



Hlabisa Local Municipality  
Annual financial statements  
for the year ended 30 June 2014

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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### Members of the Council

Executive Mayor	V.F Hlabisa	<b>Mayor</b>
Deputy Mayor	H.T Nkosi	<b>Deputy Mayor</b>
Speaker	G.R Mchunu	<b>Speaker</b>
Exco Member	S.F Mdaka	<b>Member of the Executive Committee</b>
	B.A Mokoena	<b>Member</b>
	T.T Kunene	<b>Member</b>
	B.J Langa	<b>Member</b>
	B.W Manqele	<b>Member</b>
	P.P Nhlenyana	<b>Member</b>
	Z.P Ndlovu	<b>Member</b>
	T.Z Nkosi	<b>Member</b>
	B. Ntombela	<b>Member</b>
	O.Z Simelane	<b>Member</b>
	M.B Sithole	<b>Member</b>
	T.H. Zungu	<b>Member</b>
	B.I Zungu	<b>Member</b>

### Municipal Manager

D.A. Khumalo

### Chief Finance Officer

F.X.H. Mhlongo

### Auditors

Auditor-General

### Attorneys

Ngwenya & Zwane Incorporated  
Ngubane Gourley and Associates CC  
Advocate T.H Mnyandu  
PKX Attorneys

### Bankers

ABSA  
FNB

### Registered office

Municipal Building  
Lot 808 Masson Street  
Hlabisa  
3937

### Business address

Municipal Building  
Lot 808 Masson Street  
Hlabisa  
3937

### Postal address

P.O. Box 387  
Hlabisa  
3937

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Index

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<b>Index</b>	<b>Page</b>
Approval of Annual Financial Statements	3
Statement of Financial Position	4
Statement of Changes in Net Assets	6
Statement of Financial Performance	5
Cash Flow Statement	7
Appropriation Statement	8 - 9
Accounting Policies	10 - 27
Notes to the Annual Financial Statements	28 - 53

# **Hlabisa Local Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Approval of Annual Financial Statements**

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I am responsible for the preparation of these annual financial statements, which are set out in pages 4 to 54 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 22 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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**D.A. Khumalo**  
**Municipal Manager**

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
<b>ASSETS</b>			
<b>Current Assets</b>			
Inventories	4	2,893	8,496
Trade and other receivables from exchange transactions	5	382,204	418,306
Trade and other receivables from non-exchange transactions	6	83,097	130,151
Cash and cash equivalents	7	2,605,662	6,871,856
		<u>3,073,856</u>	<u>7,428,809</u>
<b>Non-Current Assets</b>			
Investment property	8	18,544,000	18,544,000
Property, plant and equipment	9	75,977,912	69,986,351
Intangible assets	10	227,609	402,637
Deposits	11	14,200	14,200
		<u>94,763,721</u>	<u>88,947,188</u>
Non-current assets held for sale and assets of disposal groups	40	1,682,000	1,682,000
Total Assets		<u>99,519,577</u>	<u>98,057,997</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Finance lease obligation	12	443,666	384,779
Payables from exchange transactions	13	7,989,344	4,290,979
VAT payable	14	158,428	94,629
Unspent conditional grants and receipts	15	5,121,780	11,649,294
Bank overdraft	7	856,177	664,542
		<u>14,569,395</u>	<u>17,084,223</u>
<b>Non-Current Liabilities</b>			
Finance lease obligation	12	488,482	932,149
Total Liabilities		<u>15,057,877</u>	<u>18,016,372</u>
NET ASSETS		<u>84,461,700</u>	<u>80,041,625</u>
Accumulated surplus		<u>84,461,700</u>	<u>80,041,625</u>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	16	84,864	141,056
Rental of facilities and equipment	19	157,056	310,767
Licences and permits		142,144	176,386
Sundry income	18	979,156	330,475
Commision received	18	5,093	2,125
Interest received - investment	17	702,996	576,988
<b>Total revenue from exchange transactions</b>		<b>2,071,309</b>	<b>1,537,797</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	20	319,122	357,883
Property rates - penalties imposed	20	-	41,087
<b>Transfer revenue</b>			
Government grants & subsidies	21	57,267,674	48,634,362
Fines		68,465	545,325
<b>Total revenue from non-exchange transactions</b>		<b>57,655,261</b>	<b>49,578,657</b>
<b>Total revenue</b>		<b>59,726,570</b>	<b>51,116,454</b>
<b>Expenditure</b>			
Personnel	22	(17,660,209)	(16,513,092)
Remuneration of councillors	23	(3,798,120)	(3,755,722)
Depreciation and amortisation	24	(4,436,297)	(4,472,819)
Finance costs	25	(180,850)	(274,900)
Debt impairment		27,248	(1,298,816)
Repairs and maintenance		(342,888)	(774,674)
Contracted services	26	(297,502)	-
General Expenses	27	(28,617,877)	(25,716,576)
<b>Total expenditure</b>		<b>(55,306,495)</b>	<b>(52,806,599)</b>
<b>Operating surplus (deficit)</b>		<b>4,420,075</b>	<b>(1,690,145)</b>
<b>Surplus (deficit) for the year</b>		<b>4,420,075</b>	<b>(1,690,145)</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

Figures in Rand	Notes	Accumulated surplus	Total net assets
Opening balance as previously reported		73,978,949	73,978,949
Adjustments			
Correction of error		7,752,821	7,752,821
<b>Balance at 01 July 2012 as restated*</b>	41	<b>81,731,770</b>	<b>81,731,770</b>
Changes in net assets			
Deficit for the year		(1,690,145)	(1,690,145)
Total changes		(1,690,145)	(1,690,145)
<b>Restated* Balance at 01 July 2013</b>	41	<b>80,041,625</b>	<b>80,041,625</b>
Changes in net assets			
Surplus for the year		4,420,075	4,420,075
Total changes		4,420,075	4,420,075
<b>Balance at 30 June 2014</b>		<b>84,461,700</b>	<b>84,461,700</b>
Note(s)			

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services	42	1,930,103	1,976,306
Grants	21	57,267,674	48,634,362
Interest received	17	702,996	576,988
		<u>59,900,773</u>	<u>51,187,656</u>
<b>Payments</b>			
Employee costs	42	(21,458,329)	(20,268,814)
Interest paid	25	(180,850)	(274,900)
Other payments	42	(32,081,798)	(20,267,866)
		<u>(53,720,977)</u>	<u>(40,811,580)</u>
<b>Net cash flows from operating activities</b>	28	<b><u>6,179,796</u></b>	<b><u>10,376,076</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(10,252,844)	(10,729,281)
<b>Cash flows from financing activities</b>			
Repayment of finance lease liability		(384,780)	(413,643)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(4,457,828)</b>	<b>(766,848)</b>
Cash and cash equivalents at the beginning of the year		6,207,314	6,974,162
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>1,749,486</u></b>	<b><u>6,207,314</u></b>



# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2014</b>											
<b>Financial Performance</b>											
Property rates	420,000	(17,000)	403,000	-		403,000	319,122		(83,878)	79 %	76 %
Service charges	289,475	(268,690)	20,785	-		20,785	84,864		64,079	408 %	29 %
Investment revenue	450,000	50,801	500,801	-		500,801	702,996		202,195	140 %	156 %
Transfers recognised - operational	42,759,000	-	42,759,000	-		42,759,000	57,267,674		14,508,674	134 %	134 %
Other own revenue	7,307,000	7,793,414	15,100,414	-		15,100,414	1,351,914		(13,748,500)	9 %	19 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>51,225,475</b>	<b>7,558,525</b>	<b>58,784,000</b>	<b>-</b>		<b>58,784,000</b>	<b>59,726,570</b>		<b>942,570</b>	<b>102 %</b>	<b>117 %</b>
Employee costs	(21,302,310)	2,801,310	(18,501,000)	-	-	(18,501,000)	(17,660,209)	-	840,791	95 %	83 %
Remuneration of councillors	(4,755,638)	-	(4,755,638)	-	-	(4,755,638)	(3,798,120)	-	957,518	80 %	80 %
Debt impairment	324,000	(634,000)	(310,000)			(310,000)	27,248	-	337,248	(9)%	8 %
Depreciation and asset impairment	-	-	-			-	(4,436,297)	-	(4,436,297)	DIV/0 %	DIV/0 %
Finance charges	-	(200,000)	(200,000)	-	-	(200,000)	(180,850)	-	19,150	90 %	DIV/0 %
Transfers and grants	(9,250,000)	(6,145,000)	(15,395,000)	-	-	(15,395,000)	(19,072,382)	-	(3,677,382)	124 %	206 %
Other expenditure	(13,721,000)	(2,760,000)	(16,481,000)	-	-	(16,481,000)	(9,619,416)	-	6,861,584	58 %	70 %
<b>Total expenditure</b>	<b>(48,704,948)</b>	<b>(6,937,690)</b>	<b>(55,642,638)</b>	<b>-</b>	<b>-</b>	<b>(55,642,638)</b>	<b>(54,740,026)</b>	<b>-</b>	<b>902,612</b>	<b>98 %</b>	<b>112 %</b>
<b>Surplus/(Deficit)</b>	<b>2,520,527</b>	<b>620,835</b>	<b>3,141,362</b>	<b>-</b>		<b>3,141,362</b>	<b>4,986,544</b>		<b>1,845,182</b>	<b>159 %</b>	<b>198 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>2,520,527</b>	<b>620,835</b>	<b>3,141,362</b>	<b>-</b>		<b>3,141,362</b>	<b>4,986,544</b>		<b>1,845,182</b>	<b>159 %</b>	<b>198 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	13,538,000	1,797,000	15,335,000	-		15,335,000	10,353,356		(4,981,644)	68 %	76 %

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	13,855,000	(1,713,000)	12,142,000	-		12,142,000	6,179,796		(5,962,204)	51 %	45 %
Net cash from (used) investing	(13,538,000)	(1,081,000)	(14,619,000)	-		(14,619,000)	(10,252,844)		4,366,156	70 %	76 %
Net cash from (used) financing	-	-	-	-		-	(384,780)		(384,780)	DIV/0 %	DIV/0 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>317,000</b>	<b>(2,794,000)</b>	<b>(2,477,000)</b>	<b>-</b>		<b>(2,477,000)</b>	<b>(4,457,828)</b>		<b>(1,980,828)</b>	<b>180 %</b>	<b>(1,406)%</b>
Cash and cash equivalents at the beginning of the year	56,000	6,207,314	6,263,314	-		6,263,314	6,207,314		(56,000)	99 %	11,084 %
<b>Cash and cash equivalents at year end</b>	<b>373,000</b>	<b>3,413,314</b>	<b>3,786,314</b>	<b>-</b>		<b>3,786,314</b>	<b>1,749,486</b>		<b>2,036,828</b>	<b>46 %</b>	<b>469 %</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Accounting policies

#### 1.1 Basis of accounting basis of preparation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with the Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

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

#### 1.2 Presentation of currency

The annual financial statements are presented in South African Rand, which is the Municipality's functional currency.

#### 1.3 Going concern assumption

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

#### 1.4 Comparative information

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

The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### 1.5 Property, plant and equipment

##### 1.5.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

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

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

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

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Property, plant and equipment (continued)

#### 1.5.2 Subsequent measurement - cost model

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

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

The Municipality opted to take advantage of the transitional provisions of the Accounting Standards Board, issued in December 2009. The municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010

#### 1.5.3 Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives: The residual value, the useful life of an asset and depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

<b>Infrastructure</b>		<b>Other</b>		
Roads and Paving	15 years	Computer equipment	3-7	years
Pedestrian Malls	20 years	Specialist	5-20	years
Electricity	30 years	Other vehicles	3-15	years
Water	20 years	Office years	3-7	years
Sewage	20 years	Furniture	7-10	years
		Watercraft	15	years
<b>Community</b>		Bins and containers	5-7	years
Buildings	30 years	Specialised plant and equipment	2-15	years
Recreational Facilities	20 years	Other items of plant	2-15	years
Security	30 years	Landfill sites	30	years
Halls	30 years	Quarries	30	years
Libraries	30 years	Emergency Equipment	5-15	years
Parks and Gardens	30 years			
<b>Heritage assets</b>		<b>Buildings</b>	30	years
Paintings and Artifacts	30 years			
Finance lease assets				
Office equipment	3 years			

#### 1.5.4 Derecognition

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

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Intangible assets

#### 1.6.1 Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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

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

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

#### 1.6.2 Subsequent measurement - cost model

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

#### 1.6.3 Amortisation and impairment

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

Computer software	3-5 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

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

#### 1.6.4 Derecognition

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

### 1.7 Investment property

#### 1.7.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

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

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Investment property (continued)

of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### 1.7.2 Subsequent measurement - fair value model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

The municipality shall revalue its investment property that are under revaluation with measured using fair value.

#### 1.7.3 Derecognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 1.8 Non current assets held for sale

#### 1.8.1 Initial recognition

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### 1.8.2 Subsequent measurement

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in the Statement of Financial Performance.

### 1.9 Inventories

#### 1.9.1 Initial recognition

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

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.

#### 1.9.2 Subsequent measurement

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

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Inventories (continued)

Net realisable 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 municipality incurs to acquire the asset on the reporting date.

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

### 1.10 Financial instruments

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Financial instruments (continued)

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

#### 1.10.1 Initial recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

#### 1.10.2 Subsequent measurement of financial assets and financial liabilities

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

##### 1.10.2.1 Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

##### 1.10.2.2 Payables and Annuity Loans

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

##### 1.10.2.3 Cash and Cash Equivalents

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



# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Financial instruments (continued)

The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

#### 1.10.2.4 Non-Current Investments

Investments which include investments and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

#### 1.10.3 De-recognition of Financial Instruments

##### 1.10.3.1 Financial Assets

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

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

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### 1.10.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### 1.10.4 Offsetting of Financial Instruments

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Financial instruments (continued)

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

#### 1.11 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.12 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### 1.13 Fruitless and wasteful expenditure

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

#### 1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present or constructive 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.

Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

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

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

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.14.1 Provision for staff leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

### 1.14.2 Staff bonuses accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

### 1.14.3 Provision for performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

### 1.15 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

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

#### 1.15.1 Finance leases - lessee

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

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 on the remaining balance of the liability.

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

#### 1.15.2 Operating leases - lessor

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

#### 1.15.3 Operating leases - lessee

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

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.16. Unspent conditional government grants and receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs. Unspent conditional grant are not considered to be financial instruments as there are no contractual arrangements as required per GRAP 104. Once the conditional grant becomes repayable to the donor due to conditions not met, the remaining portion of the unspent conditional grant is reclassified as payables, which is considered to be a financial instrument.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

### 1.17 Revenue

#### 1.17.1 Revenue from Non-Exchange Transactions

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

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

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as a non-exchange transaction.

Fine Revenue constitutes both spot fines and summonses.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received, but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

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

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures,

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# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Revenue (continued)

including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

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

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises 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 recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised 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 will be recognised as revenue.

### 1.17.2 Revenue from Exchange Transactions

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

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to refuse removal are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage.

Interest revenue is recognised using the effective interest rate method.

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

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

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

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

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When services are exchanged or swapped for services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When services are rendered in exchange for dissimilar services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the services received cannot be measured reliably, the revenue is measured at the fair value of the services given up, adjusted by the amount of any cash or cash equivalents transferred.

### 1.17.3 Transfers, grants and donations

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# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Revenue (continued)

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

### 1.18 Borrowing costs

It is inappropriate to capitalise borrowing costs when there is clear evidence that it is difficult to link the borrowing requirement of the municipality directly to the nature of the expenditure to be funded. In such cases, the municipality expenses those borrowing costs related to a qualifying asset directly to the Statement of Financial Performance.

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

### 1.19 VAT

The Municipality accounts for Value Added Tax on the payments basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

### 1.20 Budget information

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

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

The approved budget is prepared on an accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

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 Statement of comparison of budget and actual amounts.

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.21 Related parties

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person’s family is related to the Municipality if that person:
  - has control or joint control over the Municipality.
  - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
  - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:
  - the entity is a member of the same Municipality (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an Municipality of which the other entity is a member).
  - both entities are joint ventures of the same third party.
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
  - the entity is controlled or jointly controlled by a person identified in (a).
  - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as “Key Management”) includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an Municipality who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### **Related parties (continued)**

African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed..



# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.22 Significant judgements and sources of estimation uncertainty

#### 1.22.1 Impairment of receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

#### 1.22.2 Property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The municipality referred to buildings in other municipal areas to determine the useful life of buildings. The municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

The cost for depreciated replacement cost was determined by using either one of the following:

- cost of items with a similar nature currently in the municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

#### 1.22.3 Intangible assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

#### 1.22.4 Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### 1.22.5 Provision for staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

#### 1.22.6 Provision for performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.23 Impairment of Non-Financial Assets

#### 1.23.1 Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
  - During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
  - Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
  - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- (b) Internal sources of information
  - Evidence is available of obsolescence or physical damage of an asset.
  - Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
  - Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

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

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

#### 1.23.2 Non-cash-generating assets

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

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### Impairment of Non-Financial Assets (continued)

indications:

- (a) External sources of information
- Cessation, or near cessation, of the demand or need for services provided by the asset.
  - Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.
- (b) Internal sources of information
- Evidence is available of physical damage of an asset.
  - Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
  - A decision to halt the construction of the asset before it is complete or in a usable condition.
  - Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- depreciation replacement cost approach - the present value of the remaining service potential of an 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.
- restoration cost approach - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- service unit approach - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### **Impairment of Non-Financial Assets (continued)**

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

An impairment loss recognised in prior periods for an 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 recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. 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 amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance..

### **1.24 Capital commitments**

Capital commitments disclosed in the annual financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

### **1.25 Events after reporting date**

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the annual financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect..

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand

2014

2013

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### 2. Changes in accounting policy

The unaudited annual financial statements have been prepared in accordance with the South African Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following new standards as issued by the Accounting Standard Board:

- GRAP 25: Employee benefits
- IGRAP 16: Intangible assets website costs
- IGRAP 1 (as revised 2012): Applying the probability test on initial recognition of revenue

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 3. New standards and interpretations

#### 3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
- GRAP 25: Employee benefits	01 July 2013	No major impact expected
- GRAP 1 (as revised 2012): Presentation of Financial Statements	01 July 2013	No major impact expected
- GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 July 2013	No major impact expected
- GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 July 2013	No major impact expected
- GRAP 12 (as revised 2012): Inventories	01 July 2013	No major impact expected
- GRAP 13 (as revised 2012): Leases	01 July 2013	No major impact expected
- GRAP 16 (as revised 2012): Investment Property	01 July 2013	No major impact expected
- GRAP 17 (as revised 2012): Property, Plant and Equipment	01 July 2013	No major impact expected
- GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 July 2013	No major impact expected
- GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 July 2013	No major impact expected
- IGRAP16: Intangible assets website costs	01 July 2013	No major impact expected
- IGRAP1 (as revised 2012): Applying the probability test on initial recognition of revenue	01 July 2013	No major impact expected

#### 3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
- GRAP 105: Transfers of functions between entities under common control	01 July 2014	Impact expected cannot be measured reliable
- GRAP 106: Transfers of functions between entities not under common control	01 July 2014	Impact expected cannot be measured reliable
- GRAP 107: Mergers	01 July 2014	Impact expected cannot be measured reliable
- GRAP 20: Related parties	01 July 2014	Impact expected cannot be measured reliable
- GRAP32: Service Concession Arrangements: Grantor	01 July 2015	Impact expected cannot be measured reliable
- GRAP108: Statutory Receivables	01 July 2015	No major impact expected
- IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 July 2015	Impact expected cannot be measured reliable

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>4. Inventories</b>		
Consumable stores	2,893	8,496
<b>Inventory pledged as security</b>		
No inventory was pledged as security for overdraft facilities during the year.		
<b>5. Trade and other receivables from exchange transactions</b>		
Other receivables	231,928	232,030
Refuse	1,089,114	1,095,098
Allowance for debt impairment	(938,838)	(908,822)
<b>Net balance</b>	<b>382,204</b>	<b>418,306</b>
<b>Prior period error (Refuse)</b>		
Balance previously reported	41	986,981
Adjusted prior to 2013		243,248
Reverse revenue billed		(168,994)
Allocated from Rates		33,863
<b>Restated</b>	<b>-</b>	<b>1,095,098</b>
<b>Refuse</b>		
Current (0 - 30 days)	59,568	86,403
31 - 60 days	33,981	50,374
61 - 90 days	56,726	17,959
91 - 120 days	19,793	31,538
121 - 365 days	919,046	908,824
	<b>1,089,114</b>	<b>1,095,098</b>
<b>Summary of trade receivables by customer classification</b>		
<b>Government</b>		
Current (0 -30 days)	17,427	15,651
31 - 60 days	9,941	9,124
61 - 90 days	16,595	3,253
91 - 120 days	5,790	5,712
121 - 365 days	268,867	164,625
	<b>318,620</b>	<b>198,365</b>
<b>Industrial/commercial</b>		
Current (0 -30 days)	34,505	41,400
31 - 60 days	19,684	24,136
61 - 90 days	32,858	8,605
91 - 120 days	11,465	15,111
121 - 365 days	532,532	435,461
	<b>631,044</b>	<b>524,713</b>
<b>Residential</b>		
Current (0 -30 days)	7,637	29,352
31 - 60 days	4,357	17,112
61 - 90 days	7,273	6,101
91 - 120 days	2,538	10,714
121 - 365 days	117,827	308,735

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>5. Trade and other receivables from exchange transactions (continued)</b>		
	<b>139,632</b>	<b>372,014</b>
<b>6. Trade and other receivables from non-exchange transactions</b>		
<b>Gross balances</b>		
Rates	602,241	765,144
<b>Less: Allowance for impairment</b>		
Rates	(519,144)	(634,993)
<b>Net balance</b>		
Rates	602,241	765,144
Provision for debt impairment	(519,144)	(634,993)
	<b>83,097</b>	<b>130,151</b>
<b>Prior period error (Rates)</b>	41	
Balance previously reported		- 112,657
Adjusted opening balance prior to 2013		- 706,238
Adjusted		- (16,732)
Reverse revenue billed		- (3,155)
Allocated from Refuse		- (33,864)
<b>Restated</b>		<b>- 765,144</b>
<b>Rates</b>		
Current (0 -30 days)	32,939	60,369
31 - 60 days	18,790	35,196
61 - 90 days	31,368	12,548
91 - 120 days	10,945	22,036
121 - 365 days	508,199	634,993
	<b>602,241</b>	<b>765,144</b>



# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>6. Trade and other receivables from non-exchange transactions (continued)</b>		
<b>Summary of trade receivables by customer classification</b>		
<b>Government</b>		
Current (0 -30 days)	9,636	10,935
31 - 60 days	5,497	6,375
61 - 90 days	9,177	2,273
91 - 120 days	3,202	3,991
121 - 365 days	148,674	115,023
	<b>176,186</b>	<b>138,597</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	19,080	28,926
31 - 60 days	10,884	16,864
61 - 90 days	18,169	6,012
91 - 120 days	6,340	10,558
121 - 365 days	294,371	304,256
	<b>348,844</b>	<b>366,616</b>
<b>Residential</b>		
Current (0 -30 days)	4,223	20,508
31 - 60 days	2,409	11,956
61 - 90 days	4,022	4,262
91 - 120 days	1,403	7,485
121 - 365 days	65,154	215,720
	<b>77,211</b>	<b>259,931</b>
<b>Total</b>		
Current (0 -30 days)	32,939	60,369
31 - 60 days	18,790	35,195
61 - 90 days	31,368	12,547
91 - 120 days	10,945	22,034
121 - 365 days	508,199	634,999
	602,241	765,144
Less: Allowance for debt impairment	(519,144)	(634,993)
	<b>83,097</b>	<b>130,151</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(634,993)	(247,621)
Contributions to allowance	-	(387,372)
Reversal of allowance	115,849	-
<b>Balance at year end</b>	<b>(519,144)</b>	<b>(634,993)</b>

### Trade and other receivables pledged as security

No portion of accounts receivable was pledged as security for any financial liabilities.  
No security is held for any accounts receivable.

These amounts best represent the maximum exposure to credit risk at the end of the reporting period, without taking account of any collateral held or other credit enhancements.

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013  
Restated

### 6. Trade and other receivables from non-exchange transactions (continued)

#### Credit quality of consumer debtors

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings.

Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

#### Trade receivables

#### Fair value of trade receivables

Due to the short term nature of trade and other receivables they are disclosed at face value.

#### Trade receivables from non-exchange transactions past due but not impaired

Trade receivables which are less than that allowed by Council's policy are not considered to be impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	32,939	35,196
2 months past due	18,791	12,548
3 months past due	31,368	22,036

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,941	2,941
Bank balances	46,196	36,913
Short-term deposits	2,556,525	6,832,002
Bank overdraft	(856,177)	(664,542)
	<b>1,749,485</b>	<b>6,207,314</b>
Current assets	2,605,662	6,871,856
Current liabilities	(856,177)	(664,542)
	<b>1,749,485</b>	<b>6,207,314</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013  
Restated

### 7. Cash and cash equivalents (continued)

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings. Although credit quality can be assessed the entity did not apply any methods to evaluate the credit quality.

#### The municipality had the following bank accounts

Bank	Account number	Account description	Bank statement balances		Cashbook balances	
			30 June 2014	30 June 2013	30 June 2014	30 June 2013
ABSA BANK	- 4053709558	Current Account	(90,654)	26,524	(90,645)	26,524
FNB BANK	- 62331260240	Current account	143,533	(32,335)	(720,035)	(664,539)
FNB BANK	- 62205724174	Current Account	46,196	10,389	46,196	10,389
FNB BANK	- 74107649045	Investment	10,874	10,388	10,874	10,388
FNB BANK	- 74332463674	Investment	2,427,973	6,699,518	2,427,973	6,699,518
FNB BANK	- 62333315952	Investment	11,718	25,822	11,718	25,822
FNB BANK	- 62333317594	Investment	18,758	12,753	18,758	12,753
NEDBANK	- 371650167081	Call deposit	73,665	70,403	73,665	70,634
MERCANTILE	- 4100167725	Investment	13,535	12,887	13,535	12,887
NEDBANK	- 2003376887	Savings account	-	274	-	-
<b>Total</b>			<b>2,655,598</b>	<b>6,836,623</b>	<b>1,792,039</b>	<b>6,204,376</b>

### 8. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	18,544,000	-	18,544,000	18,544,000	-	18,544,000

#### Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	18,544,000	18,544,000

#### Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	18,544,000	18,544,000

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

#### Other information

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	99,082	303,137
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#### Pledged as security

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand

2014

2013  
Restated

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### 8. Investment property (continued)

No investment properties were pledged as security for overdraft facilities during the year

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013  
Restated

### 9. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	400,546	(140,371)	260,175	400,546	(124,972)	275,574
Plant and machinery	3,806,411	(2,055,545)	1,750,866	3,806,411	(1,211,353)	2,595,058
Furniture and fixtures	1,343,492	(1,139,085)	204,407	1,343,492	(1,065,446)	278,046
Motor vehicles	2,529,078	(1,572,198)	956,880	2,172,680	(1,228,034)	944,646
Office equipment	591,292	(544,950)	46,342	591,292	(520,549)	70,743
IT equipment	726,583	(639,764)	86,819	726,583	(595,090)	131,493
Infrastructure	14,479,611	(4,273,702)	10,205,909	13,318,072	(2,825,741)	10,492,331
Community	35,331,435	(10,049,956)	25,281,479	35,331,435	(8,583,102)	26,748,333
Capital work in progress	36,861,717	-	36,861,717	28,126,809	-	28,126,809
Finance leased assets	1,305,147	(981,829)	323,318	1,305,147	(981,829)	323,318
<b>Total</b>	<b>97,375,312</b>	<b>(21,397,400)</b>	<b>75,977,912</b>	<b>87,122,467</b>	<b>(17,136,116)</b>	<b>69,986,351</b>

### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Transfers from WIP	Depreciation	Total
Buildings	275,574	-	-	(15,399)	260,175
Plant and machinery	2,595,058	-	-	(844,192)	1,750,866
Furniture and fixtures	278,046	-	-	(73,639)	204,407
Motor vehicles	944,646	356,397	-	(344,163)	956,880
Office equipment	70,743	-	-	(24,401)	46,342
IT equipment	131,493	-	-	(44,674)	86,819
Infrastructure	10,492,331	-	1,161,539	(1,447,961)	10,205,909
Community	26,748,333	-	-	(1,466,854)	25,281,479
Capital work in progress	28,126,809	9,896,447	(1,161,539)	-	36,861,717
Finance leased assets	323,318	-	-	-	323,318
	<b>69,986,351</b>	<b>10,252,844</b>	<b>-</b>	<b>(4,261,283)</b>	<b>75,977,912</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

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

	Opening balance	Additions	Depreciation	Total
Buildings	291,936	-	(16,362)	275,574
Plant and machinery	3,416,682	24,123	(845,747)	2,595,058
Furniture and fixtures	360,671	-	(82,625)	278,046
Motor vehicles	1,255,029	-	(310,383)	944,646
Office equipment	95,861	-	(25,118)	70,743
IT equipment	108,890	83,840	(61,237)	131,493
Infrastructure	10,564,506	1,159,560	(1,231,735)	10,492,331
Community	28,181,570	30,250	(1,463,487)	26,748,333
Capital work in progress	18,703,068	9,423,741	-	28,126,809
Finance leased assets	577,607	7,767	(262,056)	323,318
	<b>63,555,820</b>	<b>10,729,281</b>	<b>(4,298,750)</b>	<b>69,986,351</b>

#### Prior period error (see note 41)

Balance previously reported (carrying value)

Adjusted for:

#### Buildings

Previously reported	41	-	4,242,332
Adjusted for cost prior to 2013		-	(5,986,606)
Adjusted for accumulated depreciation prior to 2013		-	1,494,540
Adjusted for depreciation		-	209,983
Adjusted for impairment loss reversed		-	315,325
<b>Restated</b>		<b>-</b>	<b>275,574</b>

#### Plant and machinery

Previously reported	41	-	3,325,164
Adjusted for cost prior to 2013		-	1,065

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

Adjusted for accumulated depreciation prior to 2013	-	(162,207)
Adjusted for depreciation	-	(568,964)
<b>Restated</b>	-	<b>2,595,058</b>

#### Furniture and fixtures

Previously reported	41	-	585,742
Adjusted for cost prior to 2013		-	(34,929)
Adjusted for accumulated depreciation prior to 2013		-	(321,064)
Adjusted for depreciation		-	48,299
<b>Restated</b>		-	<b>278,048</b>

#### Motor vehicles

Previously reported	41	-	945,354
Adjusted for accumulated depreciation prior to 2013		-	(705)
Adjusted for depreciation		-	(3)
<b>Restated</b>		-	<b>944,646</b>

#### Office equipment

Previously reported	41	-	495,977
Adjusted for cost prior to 2013		-	(366,898)
Adjusted for accumulated depreciation prior to 2013		-	(200,426)
Adjusted for depreciation		-	142,090
<b>Restated</b>		-	<b>70,743</b>

#### IT equipment

Previously reported	41	-	529,543
Adjusted for cost prior to 2013		-	(509,199)
Adjusted for accumulated depreciation prior to 2013		-	8,462
Adjusted for depreciation		-	102,687
<b>Restated</b>		-	<b>131,493</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Infrastructure

Previously reported	41	-	16,912,973
Adjusted for cost prior to 2013		-	(5,242,953)
Adjusted for accumulated depreciation prior to 2013		-	(1,275,158)
Adjusted for depreciation		-	(992,440)
Adjusted for impairment loss reversed		-	1,089,910
<b>Restated</b>		-	<b>10,492,332</b>

#### Community

Previously reported	41	-	20,500,521
Adjusted for cost prior to 2013		-	7,679,916
Adjusted for accumulated depreciation prior to 2013		-	(3,923,292)
Adjusted for depreciation		-	(355,552)
Adjusted for impairment loss reversed		-	2,846,739
<b>Restated</b>		-	<b>26,748,332</b>

#### Pledged as security

No property, plant and equipment was pledged as security for overdraft facilities during the year

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



# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
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### 10. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	875,140	(647,531)	227,609	875,140	(472,503)	402,637

#### Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Computer software	402,637	(175,028)	227,609

#### Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software	577,665	(175,028)	402,637

#### Pledged as security

No intangible assets were pledged as security for overdraft facilities during the year

### 11. Deposits

Deposits	14,200	14,200
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### 12. Finance lease obligation

#### Minimum lease payments due

- within one year	567,401	583,439
- in second to fifth year inclusive	545,597	1,112,999
	1,112,998	1,696,438
less: future finance charges	(180,850)	(379,510)
<b>Present value of minimum lease payments</b>	<b>932,148</b>	<b>1,316,928</b>

#### Present value of minimum lease payments due

- within one year	443,666	384,779
- in second to fifth year inclusive	488,482	932,149
	<b>932,148</b>	<b>1,316,928</b>

Non-current liabilities	488,482	932,149
Current liabilities	443,666	384,779
	<b>932,148</b>	<b>1,316,928</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>13. Payables from exchange transactions</b>		
Trade payables	4,422,623	2,159,348
Sundry payables	1,275,722	415,366
Deposits received	307,245	190,417
Leave accrual	1,584,249	1,164,923
Annual bonus accrual	399,505	360,925
	<b>7,989,344</b>	<b>4,290,979</b>
<b>14. VAT payable</b>		
VAT	158,428	94,629
Vat is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.		
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Hlabisa Sewerage System Project	2,062,368	1,798,319
National Electrification Program	-	6,035,316
Corridor Development	652,752	652,752
Finance Management Grant	45,929	-
MIG	-	715,506
DOH - Disaster Management Grant	1,267,785	1,267,785
DPLG - MSIG	13,844	28,295
Library Grant	883,121	622,090
Sports Grants	195,981	491,981
Hlabisa Town Beautification	-	37,250
	<b>5,121,780</b>	<b>11,649,294</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	11,649,294	9,704,776
Additions during the year	23,046,806	27,728,000
Income recognition during the year	(29,574,320)	(25,783,482)
	<b>5,121,780</b>	<b>11,649,294</b>
Non-current liabilities	-	-
Current liabilities	5,121,780	11,649,294
	<b>5,121,780</b>	<b>11,649,294</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated				
<b>15. Unspent conditional grants and receipts (continued)</b>						
<b>Grant description</b>	Unspent balance 2012	Receipts	Adjustment	Expenditure	Transfer capital expenditure	Total
DOH-Disa Man Grant	(1,267,785)	-	-	-	-	(1,267,785)
DPLD-MSIG	(28,295)	(890,000)	-	904,451	-	(13,844)
FMG Grant	-	(1,650,000)	-	1,604,071	-	(45,929)
Library Grant	(622,090)	(905,000)	-	643,969	-	(883,121)
Municipal Infrastructure Grant	(715,505)	(8,129,000)	-	8,844,505	-	-
Corridor Development Grant	(652,752)	-	-	-	-	(652,752)
Sport Grant	(491,981)	(1,350,000)	-	1,646,000	-	(195,981)
National Electrification	(6,035,316)	(9,000,000)	-	15,035,316	-	-
HLA-Town Beautification	(37,250)	-	-	37,250	-	-
HLA- Sewarage System	(1,798,319)	-	-	-	-	(1,798,319)
PW-Grant	-	(1,122,806)	-	858,757	-	(264,049)
Subtotal	<u>(11,649,293)</u>	<u>(23,046,806)</u>	<u>-</u>	<u>29,574,319</u>	<u>-</u>	<u>(5,121,780)</u>
	<b>(11,649,293)</b>	<b>(23,046,806)</b>	<b>-</b>	<b>29,574,319</b>	<b>-</b>	<b>(5,121,780)</b>
<b>16. Service charges</b>						
Refuse removal					84,864	141,056
<b>17. Interest earned - external investments</b>						
Short-term deposits					406,691	484,624
Bank					296,305	92,364
					<u>702,996</u>	<u>576,988</u>
<b>18. Other revenue</b>						
Sundry income					979,156	330,475
Commission received					5,093	2,125
					<u>984,249</u>	<u>332,600</u>
<b>19. Rental of facilities and equipment</b>						
<b>Facilities and equipment</b>						
Rental of facilities					99,082	303,137
Rental of equipment					57,974	7,630
					<u>157,056</u>	<u>310,767</u>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>20. Property rates</b>		
<b>Rates received</b>		
Municipal	319,122	357,883
Property rates - penalties imposed	-	41,087
	<b>319,122</b>	<b>398,970</b>

The following are the rates randage that were applied to the valuations in respect of the various categories:

Category	Randage in cents/Rand
Residential :	0.0117
Business :	0.0145
Specialized:	0.0028

Residential properties are subject to a rebate of R55 000 of the market value.

### Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2014.

### 21. Government grants and subsidies

Equitable share	27,617,000	22,306,000
Government grant operating	29,650,674	26,328,362
	<b>57,267,674</b>	<b>48,634,362</b>

### Equitable Share

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

### 22. Employee related costs

Basic	12,064,133	10,196,373
Bonus	705,083	794,383
Medical aid - company contributions	479,289	335,997
UIF	109,352	92,727
SDL	149,133	129,134
Defined contribution plans	762,613	987,959
Travel, motor car, accommodation, subsistence and other allowances	897,226	1,011,938
Overtime payments	497,436	823,806
Housing benefits and allowances	420,253	658,632
Telephone, cell allowances	776,684	883,124
Industrial Council	4,515	3,804
Leave	650,492	595,215
Workmens Compensation	144,000	-
	<b>17,660,209</b>	<b>16,513,092</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>22. Employee related costs (continued)</b>		
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	347,083	376,267
Housing Allowance	33,250	130,470
Cellphone Allowance	10,500	15,184
Contributions to UIF, Medical and Pension Funds	1,041	17,956
Leave Pay	-	59,333
Travel Allowance	-	130,687
	<b>391,874</b>	<b>729,897</b>

The remuneration of the Municipal Manager is not for 12 months due to the resignation of the previous MM during the year.

### Remuneration of Chief Finance Officer

Annual Remuneration	343,424	256,200
Housing Allowance	105,500	17,733
Cellphone Allowance	10,000	10,500
Contributions to UIF, Medical and Pension Funds	1,487	31,664
Travel Allowance	102,000	120,867
	<b>562,411</b>	<b>436,964</b>

The remuneration of the Chief Finance Officer is not for 12 months due to the resignation of the previous CFO during the year. The CFO received acting allowance of R 2800 in the current financial year

### Remuneration Corporate and Human Resources (Corporate Services)

Annual Remuneration	379,004	420,000
Travel Allowance	44,912	166,492
Cellphone Allowance	9,877	12,000
Contributions to UIF, Medical and Pension Funds	1,338	81,163
Bonus	-	4,182
House Allowance	41,034	103,114
Backpay	-	4,186
Other Allowances	129,621	-
	<b>605,786</b>	<b>791,137</b>

### Remuneration of Technical Services

Annual Remuneration	460,000	179,101
Travel Allowance	84,000	67,876
BackPay	144,000	15,585
Contributions to UIF, Medical and Pension Funds	1,785	15,655
Cellphone Allowance	12,000	4,000
	<b>701,785</b>	<b>282,217</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>23. Remuneration of councillors</b>		
Mayor	330,745	230,789
Deputy Mayor	275,973	231,137
Executive Committee	281,941	821,382
Speaker	-	394,952
Councillors	670,270	559,892
Councillors Allowances	2,239,191	1,517,570
	<b>3,798,120</b>	<b>3,755,722</b>

### In-kind benefits

The Mayor, Deputy Mayor and Mayoral Committee Members are part-time employees. Only the Speaker is a full time employee. The Mayor, Deputy Mayor and Speaker have offices and secretarial support at the cost of the Council.

The Mayor have the use of separate Council owned vehicle for official duties.

The Mayor has two full-time bodyguards. The Deputy Mayor and the Speaker has one full-time bodyguard.

### 24. Depreciation and amortisation

Property, plant and equipment	4,261,269	4,297,791
Intangible assets	175,028	175,028
	<b>4,436,297</b>	<b>4,472,819</b>

### 25. Interest paid

Finance leases	180,850	274,900
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### 26. Contracted services

Contract services	297,502	-
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# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>27. General expenses</b>		
Accommodation	-	596,231
Administration Expenses	301,951	322,929
Advertising	548,922	175,725
Auditors remuneration	2,393,371	2,745,281
Bank charges	51,670	46,296
Bursary	280,900	212,541
Catering	30,861	20,245
Cleaning	81,210	296,920
Community development and training	-	268,791
Consulting and professional fees	2,418,897	2,680,423
Consumables	17,023	35,237
Donations	516,529	-
Electrification	13,877,513	9,609,878
Entertainment	-	32,316
Poverty alleviation	390,449	-
Fines and penalties	16,274	-
Fire fighters	-	492,181
Fuel and oil	802,727	960,373
General	72,192	-
Special programs	284,999	54,624
Insurance	311,248	469,350
Lease rentals on operating lease	767,422	591,549
Legal claim	753,032	275,038
Postage and courier	465,791	393,846
Printing and stationery	210,102	186,194
Project maintenance costs	641,379	1,531,686
Promotions	89,580	-
Security (Guarding of municipal property)	1,081,802	1,074,332
Sports	241,333	370,075
Subsistence & Travel	1,551,059	1,197,287
Training	88,930	67,131
Uniforms	23,119	67,216
Utilities	281,268	336,560
Workshop	-	596,410
Youth support	26,324	9,911
	<b>28,617,877</b>	<b>25,716,576</b>
<b>28. Cash generated from operations</b>		
(Deficit)/Surplus for the year	4,420,075	(1,690,145)
<b>Adjustments for:</b>		
Depreciation and amortisation	4,436,310	4,472,819
Debt impairment	(27,248)	1,298,816
Appropriations (Opening retain earnings adjustment)	-	2,209,837
<b>Changes in working capital:</b>		
Inventories	5,603	35,237
Trade and other receivables from exchange transactions	36,102	179,952
Trade and other receivables from non-exchange transactions	74,302	(1,337,362)
Payables from exchange transactions	3,698,367	2,578,673
VAT	63,799	1,228,612
Unspent conditional grants and receipts	(6,527,514)	1,399,637
	<b>6,179,796</b>	<b>10,376,076</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand	2014	2013 Restated
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### 29. Fruitless and wasteful expenditure

Opening balance	289,601	266,190
Add: Fruitless and wasteful expenditure - current year	91,360	23,411
	<b>380,961</b>	<b>289,601</b>

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The above item relates to payment to service provider (R66,050) penalties in respect of late payments to SARS(R16,168), Telkom(R6,115) and Eskom (R3,027) for 2013-2014 financial year.

### 30. Irregular expenditure

Opening balance	28,993,463	21,280,061
Add: Irregular Expenditure - current year	251,993	7,713,402
	<b>29,245,456</b>	<b>28,993,463</b>

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Irregular expenditure for the current year, consist of groceries made with one quotation and various other expenditure.

### 31. Unauthorised expenditure

Opening balance	21,008,287	2,542,297
Over expenditure	199,159	8,110,303
Conditional Grants not cashed back	2,366,096	10,355,687
	<b>23,573,542</b>	<b>21,008,287</b>

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# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>32. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	-	1,065,699
<b>Auditor's remuneration</b>		
Current year auditor's remuneration	2,818,145	2,745,281
Amount paid - current year	(2,393,371)	(2,745,281)
	<b>424,774</b>	-
<b>PAYE and UIF</b>		
Current year subscription / fee	3,450,633	1,533,586
Amount paid - current year	(2,692,043)	(1,533,586)
	<b>758,590</b>	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	1,132,495	713,035
Amount paid - current year	(924,757)	(713,035)
	<b>207,738</b>	-
<b>VAT</b>		
VAT payable	158,428	94,629
VAT output payables and VAT input receivables are shown in note 14 .		
All VAT returns have been submitted by the due date throughout the year.		
<b>Councillors' arrear consumer accounts</b>		
During the year, no councillors had rates in arrears.		
<b>Supply chain management regulations</b>		
In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred hereunder were condoned by the Council.		
<b>Incident</b>		
Emergency pipeline repairs	-	12,996
Richie Motors - 1 quotation	-	4,426
Sparks & Ellies - 1 quotation and not advertised	-	40,136
Hlabisa Spar - 1 quotation	40,261	-
King Shatini	5,800	-
Magna Business Consulting - 1 quotation	193,501	-
Mduduzi Charles Ngubane - 1 quotation	10,000	-
New Era Workshop	23,997	-
Ruby Lindelwa Khumalo - 1 quotation	3,000	-
Tent amount trading	667	-
Catering - 1 quotation	3,362	-
	<b>280,588</b>	<b>57,558</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand	2014	2013 Restated
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### 32. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Material losses through criminal conduct

The municipality did not take any criminal or disciplinary steps as a result of unauthorised, irregular or fruitless and wasteful expenditure incurred. The expenses incurred are submitted to the Council for condonement.

### 33. Commitments

#### Authorised capital expenditure

##### Approved and contracted for

- Property, plant and equipment	12,295,406	11,112,779
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##### Approved but not yet contracted for

- Property, plant and equipment	13,902,000	-
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### 34. Key Sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant, and equipment
- Recoverable amounts of property, plant and equipment
- Provision for doubtful debts
- Impairment of assets

### 35. Risk management

#### 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 standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

#### Liquidity risk

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

#### Interest rate risk

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

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013  
Restated

### 36. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

#### 2014

	<b>Financial assets at amortised cost</b>	<b>Total</b>
Trade and other receivables from exchange transactions	382,204	382,204
Trade and other receivables from non-exchange transactions	83,097	83,097
Cash and cash equivalents	2,605,662	2,605,662
	<b>3,070,963</b>	<b>3,070,963</b>

#### 2013

	<b>Financial assets amortised cost</b>	<b>Total</b>
Trade and other receivables from exchange transactions	418,306	418,306
Trade and other receivables from non-exchange transactions	130,151	130,151
Cash and cash equivalents	6,871,856	6,871,856
	<b>7,420,313</b>	<b>7,420,313</b>

### 37. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

#### 2014

	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Payables from exchange transactions	7,989,344	7,989,344
Bank overdraft	856,177	856,177
Unspent conditional grants	5,121,780	5,121,780
VAT	158,428	158,428
	<b>14,125,729</b>	<b>14,125,729</b>

#### 2013

	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Payables from exchange transactions	4,290,979	4,290,979
Bank overdraft	664,542	664,542
Unspent conditional grants	11,649,294	11,649,294
VAT	94,629	94,629
	<b>16,699,444</b>	<b>16,699,444</b>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013  
Restated

### 38. Going concern

We draw attention to the fact that at 30 June 2014, the municipality's current liabilities exceed current assets by R11 495 539 and the unspent conditional grants are not adequately cash backed.

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

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

### 39. Contingent Liabilities

In 2013 the Municipality is in litigation with Mguni Wells CC over the construction of the city hall. The amount in question is R 763 782. (Resolved)

In 2013 the Municipality waited for future litigation regarding a matter of non payment of R 408 281 to Wamkelwa Trading Enterprise CC. (Resolved)

### 40. Non-current assets held for sale

The municipality decided to sell some of its land to better its financial position.

The disposal are expected to be completed by during the 2013/2014 financial year.

### 41. Prior period errors

The correction of the error(s) results in adjustments as follows:

#### Statement of financial position

Property Plant and Equipment adjustment of carrying value prior to 2013. This adjustment is due to the new FAR with new balances	-	(8,839,454)
Intangible assets adjustment of carrying value prior to 2013. This adjustment is due to the new FAR with new balances	-	(90,148)
Rates adjustment due to previous years misallocations	-	652,488
Refuse adjustment due to previous years misallocations	-	108,117
Property Plant and Equipment adjustment of depreciation and impairment loss due to asset verification and new FAR	-	2,838,073
Intangible assets adjustment of depreciation due to asset verification and new FAR	-	(2,392)
Provision for bad debt adjustment due to previous years misallocations	-	(1,296,194)
Assets held for sale adjustment of carrying value prior to 2013. This adjustment is due to the new FAR	-	499,264
Investment property of carrying value prior to 2013. This adjustment is due to the new FAR	-	16,183,159
	-	<u>10,052,913</u>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>41. Prior period errors (continued)</b>		
<b>Statement of Financial Performance</b>		
Reversal of impairment due to asset verification	-	(4,251,974)
Adjustment on Depreciation for PPE due to asset verification	-	1,413,901
Adjustment on Depreciation for Intangible assets due to asset verification	-	2,392
Reversal of Rates and Refuse erroneously billed	-	153,709
Reversal of Bad debts erroneously written off	-	(753,313)
Recognising income from assets held for sale	-	(161,000)
Provision for bad debt	-	1,296,194
	-	<u>(2,300,091)</u>
<b>Accumulated Surplus Prior to 2013</b>		
PPE adjustment of carrying value 30 June 2012	-	8,839,454
Intangible assets adjustment of carrying value 30 June 2012	-	90,148
Assets held for sale adjustment of carrying value 30 June 2012	-	(499,264)
Investment property adjustment of carrying value 30 June 2012	-	(16,183,159)
	-	<u>(7,752,821)</u>

# Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013 Restated
<b>42. Cash flows from operating activities</b>		
<b>Receipts: Sale of goods and services</b>		
Total revenue as per Statement of Financial Performance	59,726,570	51,116,454
Less: Interest received	(702,996)	(576,988)
Less: Government grants and subsidies received	(57,267,674)	(48,634,362)
Movement from non-exchange transactions	74,302	(1,337,362)
Increase in receivables from exchange transactions	36,102	179,952
Movement in VAT receivables	63,799	1,228,612
	<b>1,930,103</b>	<b>1,976,306</b>
<b>Payment: Suppliers</b>		
Total expenditure as per the Statement of Financial Performance	(55,306,495)	(52,806,599)
Employee cost	21,458,329	20,268,814
Interest paid	180,850	274,900
Depreciation and amortisation	4,436,310	4,472,819
Debt impairment	(27,248)	1,298,816
Movement in payables from exchange transaction	3,698,367	2,578,673
Movement in inventory	5,603	35,237
Movement in unspent conditional grants	(6,527,514)	1,399,637
Appropriations (Opening retain earnings adjustment)	-	2,209,837
	<b>(32,081,798)</b>	<b>(20,267,866)</b>