water service authority.
- That uThukela Water (Pty) Ltd, in the interim, be served by a Transitional Board constituted of the following members;

  Mr. D. Naidoo, Executive, Umgeni Water Board, and, who shall remain as the independent Chairperson of the Board.

  Mr. B. Ndlovu, the CFO of COGTA.

  Mr. M. Msiwa, an independent Board member,

  Mr. A. Evetts, Manager: Municipal Infrastructure of COGTA, as a Board member.

  Mrs A. Masefield, Acting Provincial Head of the Department of Water Affairs, appointed as an observer.

  The Municipal Managers of the three Shareholder municipalities of Newcastle Local, and the Amajuba and Umzinyathi District municipalities, serving as Board members.

During the financial year, no contracts were entered into in which Directors or Officers of the Company had an interest and which significantly affected the business of the Company.

No special resolutions, the nature of which might be significant to the Shareholder in their appreciation of the state of affairs of the Company, were made by the Company during the period covered by this report.

The future dispensation of the Company

The Minister of Water Affairs and Sanitation has by Government Gazette number 39491 dated the 10 December 2015, declared that in terms of the provisions of the Water Services Act 108/1997, that the extension of the water services will be incorporated into a single water functionary. The mechanism and new functionary has not yet been finalized and determined by the Minister.

Financial performance

The Company balance sheet reflects a net asset worth of R 550 164 926 (2020: R 639 215 358) and is made up as follows;

Share Capital	R	100
Accumulated deficit	R	17 780 314
Asset revaluation Reserve	R	567 945 140

The total net shareholder contributions paid to uThukela Water to date is reflected at R 156 162 652 (2020: R 165 735 184), and is made up of capital contributions to water infrastructure development projects, and excludes bulk water billing payments which are appropriated to accumulated surpluses. The details hereof are reflected in note 13 to the annual financial statements.

There was a net increase in cash and cash equivalents to R 29 424 084 from R 20 070 160 in 2020. Cash receipts and accumulated funds assisted the Company to invest R 1 258 341 (2020: R 1 648 854) into property, plant, infrastructure and equipment during the year. The total net capital investment in bulk water service infrastructure, and in respect of property plant and equipment is R 789 451 219 (2020: R 867 454 343)

Statement of Financial Performance, June 2021.

The Statement of Financial Performance for the year under review reflects a trading deficit of R 89 050 432 for the year (2020: R 91 828 627). However, it should be noted that the deficit is mainly attributable to the raising of depreciation charges amounting to R 79 261 466, which amount is written back via the accumulated surplus account as a result of the municipalities not providing for or paying for these depreciation charges. The Water Service Authorities only provide and pay for cash items in their operational budgets and do not contribute towards any of the non-cash items accounted for.

Statement of Financial Position, June 2021.

The Statement of Financial Position reflects positively and generally indicates that the Board is trading in solvent circumstances, except for the negative asset ratio test, which is directly as a result of the non-payment of the raw water charges billed by the Department of Water Affairs and consequently raised by the Entity, but not paid to the Department, as a result of non-payment by the shareholder municipalities.

The recovery and/or write off of these raw water charges is receiving attention at the highest level.

There were no external borrowings in the year under review.

Capital expenditure and commitments

Capital expenditure for the year including amounts disbursed directly by the shareholders and utilized from accumulated funds and brought into account in the water services balance sheet amounting to R 1 258 341 (2020: R 1 648 854) for property, plant and equipment.

The Companies contractual capital commitments are disclosed in note 32 of the financial statements.

Materiality framework

Management for the purposes of materiality works within the framework of acceptable levels of materiality and significance set and established by the Office of the Auditor General.

Fruitless and wasteful expenditure

There was R 22 945 197 of fruitless and wasteful expenditure comprising mainly of interest raised by the Department of Water and Sanitation on outstanding accounts during the year. See note 30.

Irregular expenditure

Irregular expenditure was reported during the year under review resulting from non-compliance with the supply chain management policy. These instances will be investigated and reported to the Board. See note 30.

Fraud and financial misconduct

There were no instances of fraud and financial misconduct in the current financial year. Internal controls are reviewed and improved on continuously.

Performance against financial targets

The performance of uThukela Water against key financial indicators as agreed in the Shareholders compact is illustrated in the performance management scorecards which are reported in the annual report.

The Company scorecard reflects that the Company has performed within targets and objectives as set out in the Business plans and budgets, albeit it under difficult and restrained circumstances.

Events after the reporting period

Subsequent to year end, the Chairperson of the Board, Mr PS Naidoo and the Acting MD, Mr LL Cunha resigned.
Advocate N Khambule has subsequently been appointed as the Acting MD, by the shareholder municipalities.

Going concern

The going concern basis has been adopted in preparing the financial statements. The Directors considered the following factors in reaching this opinion:

- The assumption that the shareholders will pay their monthly bulk water service invoices in accordance with their signed agreements and as directed by the Provincial Council in its instruction dated 7 June 2012.

- The entity continues to deliver on its mandates to its shareholders in all respects and in full compliance with all legislation as evidenced by good audit outcomes.

- Stable key executive management incumbents have been, and are in place, albeit in some cases in Acting capacities, providing; expertise, stability, industry know how and guidance in all aspects of effective and efficient water service management to the Board and its shareholders.

- Annually approved MTREF business plans, operational and capital budgets, tariff model, performance management and risk assessment plans are in place and monitored and reported on regularly to the Board and its shareholders.

ACCOUNTING POLICIES

1.Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognized Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and The Companies Act, 2008 (Act 71 of 2008) and the MFMA.

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

Unless otherwise stated, all figures have been rounded to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

Municipal Standard Chart of Accounts

The Entity operates its accounts on the Municipal Standard Chart of Accounts as required by National Treasury, and in line with the shareholder municipalities.

1.1 Significant judgments and sources of estimation uncertainty

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

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

1.1 Significant judgments and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating, non-cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell.

These calculations require the use of estimates and assumptions. It is reasonably possible that the useful life and market value assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including technological obsolescence, together with economic factors such as interest and inflation rates.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Post-retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 11 – Service related employee benefit obligations.

Effective interest rate

The entity used the prime interest rate to discount future cash flows adjusted for risks specific to the related item.

1.1 Significant judgments and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On receivables an impairment loss is recognized in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

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 recognized as an asset when:

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

Property, plant and equipment are initially measured at cost.

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

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

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

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

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

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Depreciation begins when the assets are available for use and ceases

1.2 Property, plant and equipment (continued)

at the earlier of the date that the assets are classified as held for sale and the date on which the assets are derecognized.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

Item	**Useful life**
Buildings	50 years
Water infrastructure	5 to 50 years
IT equipment	3 to 10 years
Leasehold property	
Leasehold improvements	5 years over the period of lease
Plant and machinery	
Grass-cutting Equipment	7 to 10 years
Minor plant	5 to 50 years
Mobile plant	7 to 10 years
Office equipment	
Furniture & fittings	7 to 10 years
Other office equipment	3 to 10 years

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

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

1.2 Property, plant and equipment (continued)

Items of property, plant and equipment are derecognized 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 derecognized. 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.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognized as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 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 company or from other rights and obligations.

An intangible asset is recognized when:

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

Intangible assets are initially recognized at cost.

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

An intangible asset shall be derecognized on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized.

Intangible assets are carried at cost less any accumulated amortization and any impairment losses.

1.3 Intangible assets (continued)

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. Amortization 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 amortization is provided on a straight line basis over their useful lives.

The amortization period and the amortization method for intangible assets are reviewed at each reporting date. Amortization begins when the assets are available for use and ceases at the earlier of the date that the assets are classified as held for sale and the date on which the assets are derecognized.

The amortization charge for each period shall be recognized in surplus or deficit unless it is permitted or required to be included in the carrying amount of another asset.

Amortization 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 to 5 years

1.4 Financial instruments

Classification

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

- Loans and receivables
- Financial liabilities measured at amortized cost

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

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- If the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

1.4 Financial instruments (continued)

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

Initial recognition and measurement

Financial instruments are recognized initially when the entity becomes a party to the contractual provisions of the instruments.

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

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

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

Transaction costs on financial instruments at fair value through surplus or deficit are recognized in surplus or deficit. Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortized cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortized cost are subsequently measured at amortized cost, using the effective interest method.

Fair value determination

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

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

1.4 Financial instruments (continued)

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognized in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognized.

Reversals of impairment losses are recognized in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because the fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognized in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to/from economic entities

These include loans to and from controlling entities, fellow controlled entities, joint ventures and associates and are recognized initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortized cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized 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 reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognized 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 recognized in surplus or deficit within operating expenses.

1.4 Financial instruments (continued)

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, 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 measured at fair value and are subsequently measured at amortized cost, using the effective interest rate method.

Bank overdraft and borrowings

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

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognized as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognized in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognized directly in net assets, through the statement of changes in net assets, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in net assets is recognized in surplus or deficit; and
- For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in surplus or deficit when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

1.4 Financial instruments (continued)

Derecognition

Financial assets

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

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

Financial assets are derecognized using trade settlement date accounting.

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

Financial liabilities

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

1.4 Financial instruments (continued)

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.

Finance leases - lessee

Finance leases are recognized 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.

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

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 return on the remaining balance of the liability.

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

Operating leases - lessee

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

1.6 Inventories

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

Subsequently inventories are measured at the lower of cost and net realizable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

Current replacement cost is the cost the entity will incur to acquire the asset on the reporting date.

1.6 Inventories (continued)

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

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

1.7 Impairment of cash-generating assets

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

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

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

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

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

Depreciation/amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

1.7 Impairment of cash-generating assets (continued)

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

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

Identification

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

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

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

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and

1.7 Impairment of cash-generating assets (continued)

- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognized immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognizes a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation/amortization charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and

1.7 Impairment of cash-generating assets (continued)

- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognized for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognized in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods

1.7 Impairment of cash-generating assets (continued)

A reversal of an impairment loss for a cash-generating asset is recognized immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognized, the depreciation/amortization charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.8 Impairment of non-cash-generating assets

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

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

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

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

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

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

1.8 Impairment of non-cash-generating assets (continued)

Depreciation/amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Identification

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

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

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

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

1.8 Impairment of non-cash-generating assets (continued)

The replacement cost and reproduction cost of an asset is determined on an “optimized” basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognized immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the entity recognizes a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation/amortization charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognized in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable service amount of that asset.

An impairment loss recognized in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognized. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognized immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

1.8 Impairment of non-cash-generating assets (continued)

After a reversal of an impairment loss is recognized, the depreciation/amortization charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 Shareholder's loan on incorporation

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

Shareholder's loan on incorporation is treated as residual interest.

1.10 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 recognized in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognized 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 recognized as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

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

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

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

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

1.10 Employee benefits (continued)

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

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the company is demonstrably committed to curtailment or settlement.

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

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

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

Other post retirement obligations

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

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

1.11 Provisions and contingencies

Provisions are recognized when:

- the entity 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 recognized when, and only when, it is virtually certain that reimbursement will be received if the company settles the obligation. The reimbursement is treated as a separate asset. The amount recognized 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.

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

A provision is used only for expenditures for which the provision was originally recognized. Provisions are not recognized for future operating deficits.

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

A constructive obligation to restructure arises only when the entity:

- has a detailed formal plan for the restructuring, identifying at least:
- the activity/operating unit or part of an activity/operating unit concerned;
- the principal locations affected;

1.11 Provisions and contingencies (continued)

- the expenditures that will be undertaken; and when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognized in business combinations that are recognized separately are subsequently measured at the higher of:

- the amount that would be recognized as a provision; and
- the amount initially recognized less cumulative amortization.

A contingent liability is a present obligation that arises from past events but is not recognized because it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation or the amount of the obligation cannot be measured with certainty.

Contingent assets and contingent liabilities are not recognized, but disclosed.

1.12 Revenue from exchange transactions

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

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

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

Revenue is recognized when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

1.12 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

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

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Service revenue is recognized by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognized when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the company, and
- the amount of the revenue can be measured reliably.

Interest is recognized, in surplus or deficit, using the effective interest rate method.

Royalties are recognized as they are earned in accordance with the substance of the relevant agreements.

1.12 Revenue from exchange transactions (continued)

Dividends or their equivalents are recognized, in surplus or deficit, when the entity's right to receive payment has been established.

Service fees included in the price of the product are recognized as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Water Service Authority shortfall contributions are recognized when all conditions associated with the contribution has been met in terms of the WSP agreement and is transferred directly to the Statement of Financial Performance.

Capital grant reimbursements are claimed from the Shareholders who hold all Government grant receipts, and these receipts, are only recognized for payment purposes when actually received by the entity, and are accounted for in the Statement of Financial Performance.

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

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

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

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

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

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

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

1.13 Revenue from non-exchange transactions (continued)

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

The Entity is exempt from the payment of Income Tax

Recognition

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As the entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non- exchange transaction recognized as an asset, it reduces the carrying amount of the liability recognized and recognizes an amount of revenue equal to that reduction.

Measurement

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

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

1.14 Cost of sales

When inventories are sold, exchanged or distributed the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. If there is related revenue, the expense is recognized when the goods are distributed, or related service is rendered. The amount of any write-down of inventories to net realizable value or current replacement cost and all deficits of inventories are recognized as an expense in the period the write-down or loss

1.14 Cost of sales (continued)

occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value or current replacement cost, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

The related cost of providing services recognized as revenue in the current period is included in cost of sales.

1.15 Investment income

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

1.16 Borrowing costs

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realizable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.7 and 1.8. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

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

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

1.16 Borrowing costs (continued)

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

1.17 Comparative figures

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

1.18 Unauthorized expenditure

Unauthorized 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 unauthorized expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 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 recognized 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.

1.20 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 unauthorized 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.

1.21 Offsetting

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

1.22 Gratuities

The entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognized in the statement of financial performance when the gratuity is paid.

1.23 Conditional grants and receipts

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

Partners contributions (Grants)

Water Service Authority contributions (Grants) utilized to fund assets is accounted for in the Statement of Financial Performance and transferred to the Accumulated Funds.

Water Service Authority contributions (Grants/shortfall contributions) utilized to fund operational expenditures and are accounted for in the Statement of Financial Performance.

1.24 Budget information

The entity is typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorizing legislation, appropriation or similar.

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

1.25 Related parties

A related party is a person or entity that is related to the entity.

(a) A person or a close member of that person's family is related to the entity if that person:

(i) has control or joint control over the entity;

(ii) has significant influence over the entity; or

(iii) is a member of the key management personnel of the entity or of a parent of the entity.

(b) An entity is related to the entity if any of the following conditions applies:

(i) the entity and the company are members of the same group.

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

1.25 Related parties (continued)

(iii) both entities are joint ventures of a third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the entity. If the entity is itself such a plan, the sponsoring employers are also related to the entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of the parent of the entity).

Transactions with related parties are entered into and disclosed at arm's length.

Related party relationships where control exists are disclosed irrespective of whether there have been transactions between the related parties.

In respect of transactions between related parties other than transactions that would occur within normal supplier or client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at an arm's length in the same circumstances, the entity discloses (a) the nature of the related party relationship, (b) the type of transaction that have occurred and (c) the elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.

1.26 Foreign exchange gains and losses

Initial measurement

All transactions that are undertaken in a foreign currency are translated into South African rands. A foreign currency transaction is recorded on initial recognition in rinds by applying to the foreign currency amount the spot exchange rate between the rinds and the foreign currency at the date of the transaction. The date of transaction is the date on which the transaction first qualifies for recognition.

Subsequent measurement

Subsequent Treatment of Monetary Items:

Monetary items held in a foreign currency shall be translated into the functional currency in the Statement of Financial Position at the closing rate. In instances where a monetary asset or liability has a rate of exchange that is fixed under the terms of the relevant contract, it cannot be used to translate the monetary assets and liabilities as this is a form of hedge accounting.

1.26 Foreign exchange gains and losses (continued)

Subsequent Treatment of Non-Monetary Items:

Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rate at the date when the fair value was determined.

Recognition of Foreign Exchange Differences

Foreign exchange gains and losses arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Performance.

When a gain or loss on a non-monetary item is recognized directly in equity, any exchange rate component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in the Statement of Financial Performance, any exchange rate component of that gain or loss shall also be recognized in the Statement of Financial Performance.

2. FINANCIAL RISK MANAGEMENT

2.1 Credit risk

Potential credit risk mainly consists of short-term investments, cash and cash equivalents and accounts receivable. The risk from short-term investments and other cash items is restricted by transacting only with financial institutions with high credit ratings assigned by international credit-rating agencies. Credit risk with respect to trade receivables is limited to the Shareholders and their municipality's ability to meet their capital grant and trade Bulk water purchase annual Budget commitments to the entity.

2.2 Liquidity risk

uThukela Water (Pty) Ltd manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.1 Impairment of consumer and other debtors

Impairment of receivables is established if there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Accordingly, management's assessment of the recoverability is reflected through the creation of a provision for doubtful debts as reflected in the notes to the financial statements.

4. SEGMENTAL INFORMATION

Segmental information in respect of property, plant and equipment is disclosed in Appendix B to the annual financial statements attached.

UTHUKELA WATER (PTY) LTD

Report of the Auditor General

UTHUKELA WATER (PTY) LTD

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2021

	Note	**2021**	**2020**
		R	R
ASSETS			
Current assets		194 713 303	151 757 865
Cash and cash equivalents	1	29 424 084	20 070 160
WSA debtors	2	183 138	-
Trade and other receivables from exchange transactions	3	142 656 356	109 099 435
Other receivables from non-exchange transactions	4	2 653 050	2 564 772
VAT receivable	5	19 610 261	19 847 670
Inventory	6	186 415	175 829
Non-current assets		789 451 219	867 454 343
Property, plant and equipment	7	788 721 338	866 281 998
Intangible assets	8	729 881	1 172 345
Total assets		984 164 522	1 019 212 208
LIABILITIES			
Current liabilities		422 035 966	370 175 393
Trade and other payables	9	414 599 566	363 162 868
Unspent conditional grants and receipts	10	460 961	460 961
Current portion of service related employee benefit obligations	11	6 975 438	6 551 564
Non-current liabilities		11 963 630	9 821 457
obligations	11	11 963 630	9 821 457
Total liabilities		433 999 596	379 996 850
Net assets		550 164 926	639 215 358
Share capital	12	100	100
Accumulated funds	13	550 164 826	639 215 258
Net assets		550 164 926	639 215 358

UTHUKELA WATER (PTY) LTD.

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021

	Note	Budget 2021 R	Actual 2021 R	Budget 2020 R	Actual 2020 R
REVENUE					
Revenue from exchange transactions					
Service charges	14	170 263 232	165 403 505	155 395 451	148 550 115
Revenue from non-exchange transactions					
Interest earned - external investments	15	107 000	1 067 037	100 000	1 488 275
Shareholder project contributions	16	-	-	-	222 372
Other receipts	17	779 300	326 923	-	293 479
Total revenue		171 149 532	166 797 465	155 495 451	150 554 241
EXPENDITURE					
Employee related costs	18	(59 541 583)	(58 215 964)	(50 605 435)	(52 754 301)
Depreciation and amortisation	19	(1 787 026)	(79 261 466)	(1 670 117)	(79 910 549)
Repairs and maintenance	20	(16 110 527)	(5 177 110)	(13 669 753)	(3 106 037)
Bulk water purchases	21	(29 419 149)	(30 267 399)	(27 494 532)	(27 749 518)
Interest paid/accrued	22	-	(22 945 197)	-	(22 022 422)
Contracted services	23	(2 704 180)	(2 535 657)	(4 246 335)	(3 894 144)
Inventory adjustment	6	-	10 586	-	53 841
Operating expenses	24	(60 272 768)	(57 570 388)	(56 529 979)	(52 999 739)
Total expenditure		(169 835 232)	(255 962 593)	(154 216 151)	(242 382 869)
Gain / (loss) on disposal of assets	25	-	114 697	-	-
Surplus / (deficit) before taxation		1 314 300	(89 050 432)	1 279 300	(91 828 627)
Taxation	26	-	-	-	-
Surplus / (Deficit) for the year		1 314 300	(89 050 432)	1 279 300	(91 828 627)

UTHUKELA WATER (PTY) LTD.

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

Description, Nature and Purpose of Reserve	Note	Share capital invested in Entity by Shareholders in terms of Company Memorandum of Association	Partner capital grant/own funds transferred to Entity for projects implemented by the Entity			Asset Revaluation Reserve, reflects assets at fair value, measured reliably, and carried at revalued amounts	Accumulated Surplus/(Deficit) reflects accumulated surplus or deficit of the Entity	Total Net Assets reflects net income retained, no dividends are paid
			Umzinyathl	Amajuba	Newcastle		Excl Partners Contributions	
		R	R	R	R	R	R	R
Balance at 30 June 2019		100	92 496 969	8 814 902	89 062 121	699 709 328	(168 596 001)	721 487 418
Operating (surplus)deficit - including shareholders contributions		-	-	-	-	-	(91 828 627)	(91 828 627)
Acquired assets through partners contribution		-	-	-	9 555 653	-	-	9 555 653
Off- setting depreciation	13	-	(3 722 395)	(1 093 649)	(3 608 294)	(66 248 321)	74 672 660	-
Balance at 30 June 2020		100	88 774 573	7 721 253	95 009 479	633 461 008	(185 751 969)	639 214 444
Operating (surplus)deficit - including shareholders contributions		-	-	-	-	-	(89 050 432)	(89 050 432)
Off- setting depreciation	13	-	(3 523 133)	(1 093 649)	(4 955 750)	(65 515 868)	75 088 399	-
Balance at 30 June 2021		100	85 251 440	6 627 604	90 053 729	567 945 140	(199 714 001)	550 164 012

UTHUKELA WATER (PTY) LTD.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020
		R	R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts		133 361 729	116 271 826
Sales of goods and services		131 882 549	113 706 848
Interest received		1 069 299	1 571 610
Other receipts		409 881	993 368
Payments		(122 749 462)	(108 619 411)
Employee costs		(57 953 083)	(51 388 126)
Suppliers		(64 692 725)	(57 117 499)
Other payments		(103 654)	(113 786)
NET CASH FROM OPERATING ACTIVITIES	27	10 612 266	7 652 415
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	(1 258 341)	(1 648 854)
NET CASH FROM INVESTING ACTIVITIES		(1 258 341)	(1 648 854)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		9 353 925	6 003 561
Cash and cash equivalents at the beginning of the year		20 070 160	14 066 598
Cash and cash equivalents at the end of the year	1&28	29 424 084	20 070 160
		(9 353 925)	(6 003 561)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R

A **PREAMBLE - CHANGE OF FUNCTIONS, GOING CONCERN AND DEVELOPMENTAL OBJECTIVES**

Bulk water service functions - The entity, consequent to a Provincially instituted section 78 (MSA32/2000) water services assessment conducted for the region, and in terms of a COGTA Provincial Directive dated 7 June 2012, operates as an interim bulk water services provider to the municipalities of Newcastle, Amajuba and Umzinyathi Districts, pending a final decision by the Minister of Water Affairs regarding the future dispensation of water services in the region. The matter has been referred to the National Cabinet for review and a final decision in this regard.

Going concern - The Board provides bulk water services to the municipalities on the assumption that it will be paid for the services rendered in accordance with the WSP/WSA signed water services agreements in place, and also as instructed by the Provincial Council in its directive dated 7 June 2012. The agreements regulate the bulk water business operations, functions, obligations and objectives to be carried out by the Board on behalf of the shareholder municipalities. Annual business plans, operational and capital budgets, tariff model, Performance Management objectives/Targets and risk assessment plans are formulated jointly by all parties and agreed to upfront. The entity reports regularly (monthly and quarterly) to the municipalities and they in turn monitor, evaluate and manage the entities progress accordingly. The going concern of the entity is dependant on the continued funding/payment from the WSA's.

Developmental objectives - The Board annually submits its capital and developmental requirements to the municipalities and it is of great concern that the municipalities do not approve a funded capital budget for the Board to implement. The bulk water infrastructures are very old and outdated and require regular and constant refurbishment and replacement. This lapse in adequate funding is a high risk to the sustainability and future of bulk water services in the region. The Board has provided the municipalities with possible funding models to give emphases to its funding options, but unfortunately, these have not been approved. The municipalities also do not pay the annual capital infrastructure depreciation charges to the entity.

1 **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	2021	2020
Cash on hand	13 754	8 713
Cash at bank	1 069 054	2 111 315
Cash on call and short notice deposits	28 341 276	17 950 132
	29 424 084	20 070 160

uThukela Water (pty) Ltd has the following bank accounts:

Account Number - Bank -Account Description	Cash Book Balance 30 06 2021	Bank Statement Balance 30 06 2021	Cash Book Balance 30 06 2020	Bank Statement Balance 30 06 2020
Cash at bank				
4059636838 - Absa	145 247	145 247	213 895	213 895
4060280600 - Absa - Customer Care	-	-	20 572	20 572
061938939 - Standard Bank - Primary Current Account	923 807	923 807	1 876 847	1 876 847
	1 069 054	1 069 054	2 111 315	2 111 315
Cash on call and short notice deposits				
268586055-015 - Standard Notice Deposit	17 271 106	17 271 106	10 246 984	10 246 984
268586055-002 - Standard Notice call Account	10 533 309	10 533 309	6 012 591	6 012 591
92 5753 8348 - Absa - Deposit	536 862	536 862	1 690 557	1 690 557
	28 341 276	28 341 276	17 950 132	17 950 132
Petty cash	13 754		8 713	
Total Cash and cash equivalents	**29 424 084**	**29 410 330**	**20 070 160**	**20 061 447**

For the purposes of the cash flow statement, the cash and cash equivalents comprise the total cash and cash equivalents as disclosed above.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R
2 **WSA DEBTORS**		
Assets Funding		
Umzinyathi District Municipality	499 813	316 676
Revenue Funding	82 763 673	82 763 673
Umzinyathi District Municipality	64 191 401	64 191 401
Amajuba District Municipality	18 572 273	18 572 273
Total WSA Debtors	**83 263 487**	**83 080 349**

There is a Provincial Executive Committee directive that the WSA's in arrears with their shortfall payments must make these good. See also note under

Less: Provision for bad debts

	2021	2020
Balance at beginning of the year	83 080 349	83 080 349
Balance at end of year	83 080 349	83 080 349
	183 138	**-**

Output Vat of R 23 887,50 is included in the debtor balances - also see note 5 below.

3 **TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS**

3.1 **Trade receivables**	Gross Balances R	Provision for Doubtful Debts R	Net Balance R	Gross Balances R	Provision for Doubtful Debts R
as at 30 June 2021					
Service debtors					
Water	222 909	(50 025)	172 884	242 145	(81 003)
Total	**222 909**	**(50 025)**	**172 884**	**242 145**	**(81 003)**
as at 30 June 2020					
Service debtors					
Water	242 145	(81 003)	161 142	140 218	(80 753)
Total	**242 145**	**(81 003)**	**161 142**	**140 218**	**(80 753)**

Water : Ageing	2021	2020
Current (0 – 30 days)	66 494	150 718
31 - 60 Days	98 122	-41
61 - 90 Days	2 769	6 228
+ 91 Days	55 524	85 241
Total	**222 909**	**242 145**

Summary of Debtors by Customer Classification	Consumers R	Industrial / Commercial R	National and Provincial Government R
as at 30 June 2021			
Current (0 – 30 days)	66 494	-	-
31 - 60 Days	98 122	-	-
61 - 90 Days	2 769	-	-
91 and over	55 524	-	-
Sub-total	**222 909**	**-**	**-**
Less: Provision for doubtful debts	(50 025)	-	-
Total debtors by customer classification	**172 884**	**-**	**-**

Output Vat of R 22 550,05 is included in the debtor balances - also see note 5 below

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021			2020
	R			R
as at 30 June 2020				
Current (0 – 30 days)	150 718	-	-	
31 - 60 Days	-41	-	-	
61 - 90 Days	6 228	-	-	
91 and over	85 241	-	-	
Sub-total	**242 145**	**-**	**-**	
Less: Provision for doubtful debts	(81 003)	-	-	
Total debtors by customer classification	**161 142**	**-**	**-**	

Reconciliation of the doubtful debt provision

	2021	2020
Balance at beginning of the year	81 003	80 753
Provision/(Reversal)	(30 978)	250
Balance at end of year	**50 025**	**81 003**

Trade receivables - Bulk Supplies

	2021	2020
Umzinyathi District Municipality	10 417 270	5 416 863
Newcastle Municipality	116 667 909	85 470 038
Amajuba District Municipality	15 403 096	18 056 196
Sub-total	142 488 275	108 943 096
Total	**142 488 275**	**108 943 096**

Reconciliation of the doubtful debt provision

	2021	2020
Balance at beginning of the year	4 803	4 803
Balance at end of year	**4 803**	**4 803**
Total Trade Receivables - Bulk Supplies	**142 656 356**	**109 099 435**

Output Vat of R 18 584 800,59 is included in the debtor balances - also see note 5 below

OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2021	2020
Other debtors	1 069 990	1 087 680
Deposits with suppliers	2 641 805	2 538 151
Total other debtors	**3 711 795**	**3 625 831**
Less: Provision for bad debts		
Balance at beginning of the year	1 061 060	1 075 836
Contributions to provision	-2 315	-14 776
Balance at end of year	1 058 745	1 061 060
	2 653 050	**2 564 772**

Output Vat of R 281,37 is included in the debtor balances - also see note 5 below

VAT	**2021**	**2020**
Debtors Vat Raised - Not Yet Due	(18 631 520)	(14 230 543)
Creditors Invoices Vat Raised - Not Yet Claimed	37 621 689	33 739 502
VAT receivable/(payable)	620 091	338 712
Total VAT receivable/(payable)	19 610 261	19 847 670

VAT is currently paid and claimed on the receipts and payments basis. Only once payment is received from debtors or made to creditors is VAT paid/claimed to/from SARS - See also notes 2, 3, 4 & 9.

As the impairment provision for unpaid debtors includes VAT, the amount provided for debtors - vat raised not yet due - excludes the impaired debtors in the provision above.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R
6 **INVENTORIES**		
Water	**186 415**	**175 829**

Inventories are measured at the cost of production and subsequent net realisable value utilizing the cost of production, and represents the fair value of the inventory at 30 June 2021.

	2021	2020
The total carrying amount of inventory in classification appropriate to the Entity is: Potable; 46,3 Ml at R3,81 per Kl and Raw water; 16,45 Ml at R0,6021 and 5.88 Ml at R0.0312 per kl	186 415	175 829
The total carry amount of inventory at fair Value Less cost to sell : Already accounted for		
The amount of inventory recognized as an expense during the period ended 30 June 2021	-10 586	-53 841

No inventory or carrying amounts of inventory were pledged as security

7 **PROPERTY, PLANT & EQUIPMENT**

Assets at 30 June 2021	**Balance at 30-Jun-21**	**Additions**	**Transfers**	**Re-Valuations**	**Balance at 30-Jun-20**
Water Infrastructure	1 361 490 952	-	-	-	1 361 490 952
Vehicles	5 489 827	-	-	-	5 489 827
Plant & Equipment	68 911 655	817 994	-	-	68 093 661
Furniture, Equipment and Fittings	3 925 509	440 347	-	-	3 485 162
Totals	1 439 817 944	1 258 341	-	-	1 438 559 602

Accumulated Depreciation	**Balance at 30-Jun-21**	**Additions**	**Transfers**	**Re-Valuations**	**Balance at 30-Jun-20**
Water Infrastructure	603 982 817	72 505 833	-	-	531 476 984
Vehicles	3 895 967	540 660	-	-	3 355 307
Plant & Equipment	40 378 053	5 401 177	-	-	34 976 876
Furniture, Equipment and Fittings	2 839 769	371 331	-	-	2 468 438
Totals	651 096 606	78 819 001	-	-	572 277 604

Carrying Values at Year End	**Balance at 30-Jun-21**	**Movement**	**Transfers**	**Re-Valuations**	**Balance at 30-Jun-20**
Water Infrastructure	757 508 135	(72 505 833)	-	-	830 013 968
Vehicles	1 593 860	(540 660)	-	-	2 134 520
Plant & Equipment	28 533 603	(4 583 183)	-	-	33 116 786
Furniture, Equipment and Fittings	1 085 740	69 016	-	-	1 016 724
Totals	788 721 338	(77 560 660)	-	-	866 281 998

Assets at 30 June 2020	**Balance at 30-Jun-20**	**Additions**	**Transfers**	**Re-Valuations**	**Balance at 30-Jun-19**
Water Infrastructure	1 361 490 952	283 582	3 964 501	-	1 357 242 869
Vehicles	5 489 827	-	-	-	5 489 827
Plant & Equipment	68 093 661	1 198 861	5 591 152	-	61 303 649
Furniture, Equipment and Fittings	3 485 162	166 411	-	-	3 318 751
Totals	1 438 559 602	1 648 854	9 555 653	-	1 427 355 095

	2021				2020
	R				R
Accumulated Depreciation	**Balance at 30-Jun-20**	**Additions**	**Transfers**	**Re-Valuations**	**Balance at 30-Jun-19**
Water Infrastructure	531 476 984	72 289 379		-	459 187 605
Vehicles	3 355 307	676 660		-	2 678 647
Plant & Equipment	34 976 876	6 239 222		-	28 737 654
Furniture, Equipment and Fittings	2 468 438	275 902		-	2 192 536
Totals	572 277 604	79 481 163		-	492 796 442

Carrying Values at Year End	**Balance at 30-Jun-20**	**Additions**	**Transfers**	**Re-Valuations**	**Balance at 30-Jun-19**
Water Infrastructure	830 013 968	(72 005 797)		-	898 055 263
Vehicles	2 134 520	(676 660)		-	2 811 180
Plant & Equipment	33 116 786	(5 040 361)		-	32 565 995
Furniture, Equipment and Fittings	1 016 724	(109 490)		-	1 126 214
Totals	866 281 998	(77 832 308)		-	934 558 653

8 **INTANGIBLE ASSETS**

Assets at 30 June 2021	**Balance at 30-Jun-21**	**Movement**	**Disposals**	**Balance at 30-Jun-20**
Software	5 014 600	-	-	5 014 600
Totals	5 014 600	-	-	5 014 600
Accumulated Amortization				
Software	4 284 719	442 464	-	3 842 255
Totals	4 284 719	442 464	-	3 842 255
Carrying Values at Year End				
Software	729 881	(442 464)	-	1 172 345
Totals	729 881	(442 464)	-	1 172 345

Assets at 30 June 2020	**Balance at 30-Jun-20**	**Movement**	**Disposals**	**Balance at 30-Jun-19**
Software	5 014 600	-	-	5 014 600
Totals	5 014 600	-	-	5 014 600
Accumulated Amortization				
Software	3 842 255	429 387	-	3 412 868
Totals	3 842 255	429 387	-	3 412 868
Carrying Values at Year End				
Software	1 172 345	(429 387)	-	1 601 732
Totals	1 172 345	(429 387)	-	1 601 732

Intangible assets comprise of computer software programmes

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

		2021	2020
		R	R
9	**TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS**		
	Trade creditors	411 242 675	355 321 004
	Consumer Debtors - Payments in advance	13 411	13 780
	Other creditors	230 760	4 720 721
	Unallocated Receipts	3 112 719	3 107 364
	Total Creditors	414 599 566	363 162 868

Total Creditors 2021 - Ageing	Current Period	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 and Over
	33 237 073	2 509 470	2 906 273	2 317 191	373 629 559

Include in the above trade creditors figure is an amount of R 405 522 356.66 raised in respect of bulk raw water charges owed to the Department of Water and Sanitation. This amount is subject to the payment by the Water Service Authorities of their bulk water accounts and raw water budgeted costs. Negotiations are currently taking place between uTthukela Water, the WSA's the Department to resolve this matter.

Input Vat of R 37 621 393,25 is included in the Trade Creditor balances - also see note 5 above

The fair value of trade and other payables approximates their carrying amounts.

		2021	2020
10	**UNSPENT CONDITIONAL GRANTS AND RECEIPTS**		
	Newcastle	388 455	388 455
	Umzinyathi	72 506	72 506
		460 961	460 961

The WSA's are the recipients of all government grants paid in terms of the Division of Revenue Act, and in cases where the Entity is appointed by the municipality to implement any of its capital grant projects, these are done on an implementation basis only, and the relevant municipality reflects the grants and its conditions and reports back to National or Provincial Treasury directly in relation to the requirements of the grants.

In cases where the municipality transfers its own capital funding to the Entity to implement capital projects, these are also carried out as implementing agent only, and these transfers are not conditional grants, except to say that they are for a specific purpose or project as directed by the municipality.

		2021	2020
11	**SERVICE RELATED EMPLOYEE BENEFIT OBLIGATIONS**		
	Non Current		
	Long service Awards	2 545 380	2 028 359
	Post-employment medical benefits	9 418 250	7 793 098
		11 963 630	9 821 457
	Current		
	Leave pay accrual	6 408 146	6 096 815
	Long service Awards	296 950	177 104
	Post-employment medical benefits	270 342	277 645
		6 975 438	6 551 564
	Total Provisions	18 939 068	16 373 021
	The movement in Leave provisions is reconciled as follows: -		
	Balance B/fwd	5 405 953	4 779 091
	Increase in provision	1 217 943	1 785 349
	Expenditure incurred	(467 624)	(1 158 487)
	as at 30 June	**6 156 272**	**5 405 953**

Leave pay accrual

Leave pay accrual is based on the number of hours accruing to the employee at balance sheet date multiplied by the employee's hourly rate of pay. The accrual includes the liability in respect of accumulated leave due to employees previously in the employ of the WSA's prior to transfer to the company which has not yet been paid over to the company.

2021	2020
R	R

Long Service Awards

uThukela offers employees LSA for every five years of service completed, starting from five years of service calculated as follows:

Long Service Awards for levels of past service		
Completed Service (in years)	Long Service Bonuses(% of Annual Salary)	Description
5	2.0%	5/ 249 x annual salary
10	4.0%	10/ 249 x annual salary
15	8.0%	20/ 249 x annual salary
Every five years thereafter	12.0%	30/ 249 x annual salary

In the month that each “Completed Service” milestone is reached, the employee is granted a LSA.

Working days awarded are valued at 1/249 th of annual salary per day

An actuarial valuation of the future liability for this benefit has been undertaken by an independent firm of Actuaries with the following results

	Year ending 2020/06/30	Year ending 2021/06/30	Year ending 2022/06/30
Opening Accrued Liability	2 574 007	2 205 463	2 842 330
Current-service Cost	223 878	190 067	233 711
Interest Cost	167 481	147 337	216 047
Benefit payments	49 225	476 567	-
Total Annual Expense	440 584	813 971	449 758
Past Service Cost	-809 128	-177 104	-296 950
Closing Accrued Liability	2 205 463	2 842 330	2 995 138

Key Financial Assumptions

	2021/06/30		2020/06/30	
	Males	Females	Males	Females
Discount rate	8.02%		6.96%	
General salary Inflation	5.53%		3.33%	
Net effective discount rate	2.36%		3.51%	
Average retirement age	63	58	63	58
Mortality during employment	SA85-90		SA85-90	

In service members withdrawing before retirement	Males	Females
Age 20	16%	24%
Age 30	12%	18%
Age 40	8%	10%
Age 50	4%	4%
Age 55	2%	2%

Post-employment medical benefits

Medical Scheme Arrangements
The Employer offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Membership Eligibility
Upon retirement, an employee may continue membership of the medical scheme. Upon a member’s death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution Rate Structure
Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Policy
In-service members will receive a post-employment subsidy of 60% of the contribution payable. All continuation members receive a 60% subsidy. Widow(er)s and orphans of eligible in-service members are entitled to receive this same subsidy on and after the death in-service of an employee.

Upon a member’s death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R

An actuarial valuation of the future liability for this

	Year ending 2020/06/30	Year ending 2021/06/30	Year ending 2022/06/30
Opening Accrued Liability	8 673 753	8 070 742	9 688 592
Current-service Cost	349 858	327 067	421 242
Interest Cost	914 049	1 024 804	1 078 581
Benefit payments	(246 507)	(277 645)	(270 342)
Total Annual Expense	1 017 400	1 074 226	1 229 481
Actuarial Loss / (Gain)	(1 620 411)	543 623	-
Closing Accrued Liability	8 070 742	9 688 591	10 918 073

Key Financial Assumptions	2021/06/30		2020/06/30	
	Males	Females	Males	Females
Discount rate	11.29%		12.92%	
Health care cost inflation rate	7.81%		8.70%	
Net effective discount rate	3.23%		3.88%	
Average retirement age	63	58	63	58
Proportion continuing membership at retirement	100.00%		100.00%	
Proportion of retiring members who are married	100.00%		90.00%	
Proportion of eligible current non-member employees joining the scheme by retirement	10.00%		10.00%	
Mortality during employment	SA85-90		SA85-90	
Mortality post retirement	PA(90)-1		PA(90)-1	

In service members withdrawing before retirement	Males	Females
Age 20	12%	24%
Age 30	5%	15%
Age 40	3%	6%
Age 50	1%	2%
Age 55	1%	1%

12 **SHARE CAPITAL**

	2021	2020
Issued ordinary shares	100	100

The authorised number of ordinary shares is 10 000 with a

13 **ACCUMULATED FUNDS**

	2021	2020
Accumulated Funds Surplus(Deficit)		
Balance Beginning Year - Surplus(Deficit)	5 754 250	21 778 904
Surplus/(Deficit) for year	(89 050 432)	(91 828 627)
Off Setting Depreciation /Partners Cont/Reval Reserve	65 515 868	75 803 974
Balance Year End	-17 780 314	5 754 250
Asset Revaluation Reserve	633 461 008	699 709 328
Less: Off Setting Depreciation	(65 515 868)	(66 248 321)
Balance Year End	567 945 140	633 461 008
Total Accumulated Funds	**550 164 826**	**639 215 258**
Shareholder Contributions		
Shareholder Contributions - Beginning Year	165 735 184	174 159 523
Less: Off Setting Depreciation	(9 572 531)	(8 424 339)
Balance Year End	156 162 652	165 735 184
Accumulated Funds Surplus/(Deficit)	-17 780 314	5 754 250
Shareholder Contributions - Projects	166 613 419	176 185 951
Umzinyathi District Municipality	78 720 255	82 243 388
Amajuba District Municipality	6 627 604	7 721 253
Newcastle Municipality	81 265 561	86 221 310
Accumulated Funds Surplus(Deficit) -Excluding Shareholder Contributions - Projects	(184 393 733)	(170 431 700)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

		2021	2020
		R	R
14	**SERVICE CHARGES**		
	Sale of water	165 403 505	148 550 115
	Total Service Charges	165 403 505	148 550 115
15	**INTEREST EARNED - EXTERNAL INVESTMENTS**		
	Banks	963 382	1 374 489
	Deposits Made with Suppliers	103 654	113 786
	Total Interest	1 067 037	1 488 275
16	**GRANTS AND SUBSIDIES**		
16.1	**Project funding**		
	Umzinyathi District Municipality	-	222 372
		-	222 372
	Refer to Note 10		
17	**OTHER RECEIPTS**		
	Rental of land and buildings	211 893	209 479
	Laboratory services	43 493	63 178
	eSeta	37 463	-
	Tender document sales	783	-
	Connection fees	-	6 296
	Reduction in provision for bad debt	33 293	14 526
		326 923	293 479
18	**EMPLOYEE RELATED COSTS**		
	Salaries and Wages	37 052 866	33 918 062
	Medical, Pension and Provident Fund	9 454 293	6 504 375
	Leave pay	1 217 943	1 785 349
	Bonuses	3 452 628	2 899 273
	Housing benefits and allowances	2 112 578	2 141 090
	Overtime payments	4 191 818	4 666 341
	Other	733 837	839 812
		58 215 964	52 754 301
	Included in the employee related costs are the following:		
	Managing Director		
	Annual Remuneration	-	-
	Travel, motor car, accommodation, subsistence and other allowances	-	-
	Contributions to UIF, Medical and Pension Funds	-	-
	Accumulated Leave	-	-
	Total	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R
Chief Financial Officer		
Annual Remuneration	1 365 136	1 146 899
Travel, motor car, accommodation, subsistence and other allowances	54 000	63 168
Contributions to UIF, Medical and Pension Funds	183 449	134 780
Accumulated Leave	300 178	187 883
Total	1 902 763	1 532 730
Heads of Departments		
Operations/Engineering		
Annual Remuneration	1 679 464	1 375 968
Travel, motor car, accommodation, subsistence and other allowances	146 260	114 220
Contributions to UIF, Medical and Pension Funds	262 484	184 694
Accumulated Leave	356 141	300 526
Total	2 444 349	1 975 408
Human Resources Manager		
Annual Remuneration	1 602 138	1 357 347
Travel, motor car, accommodation, subsistence and other allowances	152 351	157 764
Contributions to UIF, Medical and Pension Funds	279 107	262 477
Accumulated Leave	281 012	207 297
Total	2 314 608	1 984 885
Remuneration of directors		
Chairman	-	-
Deputy Chairman	-	-
Other board members	-	-
Total Director's Remuneration	-	-

19 **DEPRECIATION AND AMORTISATION EXPENSE**

	2021	2020
Property, plant and equipment	78 819 001	79 481 162
Intangible assets	442 464	429 387
Total Depreciation and Amortisation	79 261 466	79 910 549

20 **REPAIRS AND MAINTENANCE ON PROPERTY, PLANT AND EQUIPMENT**

	2021	2020
Expended	5 177 110	3 106 037

The amounts reflected for the respective financial years indicate the amounts spent by the entity to repair and maintain PPE, and include costs of maintenance, preservation, monitoring, repair, refurbishment, renovation, materials, service provider and if applicable direct employee costs.

21 **BULK PURCHASES**

	2021	2020
Water	25 047 706	23 302 590
Water services and management levy	5 219 693	4 446 928
	30 267 399	27 749 518

22 **INTEREST PAID/ACCRUED**

	2021	2020
Overdue accounts	22 945 197	22 022 422
Refer to Note 30.2	22 945 197	22 022 422

23 **CONTRACTED SERVICES**

	2021	2020
Professional fees and consultant costs	2 394 852	3 865 644
Legal expenses	140 805	28 500
	2 535 657	3 894 144

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R

24 **OPERATING EXPENSES**

Included in operating expenses are the following:-

	2021 R	2020 R
Advertising	124 836	10 000
Bank charges	74 987	80 290
Board meeting and Chairman's discretionary	13 183	38 874
Chemicals	8 176 203	6 293 529
Communications costs	1 070 278	837 839
Conferences and seminars	21 454	36 241
Consumables and stores	138 764	98 489
Covid-19 expenses	317 253	193 862
Electricity	39 787 833	37 924 168
Fuel and Oil	668 285	779 217
Insurance	834 323	817 683
Licensing of Motor Vehicles & Trailers	191 241	205 836
Membership fees	37 079	34 491
Municipal services	207 362	202 729
Postage and courier services	18 248	12 373
Printing and stationery	125 565	72 213
Protective clothing	166 799	170 086
Rental	1 434 893	1 325 968
Safety and security	786 252	754 240
Scada and telemetric costs	150 462	-
Servitudes and Land Surveys	12 250	-
Software Licenses	726 526	625 162
Staff and other meeting costs	400	1 258
Staff Emergency Rations	5 169	7 088
Staff recruitment and relocation costs	2 720	11 589
Subsistence and travel	142 878	236 356
Tools and equipment	4 322	7 152
Training	642 158	165 707
Water analysis	1 688 666	2 057 300
	57 570 388	52 999 739

25 **GAIN / (LOSS) ON SALE OF ASSETS**

	2021 R	2020 R
Property, plant and equipment	114 697	-
Total Gain / (Loss) on Sale of Assets	114 697	-

26 **TAXATION**

The Company is exempt from the payment of income tax and duties in terms of section 10 (1) (t) (ix) of the Income Tax Act 58/1962

27 **CASH GENERATED BY OPERATIONS**

	2021 R	2020 R
Surplus/(Deficit) for the year	(89 050 432)	(91 828 627)
Adjustment for: -		
Depreciation	79 261 466	79 910 549
Contribution to bad debt provision	(33 293)	(14 526)
Contribution to staff benefits provision	2 566 047	346 169
Operating surplus before working capital Amendments	**(7 256 211)**	**(11 586 436)**
(Increase)/Decrease in Inventories	(10 586)	(53 841)
Decrease/(Increase) in consumer and other debtors	(33 795 044)	(33 458 276)
(Decrease)/Increase in creditors	51 436 698	53 266 392
(Decrease)/Increase in VAT	237 410	(293 052)
(Decrease)/Increase in Unspent Capital Grants	-	(222 372)
Cash generated by operations	10 612 266	7 652 415

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	R	R

28 **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow

	2021	2020
Bank balances and cash	1 082 808	2 120 028
Cash on call and short notice deposits	28 341 276	17 950 132
Net cash and cash equivalents (net of bank overdrafts)	29 424 084	20 070 160

29 **CHANGE IN ACCOUNTING POLICY**

No change in accounting policies during the year

30 **UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

30.1 **Unauthorised expenditure**

Reconciliation of unauthorised expenditure

	2021	2020
Opening balance	-	-
Unauthorised expenditure current year	-	-
Unauthorised expenditure awaiting authorisation	-	-

30.2 **Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure

	2021	2020
Opening balance as previously reported	**87 761 518**	**65 739 096**
Add: Fruitless and wasteful - current	22 945 197	22 022 422
Less: Amount recoverable	-	-
Less: Amounts written-off	-	-
Closing balance	**110 706 715**	**87 761 518**

R 110 674 594 comprises of interest raised by the Department of Water and Sanitation on outstanding accounts. Negotiations are currently taking place between uThukela Water, the WSA's and the Department to resolve this matter.

30.3 **Irregular expenditure**

	2021	2020
Opening balance as previously reported	**62 807 570**	**57 402 597**
Add: Irregular expenditure - current	4 175 990	5 404 973
Less: Amount recoverable	-	-
Less: Amounts written-off	-	-
Closing balance	**66 983 560**	**62 807 570**

Irregular expenditure consists of:

Expenditure of R 4 175 990 incurred by the Board relating to the consulting services of LL Cunha and Associates was considered to be irregular by the Auditor General, citing that the Board had not followed a SCM process in this regard.

31 **ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL SECTION 27 FINANCE MANAGEMENT ACT**

31.1 **Contributions to organised local government**

	2021	2020
Opening balance		
Council subscriptions	-	-
Amount paid - current	-	-
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-

31.2 **Audit fees**

	2021	2020
Audit fees paid during the year	1 674 313	2 097 645

31.3 **VAT**

VAT input - receivables and VAT output - payables are shown in note 5. During the year all VAT returns were submitted by the due date.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

		2021	2020
		R	R
31.4	**PAYE**		
	Opening Balance	-	-
	Current year payroll deductions	10 226 668	9 639 745
	Amount paid - current year	(10 226 668)	(9 639 745)
	Balance unpaid at year end included in creditors	-	-
31.5	**UIF**		
	Opening Balance	-	-
	Current year payroll deductions	312 787	303 096
	Amount paid - current year	(312 787)	(303 096)
	Balance unpaid at year end included in creditors	-	-
31.6	**Medical aid**		
	Opening Balance	-	-
	Current year payroll deductions	3 349 388	3 061 560
	Amount paid - current year	(3 349 388)	(3 061 560)
	Balance unpaid at year end included in creditors	-	-
31.7	**Pension and provident fund contributions**		
	Opening Balance	-	-
	Current year payroll deductions	8 501 008	7 666 302
	Amount paid - current year	(8 501 008)	(7 666 302)
	Balance unpaid at year end included in creditors	-	-

32 **CAPITAL COMMITMENTS**

Commitments in respect of capital expenditure

	2021	2020
- Approved and contracted for		
Infrastructure	-	-
- Approved but not yet contracted for		
Infrastructure	-	-
Total	-	-

33 **OPERATING LEASES**

At the reporting date the entity has outstanding

Operating leases - lessee

	2021	2020
Within one year	(1 520 696)	(1 499 469)
In the second to fifth year inclusive	(1 760 276)	(45 091)
After five years	-	-
Total	**(3 280 972)**	**(1 544 560)**

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for its head office property at Lot 600 Newcastle. The current lease expires on 31 July 2023. As well as payments payable to ITEC for rental of printers the contract of which expires on the 31/08/2022 and 09/03/2024

34 **RETIREMENT PLANS**

34.1 **Defined contribution plans**

During the year contributions were made to the following defined contribution plans: Natal Joint Municipal Pension Fund - Provident Funds SALA pension fund. These contributions have been expensed.

	2021	2020
	R	R

34.2 **Defined benefit plan**

The following are defined benefit plans: Natal Joint Municipal Pension Funds - Superannuation and Retirement funds and Government Employees Pension Fund. These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.
In respect of Natal Joint Municipal Pension Funds - Superannuation and Retirement funds regular actuarial assessments are carried out in terms of the fund rules and any actuarial deficit is recovered by a surcharge on all employer members

34.3 **Employees retirement funding**

An amount of R5 747 938 (2020 : R5 193 081) was contributed by Council in respect of Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

35 **IN-KIND DONATIONS AND ASSISTANCE**

The Entity received no in-kind donations and assistance

36 **RELATED PARTIES**

The nature of the relationship between the company and its shareholders, namely: the Water Service Authorities (uMzinyathi District Municipality, Amajuba District Municipality and Newcastle Municipality) is such that any transactions between the parties are related party transactions. Specific categories of such

Revenue Received

	2021	2020
Bulk Water Services	134 959 579	117 227 781
Umzinyathi District Municipality	16 986 829	15 011 708
Amajuba District Municipality	22 594 948	11 294 920
Newcastle Municipality	95 377 802	90 921 153
Less: Bad Debt		
	134 959 579	117 227 781

Year End Balances

	2021	2020
Assets Funding	499 813	316 676
Umzinyathi District Municipality	499 813	316 676
Less: Provision for Doubtful Debt	-316 676	-316 676
	183 138	-
Bulk Water Services	142 488 275	108 943 096
Umzinyathi District Municipality	10 417 270	5 416 863
Amajuba District Municipality	15 403 096	18 056 196
Newcastle Municipality	116 667 909	85 470 038
Less: Provision for Doubtful Debt	-4 803	-4 803
	142 483 472	108 938 293
Revenue Funding	82 763 673	82 763 673
Umzinyathi District Municipality	64 191 401	64 191 401
Amajuba District Municipality	18 572 273	18 572 273
Less: Provision for Doubtful Debt	-82 763 673	-82 763 673
	-	-
Sundry [mSCOA System]	875 503	875 503
Umzinyathi District Municipality	191 303	191 303
Amajuba District Municipality	684 200	684 200
Less: Provision for Doubtful Debt	-875 503	-875 503
	-	-

	2021	2020
	R	R

Key Management Personnel

The nature of the related party relationship entered into by the Board and the consultancy service; LL Cunha and Associates, is detailed hereunder, and herewith this note also sets out the terms and conditions of the written agreement and subsequent written amendments, all transactions relating thereto, any commitments and outstanding balances, if any, entered between the parties.

The Consultancy service was initially introduced to the Board by Provincial Treasury in terms of a section 139 of the Constitution of SA intervention, and the objectives thereof were to provide urgently needed financial support services to the entity, including the performance by Mr LL Cunha of the Acting Chief Financial Officer duties. At the time of the engagement of the consultant, PWC SA, had issued a compilation report regarding the collapse of the financial affairs of the Board, and had proposed an urgent and immediate intervention. Financial statements had not been issued and audits had not been conducted for a period of 6 years, and the Shareholder municipalities were very concerned with the status of the entity, as it impacted quite severely on their own financial affairs. Subsequent to the recovery of the entity to unqualified audit status, and pending the establishment of a new water institution envisaged by Provincial Cabinet resolution dated 7 June 2012, the shareholder municipalities took a resolution and placed a moratorium on the appointment of any new senior management positions by the entity during the transitional phase. In October 2014 the Managing Director of the entity resigned and terminated his services with the Board, and the Board, as an interim arrangement to ensure the continuity of its operational requirements, directed the Acting CFO Mr LL Cunha, to carry the Managing Director responsibilities in addition to those of the CFO position, until otherwise directed, or pending the imminent formation of the new water institution.

Consequent to the delays with the implementation of the Provincial Cabinet decision, and the subsequent Government Gazette Notice published on the 15 December 2015 issued by the National Minister of Water Affairs and Sanitation regarding the formation of the new water institution for KZN- Natal, the Board took a decision to secure, on a relatively short term basis, the interim arrangements concerning the Acting Manager Director responsibilities, were secured by contract terminating on the 31 March 2020. This contract was further extended, initially by 3 months to the end of June 2020, then by 6 months to the 31 December 2020, and thereafter two 3 months contracts to 30 June 2021 and a six months contract to 31 December 2021, due to the effects and prohibitions on movements imposed by the National COVID19 regulations. The leave and Performance incentives were not continued beyond the 30 June 2020 by mutual agreement due to the short term nature of the contract extensions.

No guarantees are given or provided for in the agreements except for the performance objectives required by the Board.

There are no expenses or provision created for bad or doubtful debts.

Detailed hereunder are the transactions resulting from these arrangements and contractual obligations for the period reported in the annual financial statements for the year ending 30 June 2021.

	2021	2020
	4 175 990	4 769 398
Payments made for contracted services	3 230 589	3 204 538
Performance bonus	-	192 186
Payments for Ad Hoc services to LL Cunha and Associates	869 501	1 296 773
Payments for rental accomodation	75 900	75 900

37 **EVENTS AFTER THE REPORTING DATE**

Subsequent to year end, the Chairperson of the Board, Mr PS Naidoo and the Acting MD, Mr LL Cunha resigned. Advocate N Khambule has subsequently been appointed as the Acting MD, by the shareholder municipalities.

Change of Functions

The future of the bulk water services in the region is still being finalised by National Minister of Water Affairs

38 **DEVIATIONS FROM SCM REGULATIONS (SCM Regulation Number 36)**

	2021	2020
Emergency procurement	178 315	737 405
Deviation less than R200 000.00	6 241 506	4 159 853

Supply chain deviations from SCM policy listed above were, in terms of section 36 of the municipal SCM regulations, approved by the accounting officer or officials in terms of delgated powers, and noted by the board .

The reasons for the deviations include the following: Acquisition from sole suppliers, non-responsive suppliers, supplies where mechanical units required a strip and quote, acquisitions direct from manufacturers or agents and, where in terms of Board policy, equipment was standardised.
Emergency procurement and circumstances where it is impractical or not possible to follow the official procedure,are assessed in terms of the stipulated criteria by the SCM Bid Adjudication Committee.

	2021	2020
	R	R

39 **RISK MANAGEMENT**

39.1 **Maximum credit risk exposure**

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit
Management evaluates credit risk relating to consumer debtors and provides for impairment. See notes

39.2 **Liquidity risk**

The company's risk to liquidity is related to the timeous payment of bulk water accounts by its shareholding municipalities
Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

39.3 **Interest rate risk**

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

40 **COMPARISON WITH THE BUDGET**

The comparison of the Municipality's actual financial performance with that budgeted is set out in Appendix D

41 **BULK WATER LOSSES**

Water stock	2020 ML	2019 ML
Opening balance treated water	48	18
Opening balance raw water	22	22
Raw water purchases	50 613	50 069
Treated water sales	-43 056	-42 241
Process water in system	-2 531	-2 455
Technical water loss	-5 027	-5 343
Closing water stock	69	70

Water losses	ML	R	ML	R
Opening Stock Raw	22	13 246	22	13 222
Opening stock Treated	48	166 080	18	10 818
Units purchased - Newcastle and Amajuba	44 855	27 007 196	44 593	26 800 393
Units purchased - Umzinyathi	5 758	179 650	5 476	163 185
Total units purchased	50 661	27 352 925	50 087	26 974 396
Units sold	43 056	164 043 360	-42 241	-146 153 860
Unsold process water in system	2 531	9 643 110	2 455	8 494 300
Total loss	5 074	3 049 474	89 873	54 013 673
Comprising of				
Technical losses	5 027	3 026 757	5 391	3 239 991
Total	5 074	3 026 757	5 391	3 239 991
Percentage loss	%		%	
Technical losses	10.02%		179.43%	
Total	10.02%		179.43%	

Bulk water losses are very carefully managed and form part of the Boards performance management monitoring program. The technical water losses of 10.02 % represents the real water losses on the bulk water supply lines from extraction to final treatment, storage and distribution. Considering the condition, age and and the lack of capital infrastructure investment into these assets, the loss is considered acceptable, and within the industry norm of around 15%.

UTHUKELA WATER (PTY) LTD.

APPENDIX A: ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS FOR THE YEAR ENDED 30 JUNE 2021

Laboratory Equipment	Balance at 30-Jun-19	Additions	Work in Progress	Water Service assets transferred to WSA's	Disposals	Revaluation	Balance at 30-Jun-20	Additions	Water Service assets transferred from WSA's	Disposals	Revaluation	Transfers	Balance at 30-Jun-21
	R	R	R	R	R	R	R	R	R	R			R
WATER INFRASTRUCTURE													
Water Purification Plant	363 774 020	222 372		3 964 501	-	-	367 960 893	-	-	-	-	-	367 960 893
Pump Stations	46 752 575	61 211		-	-	-	46 813 785	-	-	-	-	-	46 813 785
Dams	141 173 465	-		-	-	-	141 173 465	-	-	-	-	-	141 173 465
Reservoirs	54 299 532	-		-	-	-	54 299 532	-	-	-	-	-	54 299 532
Chambers & Components on Bulk lines	14 729 240	-		-	-	-	14 729 240	-	-	-	-	-	14 729 240
Reticulation	736 514 037	-		-	-	-	736 514 037	-	-	-	-	-	736 514 037
	1 357 242 869	283 582	-	3 964 501	-	-	1 361 490 952	-	-	-	-	-	1 361 490 952
VEHICLES													
Water	5 339 928	-			-	-	5 339 928	-	-	-	-	-	5 339 928
Administration	149 899	-			-	-	149 899	-	-	-	-	-	149 899
	5 489 827	-	-	-	-	-	5 489 827	-	-	-	-	-	5 489 827
PLANT & EQUIPMENT													
Tractors/Trailers/Machinery	3 092 822	-		-	-	-	3 092 822	-	-	-	-	-	3 092 822
Bulk Water Meters	2 761 417	90 390		-	-	-	2 851 807		-	-	-	-	2 851 807
Laboratory Equipment	4 231 087	103 761		-	-	-	4 334 848	10 050	-	-	-	-	4 344 898
Small Plant And Equipment	2 287 934	3 972		-	-	-	2 291 906		-	-	-	-	2 291 906
Water Plant	48 930 389	1 000 738		5 591 152	-	-	55 522 278	807 944	-	-	-	-	56 330 222
	61 303 649	1 198 861	-	5 591 152	-	-	68 093 661	817 994	-	-	-	-	68 911 655
FURNITURE, EQUIPMENT AND FITTINGS													
Technology	1 723 253	159 657			-	-	1 882 910	424 849	-	-	-	-	2 307 759
Finance	205 888	-			-	-	205 888		-	-	-	-	205 888
Engineering	786 621	3 825			-	-	790 446	15 498	-	-	-	-	805 945
Administration	468 181	2 929			-	-	471 110		-	-	-	-	471 110
Human Resources	134 807	-			-	-	134 807		-	-	-	-	134 807
	3 318 751	166 411	-	-	-	-	3 485 162	440 347	-	-	-	-	3 925 509
INTANGIBLE													
Technology	5 014 600	-			-	-	5 014 600	-	-	-	-	-	5 014 600
	5 014 600	-	-	-	-	-	5 014 600	-	-	-	-	-	5 014 600
TOTAL	1 432 369 695	1 648 854	-	9 555 653	-	-	1 443 574 202	1 258 341	-	-	-	-	1 444 832 544

Laboratory Equipment	Accumulated Depreciation Balance at 30-Jun-19	Additions	Water Service assets transferred to WSA's	Disposals	Accumulated Depreciation Balance at 30-Jun-20	Additions	Disposals	Correction Journals	Balance at 30-Jun-21	Carrying Value 30-Jun-19	Carrying Value 30-Jun-20	Carrying Value 30-Jun-21
	R	R	R	R	R	R	R	R	R	R	R	R
WATER INFRASTRUCTURE												
Water Purification Plant	71 697 306	14 960 005	-	-	86 657 311	15 174 419	-	-	101 831 730	292 076 714	281 303 581	266 129 163
Pump Stations	11 993 059	2 572 509	-	-	14 565 568	2 574 549	-	-	17 140 116	34 759 516	32 248 218	29 673 669
Dams	14 236 635	2 853 292	-	-	17 089 927	2 853 292	-	-	19 943 219	126 936 830	124 083 538	121 230 246
Reservoirs	12 532 368	3 037 643	-	-	15 570 011	3 037 643	-	-	18 607 653	41 767 164	38 729 521	35 691 878
Chambers & Components on Bulk lines	7 129 886	1 391 621	-	-	8 521 507	1 391 621	-	-	9 913 127	7 599 354	6 207 733	4 816 113
Reticulation	341 598 351	47 474 310	-	-	389 072 661	47 474 310	-	-	436 546 971	394 915 686	347 441 376	299 967 066
	459 187 605	72 289 379	-	-	531 476 984	72 505 833	-	-	603 982 817	898 055 263	830 013 968	757 508 135
VEHICLES												
Water	2 592 748	660 660	-	-	3 253 408	524 660	-	-	3 778 068	2 747 180	2 086 520	1 561 860
Administration	85 899	16 000	-	-	101 899	16 000	-	-	117 899	64 000	48 000	32 000
	2 678 647	676 660	-	-	3 355 307	540 660	-	-	3 895 967	2 811 180	2 134 520	1 593 860
PLANT & EQUIPMENT												
Tractors/Trailers/Machinery	1 512 157	287 638	-	-	1 799 795	287 638	-	(799)	2 086 634	1 580 665	1 293 027	1 006 189
Bulk Water Meters	627 707	241 581	-	-	869 288	245 206	-	-	1 114 494	2 133 710	1 982 519	1 737 312
Laboratory Equipment	2 590 855	501 162	-	-	3 092 017	408 315	-	(13 485)	3 486 847	1 640 232	1 242 831	858 051
Small Plant And Equipment	1 778 929	119 283	-	-	1 898 211	120 011	-	(334)	2 017 888	509 005	393 695	274 018
Water Plant	22 228 006	5 089 558	-	-	27 317 564	4 355 063	-	(438)	31 672 189	26 702 382	28 204 714	24 658 033
	28 737 654	6 239 222	-	-	34 976 876	5 416 232	-	(15 056)	40 378 053	32 565 995	33 116 786	28 533 603
FURNITURE, EQUIPMENT AND FITTINGS												
Technology	1 251 230	120 608	-	-	1 371 838	217 270	-	(2 892)	1 586 216	472 023	511 072	721 543
Finance	116 315	21 844	-	-	138 159	21 844	-	-	160 003	89 574	67 729	45 885
Engineering	468 839	74 602	-	-	543 441	76 938	-	(80)	620 298	317 782	247 006	185 647
Administration	275 932	45 195	-	-	321 127	45 388	-	(766)	365 749	192 249	149 983	105 361
Human Resources	80 220	13 652	-	-	93 872	13 652	-	(23)	107 502	54 587	40 934	27 305
	2 192 536	275 902	-	-	2 468 438	375 092	-	(3 760)	2 839 769	1 126 214	1 016 724	1 085 740
INTANGIBLE												
Technology	3 412 868	429 387	-	-	3 842 255	429 337	-	13 127	4 284 719	1 601 732	1 172 345	729 881
	3 412 868	429 387	-	-	3 842 255	429 337	-	13 127	4 284 719	1 601 732	1 172 345	729 881
TOTAL	496 209 310	79 910 549	-	-	576 119 859	79 267 154	-	(5 689)	655 381 325	936 160 385	867 454 343	789 451 219

UTHUKELA WATER (PTY) LTD.

APPENDIX B: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS FOR THE YEAR ENDED 30 JUNE 2021

	Balance at 30-Jun-19	Additions	Disposals	Revaluation	Balance at 30-Jun-20	Additions	Water Service assets transferred from WSA's	Disposals	Revaluation	Transfers	Balance at 30-Jun-21
	R	R	R	R	R	R	R	R			R
SUMMARY											
Water	1 423 886 447	1 482 443	-	-	1 434 924 543	817 994	-	-	-	-	1 435 742 537
Technology	6 737 853	159 657	-	-	6 897 510	424 849	-	-	-	-	7 322 359
Administration	618 080	2 929	-	-	621 009	-	-	-	-	-	621 009
Finance	205 888	-	-	-	205 888	-	-	-	-	-	205 888
Human Resources	134 807	-	-	-	134 807	-	-	-	-	-	134 807
Engineering	786 621	3 825	-	-	790 446	15 498	-	-	-	-	805 945
	1 432 369 696	1 648 854	-	-	1 443 574 203	1 258 341	-	-	-	-	1 444 832 545

	Accumulated Depreciation											Carrying Value		
	Balance at 30-Jun-19	Additions	Water Service assets transferred to WSA's	Disposals	Value Adjustments	Balance at 30-Jun-20	Additions	Water Service assets transferred to WSA's	Disposals	Correction Journals	Balance at 30-Jun-21	30-Jun-19	30-Jun-20	30-Jun-21
	R	R	R	R	R	R	R	R	R	R	R	R	R	R
SUMMARY														
Water	490 502 951	79 189 261	-	-	-	569 692 212	78 446 726	-	-	-	648 138 938	933 383 495	865 232 330	787 603 599
Technology	4 679 974	549 995	-	-	-	5 229 969	646 608	-	-	-	5 876 576	2 057 880	1 667 542	1 445 783
Administration	361 115	61 195	-	-	-	422 310	61 388	-	-	-	483 698	256 965	198 699	137 311
Finance	116 315	21 844	-	-	-	138 159	21 844	-	-	-	160 003	89 574	67 729	45 885
Human Resources	80 198	13 652	-	-	-	93 850	13 652	-	-	-	107 502	54 609	40 957	27 305
Engineering	468 759	74 602	-	-	-	543 361	76 938	-	-	(5 689)	614 609	317 862	247 086	191 336
	496 209 311	79 910 549	-	-	-	576 119 860	79 267 156	-	-	(5 689)	655 381 327	936 160 385	867 454 343	789 451 218

UTHUKELA WATER (PTY) LTD.

APPENDIX C: SEGMENTAL ANALYSIS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

2021 Actual Revenue R	2021 Actual Expenditure R	2021 Surplus/ (Deficit) R				2020 Actual Revenue R	2020 Actual Expenditure R	2020 Surplus/ (Deficit) R
-	(6 500 515)	(6 500 515)		Strategy and Leadership		-	(8 492 933)	(8 492 933)
-	(1 997 342)	(1 997 342)		Company Secretary		-	(2 277 703)	(2 277 703)
-	(6 996 756)	(6 996 756)		Human Resources		-	(2 825 820)	(2 825 820)
1 393 960	(33 597 884)	(32 203 924)		Finance		2 004 126	(32 091 168)	(30 087 042)
-	(5 736 378)	(5 736 378)		Technology		-	(5 063 176)	(5 063 176)
-	(5 757 210)	(5 757 210)		Environmental Management		-	(5 895 242)	(5 895 242)
-	(3 177 059)	(3 177 059)		Engineering		-	(3 037 742)	(3 037 742)
-	(4 930 496)	(4 930 496)		Administration Operations		-	(4 929 033)	(4 929 033)
165 403 505	(187 268 956)	(21 865 451)		Water		148 550 115	(177 770 052)	(29 219 936)
166 797 465	(255 962 593)	(89 165 128)		**Total**		150 554 241	(242 382 869)	(91 828 627)
114 697	-	114 697		Gain / (loss) on sale of assets		-	-	-
166 912 162	(255 962 593)	(89 050 432)				150 554 241	(242 382 869)	(91 828 627)

UTHUKELA WATER (PTY) LTD.

APPENDIX D: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2020

				2021	2021		2021	2021		Explanation for Significant Variances of more than 10% from Budget
	Original Budget	Budget Adjustments (i.t.o. s28 & s31 Of The MFMA)	Virement (i.t.o. Council Approved By-law)	Final Budget	Actual	Unauthorised Expenditure	Variance	% Variance to Final Budget	% Variance to Original Budget	
	1	2	3	4	5	6	7	8	9	
Financial Performance										
Service charges	170 263 232	-	-	170 263 232	165 403 505	-	(4 859 727)	-3%	-3%	
Interest received	107 000	-	-	107 000	1 067 037	-	960 037	897%	897%	Conservative budget provided for Interest income due to uncertainty of payments from WSA's
Other receipts	779 300	-	-	779 300	326 923	-	(452 377)	-58%	-58%	Other receipts are irregular receipts dependant partially on laboratory services requested by customer's
Total Revenue (Excluding Capital Transfers & Contributions)	**171 149 532**	**-**	**-**	**171 149 532**	**166 797 465**	**-**	**(4 352 067)**	**-3%**	**-3%**	
Expenditure										
Employee related costs	(59 541 583)	-	-	(59 541 583)	(58 215 964)		1 325 619	-2%	-2%	
Depreciation	(1 787 026)	-	-	(1 787 026)	(79 261 466)		(77 474 440)	4335%	4335%	Full effect of depreciation on assets not provided for on budget - Capital grant and revaluation depreciation off-set any not budgeted for.
Repairs and maintenance	(16 110 527)	-	-	(16 110 527)	(5 177 110)		10 933 417	-68%	-68%	Due to non payment from two WSA's, expenditure has been curtailed
Bulk water purchases	(29 419 149)	-	-	(29 419 149)	(30 267 399)		(848 250)	3%	3%	
Interest paid/accrued	-	-	-	-	(22 945 197)	-	(22 945 197)			Department of Water and Sanitation. Non payment of charges by WSA's and dispute with the department
Contracted services	(2 704 180)	-	-	(2 704 180)	(2 535 657)	-	168 523	-6%	-6%	
Inventory	-	-	-	-	10 586	-	10 586			Annual adjustment not budgeted for
Other expenditures	(60 272 768)	-	-	(60 272 768)	(57 570 388)	-	2 702 381	-4%	-4%	
Total Expenditure	**(169 835 232)**	**-**	**-**	**(169 835 232)**	**(255 962 593)**	**-**	**(86 127 361)**	**(51)**	**(51)**	
Surplus/(Deficit)	1 314 300	-	-	1 314 300	(89 165 128)		(90 479 428)			
Partners Project Contributions							-			
Surplus/(Deficit) After Capital Transfers & Contributions	1 314 300			1 314 300	(89 165 128)		(90 479 428)			
Capital Expenditure & Funds Sources										
Capital Expenditure	-	-	-	-	(1 258 341)		(1 258 341)	100	100	No Approved capital budget
Internally Generated Funds	-	-	-	-	1 258 341	-	1 258 341			
Total Sources Of Capital Funds	-	-	-	-	**1 258 341**	-	**1 258 341**			
Cash flows										
Net Cash From (Used) Operating	1 314 300	-	-	1 314 300	10 612 266					
Net Cash From (Used) Investing	-	-	-	-	(1 258 341)					
Net Cash From (Used) Financing	-	-	-	-	-					
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	1 314 300	-	-	1 314 300	9 353 925					