

# ANNUAL FINANCIAL STATEMENTS

for

## INGQUZA HILL LOCAL MUNICIPALITY

for the period ended 30 June: 2011

Province:

Eastern Cape

### Contact Information:

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**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the period ended 30 June 2011

**General information**

**Members of the Executive Council**

Councillor P Mdingi	Mayor
Councillor N Gagai	Speaker
Councillor TT Besi	Member of the Executive committee
Councillor T Jotile	Member of the Executive committee
Councillor M Tenyane	Member of the Executive committee
Councillor PN Ngxamile	Member of the Executive committee
Councillor S Vatsha	Member of the Executive committee
Councillor B Mvulane	Member of the Executive committee
Councillor N Gexu	Member of the Executive committee
Councillor N Jiki	Member of the Executive committee
Councillor N Ndayi	Member of the Executive committee

**Municipal Manager**

M Fihlani

**Chief Financial Officer**

L Pepeta

**Grading of Local Authority**

Grade 3

**Auditors**

Auditor-General

**Bankers**

First National Bank  
Standard Bank  
Meeg Bank

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the period ended 30 June 2011

**General information**

**Foreword**

We are pleased to present this financial report that reflects our commitment to the principle of good governance and clean administration by Ingquza Hill Local Municipality's Council

As a responsible local government structure, we have worked hard during the period under review to execute the mandate given to us by the communities we serve to advance their basic social needs and reduce the infrastructure development backlog that is faced by our country, this is our main business as the local sphere of South African Government according to section 216 of the Constitution.

As a developing local government institution, we place very high emphasis on total compliance with the financial legislation governing our conduct. We will continue to place great focuss on empowering our public representatives in playing a vigorous oversight role in the management of public funds.

We wish to thank Council and our administration for their hard work in ensuring that we post positive results in respect of our financial management.

I thank you

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Councillor PJ Mdingi  
Mayor

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the period ended 30 June 2011

**General information (continued)**

<b>Registered Office:</b>	135 Main street, Flagstaff
<b>Physical address:</b>	135 Main street FLAGSTAFF 4810
<b>Postal address:</b>	PO Box 14 FLAGSTAFF 4810
<b>Telephone number:</b>	039 252 0131
<b>Fax number:</b>	039 252 0699
<b>E-mail address:</b>	<a href="mailto:mfihlani@ihlm.gov.za">mfihlani@ihlm.gov.za</a>

**INGQUZA HILL LOCAL MUNICIPALITY**



**ANNUAL FINANCIAL STATEMENTS**

**for the period ended**

**30 June 2011**

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 48, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 19 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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**M Fihlani**  
**Municipal Manager**

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**L Pepeta**  
**Chief Finance Officer**

**INGQUZA HILL LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
For the period ended 30 June 2011**

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**INGQUZA HILL LOCAL MUNICIPALITY  
STATEMENT OF FINANCIAL POSITION  
As at 30 June 2011**

	Notes	2011 R '1	2010 R '1
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net assets</b>		<b>99 008 084</b>	<b>39 723 116</b>
Accumulated surplus	1	99 008 084	39 723 116
<b>Non-current liabilities</b>			
Long term loan - DBSA	2	6 825 840	6 825 841
<b>Current liabilities</b>		<b>16 656 847</b>	<b>26 045 789.03</b>
Current provisions	3	955 526	903 531
Trade and other payables from exchange transactions	4	6 590 135	14 177 099
Unspent conditional grants and receipts	5	8 709 183	10 710 565
Bank overdraft	7	-	16 907
Sundry creditors	4	402 003	237 687
<b>Total Net Assets and Liabilities</b>		<b>122 490 771</b>	<b>72 594 746</b>
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>94 399 333</b>	<b>53 266 676</b>
Property, plant and equipment	8	90 581 661	49 712 660
Intangible assets	9	-	-
Investment property	10	-	-
Investment held as a colateral	6	3 817 673	3 554 016
<b>Current assets</b>		<b>28 091 437</b>	<b>19 328 065</b>
Consumer debtors from exchange transactions	11	4 847 376	5 115 285
Sundry debtors from exchange transactions	11	1 009 477	1 018 883
VAT receivable	12	6 762 668	1 972 759
Bank balances and cash	7	15 471 915	11 221 137
<b>Total Assets</b>		<b>122 490 771</b>	<b>72 594 741</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
**For the year ended 30 June 2011**

	Notes	2011 R '1	2010 R '1
<b>REVENUE</b>			
Property rates	13	8 485 304	14 898 261
Service charges - refuse	14	1 177 934	1 058 050
Rental of facilities		29 562	27 635
Interest earned - external investments		1 603 335	575 143
Interest earned - outstanding receivables		412 658	663 554
Fines		208 366	220 400
Lease rentals		224 008	210 232
Licences and permits		24 491	18 123
Government grants and subsidies	15	122 790 985	96 038 250
Other income	16	10 428 658	1 182 088
Proceeds on sale of assets		-	-
<b>Total Revenue</b>		<b>145 385 300</b>	<b>114 891 735</b>
<b>EXPENDITURE</b>			
Employee related costs	18	45 950 423	45 042 767
Remuneration of Councillors	19	11 400 635	10 901 216
Repairs and maintenance		2 075 973	889 824
Impairment of debtors		5 509 884	11 370 857
Interest paid	20	246 248	524 064
General expenses	23	20 917 171	12 308 533
<b>Total expenditure</b>		<b>86 100 334</b>	<b>81 037 261</b>
<b>SURPLUS FOR THE YEAR</b>		<b>59 284 966</b>	<b>33 854 475</b>



**INGQUZA HILL LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
For the year ended 30 June 2011

	<b>(Accumulated Deficit) / Accumulated Surplus</b>	<b>Total</b>
<b><u>2010</u></b>		
Balance at 01 July 2009	1 643 072	1 643 072
Correction of prior period error	4 225 569	4 225 569
Surplus for the year before restated figures	33 238 168	33 238 168
<b>Reported previous year</b>	<b>39 106 809</b>	<b>34 881 240</b>
Correction of prior period error(Note 32) 32	616 309	616 341
Adjusted surplus for the year	33 854 475	33 854 474.52
	<b>39 723 118</b>	<b>69 352 055</b>
<b><u>2011</u></b>		
Balance at 01 July 2010	39 723 118	39 723 118
Change in accounting policy		-
Balance at 01 July 2010	39 723 118	39 723 118
Correction of errors	0.00-	0.00-
Surplus for the year	59 284 966	59 284 966
	<b>99 008 084</b>	<b>99 008 084</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT**  
For the year ended 30 June 2011

	Notes	2011 R '1	2010 R '1
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from ratepayers, government and other		142 057 899	120 388 013
Cash paid to suppliers and employees		(98 014 648)	(76 740 984)
Cash generated by / (utilised in) operations	<b>29</b>	<u>44 043 251</u>	<u>43 647 029</u>
Investment income		1 603 335	575 143
Interest paid		(246 248)	(524 064)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<b><u>45 400 338</u></b>	<b><u>43 698 108</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(40 869 001)	(33 129 817)
Proceeds on disposal of PPE		-	-
Investment held as a colateral		(263 657)	(266 547)
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<b><u>(41 132 658)</u></b>	<b><u>(33 396 364)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Loans increase - DBSA		-	-
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<b><u>-</u></b>	<b><u>-</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b><u>4 267 680</u></b>	<b><u>10 301 744</u></b>
Cash and cash equivalents at the beginning of the year		<u>11 204 232</u>	<u>902 488</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b><u>15 471 913</u></b>	<b><u>11 204 232</u></b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2011**

**1. BASIS OF ACCOUNTING**

**1.1 Basis of presentation**

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 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) and we have adopted the requirements exempted in Gazette 30013 of 27 June 2007. The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated financial statements and accounting for controlled entities
GRAP 7	Accounting for Investments in Associates
GRAP 8	Financial Reporting of Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 24	Presentation of budget information vs actuals
GRAP 26	Impairment of cash generating assets
GRAP 100	Non-current assets held for sale and discontinued operations
GRAP 101	Agriculture
GRAP 102	Intangible assets

These are the statements that are approved but not yet effective

GRAP 20	Related party disclosures
GRAP 18	Segment reporting
GRAP 25	Employee benefits
GRAP 104	Financial instruments
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

Where there is no equivalent standard of GRAP or IPSAS an International Financial Reporting Standard (IFRS) that is effective forms part of the GRAP reporting framework. This applies to the accounting standards detailed below:

IAS 12 (AC102)	Income Taxes
IAS 14 (AC 115)	Segment reporting
IAS19 (AC 116)	Employee benefits
IAS20 (AC 134)	Accounting for government grants and disclosure of government assistance
IAS24 (AC 126)	Related party disclosures
IAS26 (AC 136)	Accounting and rereporting by retirement benefit plans
IAS29 (AC 124)	Financial reporting in hyperinflationary economies
IAS 30 (AC 120)	Disclosures in the financial statements of banks and similar financial institutions
IAS 32 (AC 125)	Financial instruments: Disclosure and presentation
IAS 33 (AC 104)	Earnings per share
IAS 34 (AC 127)	Interim Financial Reporting
IAS 36 (AC 128)	Impairment of assets
IAS 39 (AC 133)	Financial instruments: Recognition and measurement
IFRS 02 (AC 139)	Share-based payment
IFRS 03 (AC 140)	Business combinations
IFRS 04 (AC 141)	Insurance contracts
IFRS 06 (AC 143)	Exploration for and evaluation of mineral resources
IFRS 07 (AC 144)	Financial Instruments: Disclosures

Exemptions from these standards as they relate to the interim arrangements on the implementation of GRAP are detailed under each relevant accounting policy note below as they apply to the municipality.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2011**

**1.2 Presentation currency**

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

**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**

Budget information in accordance with GRAP 1 and 24 has been provided in an annexure to these financial statements and forms part of the annual financial statements.

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 practicable and the prior year comparatives are restated accordingly.

**1.5 Accounting policies, changes in accounting estimates and errors**

The municipality has taken advantage of the interim arrangements with respect to the implementation of GRAP.

**1.6 HOUSING DEVELOPMENT FUND**

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

**2. RESERVES**

**2.1 Capital Replacement Reserve (CRR)**

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**2.2 Government Grant Reserve**

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated a transfer is made from the Government Grant to the accumulated surplus. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus.

**2.3 Revaluation Reserve**

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus. On disposal, the net revaluation surplus is transferred to the accumulated deficit while gains or losses on disposal based on revalued amounts, are credited or charged to the Statement of Financial Performance.

**3. PROPERTY, PLANT AND EQUIPMENT**

**3.1 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 and 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 municipality has applied the transitional provision, within GRAP17 - Property, plant and equipment, as it relates to measurement and therefore the cost of the assets have been recorded at provisional amounts, namely at R0 per major asset category. There has been no subsequent measurement of property, plant and equipment and therefore no depreciation has been accounted for in the annual financial statements. The municipality has till the end of June 2012 to measure property, plant and equipment in terms of GRAP17.

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 a provisional amount.

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 the provisional amount.

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.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**3. PROPERTY, PLANT AND EQUIPMENT (Cont.)**

**3.2 Subsequent measurement - revaluation model (Land and Buildings)**

The municipality has applied Directive 4 with regards to GRAP17 - Property, plant and equipment and therefore there has been no subsequent measurement. The municipality is in the process of ascertaining values for the assets and this is required to be performed by 30 June 2012.

**3.3 Depreciation and impairment**

As the municipality has applied Directive with regards to GRAP17 - Property, plant and equipment as relates to measurement, no depreciation has been accounted for in the annual financial statements.

**3.4 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.

**4. INVESTMENT PROPERTY**

**4.1 Initial recognition**

Investment property includes property (land or a building, or a part of a building, or both land or buildings held under an operating lease) held to earn rentals and / or for capital appreciation, rather than held to meet service delivery objectives, production or supply of goods or services or the sale of an asset in the ordinary course of operations. Investment properties are initially recognised as assets on acquisition date and are initially recorded at cost. The municipality has applied Directive 4 with regards to GRAP16 - Property, plant and equipment (inclusive of investment property), as it relates to measurement and therefore the cost of the assets have been recorded at provisional amounts, namely at R0. There has been no subsequent measurement of property, plant and equipment and therefore no depreciation has been accounted for in the annual financial statements. The municipality has till the end of June 2012 to measure property, plant and equipment in terms of GRAP16.

Where an investment property is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be a provisional amount.

Where an investment property 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 the provisional amount.

**4.2 Subsequent measurement - revaluation model (Investment property)**

The municipality has applied Directive 4 with regards to GRAP16 - Property, plant and equipment (inclusive of investment property) and therefore there has been no subsequent measurement. The municipality is in the process of ascertaining values for the assets and this is required to be performed by 30 June 2012.

**4.3 Depreciation and impairment**

As the municipality has applied Directive 4 with regards to GRAP16 - Property, plant and equipment as relates to measurement, no depreciation in respect of investment property has been accounted for in the annual financial statements.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**4. INVESTMENT PROPERTY (Cont.)**

**4.4 Derecognition**

Items of Investment Property 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.

**5. TRADE AND OTHER RECEIVABLES**

Trade and other receivable are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimates is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

**6. TRADE PAYABLES AND BORROWINGS**

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayment, plus interest.

**7. CASH AND CASH EQUIVALENTS**

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). 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, deposits held with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets, loans and receivables.

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

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**8. INVENTORIES**

**8.1 Initial Recognition**

The municipality has taken advantage of Directive 4 in the implementation of GRAP, accordingly the municipality is exempted from complying with GRAP 12 to the extent that it relates to immovable capital assets.

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

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

**8.2 Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, working-in-progress and finished goods, are valued at the lower of cost and the net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the first-in, first-out method.

**9. FINANCIAL INSTRUMENTS**

The Municipality has various types of financial instruments and these can be broadly catergorised as either Financial Assets or Financial liabilities.

**9.1 Financial Assets - Classification**

A financial asset is any asset that is cash or contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereof:

Investment in Fixed Deposits (Banking Institutions, etc)  
Long term receivables  
Consumer debtors  
Other debtors  
Bank, cash and cash equivalents



**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**9. FINANCIAL INSTRUMENTS (continued)**

**9.1 Financial assets (continued)**

<b>Type of financial assets</b>	<b>Classification in terms of IAS 36.06</b>
Short term investment deposits - call	Available for sale
Bank, cash and cash equivalents	Available for sale
Long term receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other debtors	Loans and receivables
Bank, cash and cash equivalents	Held at maturity

Financial assets at fair value through profit and loss are financial assets that meet either of the following conditions:

- They are classified as held for trading; or
- Upon initial recognition they are designated as a fair value through the Statement of Financial Performance.

Available for sale investment are financial assets that are designated as available for sale or are not classified as:

- Loans and receivables
- Held to maturity investments; or
- Financial asset at fair value through the Statement of Financial Performance.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment maturity.

Loans and receivables are non derivative financial assets with fixed or determinable payments. They are included in current assets, except for maturities greater than 12 months, which are classified as non current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition financial assets are provision for impairment.

**9.2 Financial liabilities**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereof:

- Long term liabilities
- Creditors
- Bank overdraft
- Short term loans
- Current portion of long term liabilities

There are two main categories of financial liabilities, the classification based on how they are measured. Financial liabilities may be measured at:

- (i) Fair value through profit or loss; or
- (ii) Not at fair value through profit or loss (other financial liabilities)

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**9. FINANCIAL INSTRUMENTS (continued)**

**9.2 Financial liabilities (continued)**

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. Purchase with the intention to sell or repurchase in the short term, derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short term profiteering or are resulted gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities should be classified as financial liabilities that are not measured at fair value through profit or loss are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

In accordance with IAS 39.09 the Financial Liabilities of the Municipality are all classified as financial liabilities that are not measured at fair value through profit or loss.

**9.3 Initial and Subsequent Measurement**

**9.3.1 Financial Assets:**

Held to maturity investments and loans and receivables are initially measured at fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective interest method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at Fair Value and Available for sale are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

**9.3.2 Financial liabilities**

Financial liabilities at fair value and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rates method.

**9.4 Impairment of Financial Assets**

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39

Initially accounts impairment of trade receivables are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year end. Bad debts are written off the year in which they are identify as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subquent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**9. FINANCIAL INSTRUMENTS (continued)**

**9.4 Impairment of financial assets (continued)**

With the exception of Available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available for sale equity securities, impairment losses previously recognised through profit or loss are not reversed through the Statement of Financial Performance. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Consumer debtor are stated at cost less a provision for impairment. The provision is made in accordance with IAS 36.64 whereby the recoverability of consumer debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. Government accounts are not provided for such accounts are regarded as receivable.

Loans and receivable are non-derivative Financial Assets with fixed or determinable payments. They are included in current assets, except for maturities greater than 12 month, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

**9.5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the assets expires or it transfer the financial asset and subsequently all the risks and rewards of ownership of the asset to another entity, except when the Council approves the write-off of Financial Assets due to non-recoverability.

If the Municipality neither transfers nor retain substantially all the risks and rewards of the ownership and continues to control the transfer asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the Municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**9.6 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, the Municipality's obligations are discharged, cancelled or they expire.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**10 RISK MANAGEMENT OF FINANCIAL ASSET AND LIABILITIES**

It is the policy of the Municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instrument to which the Municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

**10.1 Credit Risk**

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

**10.2 Liquidity Risk**

- A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.
- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in the financial statement

**11. PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. 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 (this for example applies in the case of obligations for the rehabilitation of the landfill site).

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 removed. 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 the 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.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**12. LEASES**

**12.1 Municipality as lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the payments which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to depreciation of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating leases are accrued and accounted for on a straight-line basis over the term of the relevant lease, this on the basis of the of the cash flows in the lease agreement. The principle of smoothing the current and future lease payments has not been applied. Notwithstanding the exemptions on the recognition of operating lease agreement, the municipality has early adopted IAS 17 (AC 105).

**12.2 Municipality as lessor**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

**13. CONDITIONAL GRANTS AND RECEIPTS**

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

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**14. REVENUE**

**14.1 REVENUE FROM EXCHANGE TRANSACTIONS**

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

Interest revenue is recognised on a time proportion basis.

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 gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passes to the consumer.

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.

The municipality has opted to take advantage of the exemption on accounting for revenue in terms of GRAP 09. That means revenue has initially been measured at cost and not at fair value wherein all future receipts are discounted at the imputed rate of return.

**14.2 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.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summons. Revenue from spot fines and summons is recognised when payments is received, together with an estimate of spot fines and summons that will be received based on past experience of amounts collected.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**14.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS (Continued)**

Revenue from public contributions and donations is recognised when all the 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, a deferred income (liability) is recognised.

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, including those set out in the Municipal Finance Management Act (56 of 2003) and is recognised when the recovery thereof from the responsible councils or officials is virtually certain.

**15. GRANTS, TRANSFERS AND DONATIONS**

IAS 20 (AC 134) has been early adopted.

Grants, transfers and donations received 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.

**16. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted for, 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 (56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance.

**17. IRREGULAR EXPENDITURE**

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

**18. 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.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

**19. BORROWING COSTS**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

**20. RETIREMENT BENEFITS**

The municipality operates a defined contribution plan in the form of a provident fund scheme covering employees. The assets of the scheme are held separately from those of the municipality and are administered by the scheme's trustees. Contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered service entitling them to contributions.

**21. IMPAIRMENT OF ASSETS**

The municipality has taken advantage of the transitional arrangements with respect to IAS 36 (AC 128) impairment of assets, meaning that the municipality is exempted from complying with this standard.

**22. SEGMENT REPORTING**

The municipality has taken advantage of the transitional arrangements with respect to IAS 14 (AC 115) segment reporting, accordingly the municipality is exempted from complying with this standard.

**23. EVENTS AFTER THE REPORTING DATE**

The municipality considers events that occur after the reporting date for inclusion in the annual financial statements. Events that occur after the reporting date (30 June 2011) and the date on which the audit of the financial statements is completed (30 June 2011) are considered for inclusion in the annual financial statements.



**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

	<b>2011</b>	<b>2010</b>
	<b>R '1</b>	<b>R '1</b>
<b>1 Accumulated surplus</b>		
Opening balance	(39 723 118)	(5 868 642)
Movements :	(59 284 966)	(33 854 476)
Council	11 400 635	10 901 216
Municipal Manager	3 132 491	2 879 453
Budget & Treasury Office	(68 634 889)	(55 153 026)
Administration	8 486 499	6 949 337
Human Resource	2 600 992	3 200 904
Community & Social Services	12 941 528	14 639 879
Infrastructure	(34 708 490)	(22 794 716)
LED	5 496 268	5 522 478
Adj. Opening balance	<u>(99 008 083)</u>	<u>(39 723 118)</u>
Closing balance	<u><b>(99 008 083)</b></u>	<u><b>(39 723 118)</b></u>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2011**

	<b>2011</b>	<b>2010</b>
	<b>R '1</b>	<b>R '1</b>
<b>2 Long Term Liability</b>		
Loans - DBSA	6 825 840	6 825 840
Interest accrued	114 870	114 870
	<u>6 940 711</u>	<u>6 940 710</u>

The DBSA external loan is repayable in 2019. The fixed interest rate is 6.75% per annum. One bullet payment at the end of term from proceedings of zero coupon bonds. The payment shall commence on the last day of half year during which the first disbursement was advanced to the Borrower. The loan is secured by the investment held with FNB-RMB which was ceded to the DBSA which is an investment on zero coupon bond and has the following details:

Account number - 128331

Type of account – RMB

Value – R3 287 467

**3 CURRENT PROVISION**

Opening balance	903 531	728 801
Current increase	51 995	174 730
	<u>955 526</u>	<u>903 531</u>

**NB:** this is the provision for service bonus

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

	<b>2011</b>	<b>2010</b>
	<b>R '1</b>	<b>R '1</b>
<b>4 CREDITORS</b>		
Trade creditors and accruals	35 003	2 485 804.22
Payroll creditors	-	6 223 269.18
Provision for Leave Pay	2 987 649	3 354 735.11
Prepaid income	2 536 649	2 113 290.36
Department of labour	1 030 834	-
<b>Balance at the end of the year</b>	<b><u>6 590 135</u></b>	<b><u>14 177 098.87</u></b>
<b>Sundry creditors</b>		
Interest on DBSA Loan (refer to note 2)	114 870	114 870.49
Other creditors	287 133	122 816.22
	<b><u>402 003</u></b>	<b><u>237 687</u></b>

The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.

The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.

**5 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

Unspent LED	500 000	-
DME - Electrification	7 496 695	9 010 563
MIG Grant	712 488	1 700 002
	<b><u>8 709 183</u></b>	<b><u>10 710 565</u></b>

See note 15 for reconciliation of grants from other spheres of government. These unspent conditional grants at year end are directly cash backed as required by the MFMA i.e. at year end there were designated investment bank accounts supporting these unspent grants, however, all unspent conditional grants are classified as current liabilities, to be settled within next 12 months

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

	2011 R '1	2010 R '1
<b>6 NON-CURRENT ASSETS</b>		
Investment held as a collateral - FNB: RMB	<u>3 817 673</u>	<u>3 554 016.00</u>
<p>The investment is with RMB and is pledged as security for loan with DBSA and the municipality has no access to the investment till the loan is repayed in 2010. This investment is on zero coupon bond and has the following details:</p> <p>Account number - 128331  Type of account – RMB  Value – R3 287 467</p> <p><b>NB:</b> this is a financial asset</p>		
<b>7 BANK, CASH AND OVERDRAFT BALANCES</b>		
The Municipality has the following bank accounts:		
<b>7.1 Current Account (Primary Bank Account)</b>	<b>2011</b>	<b>2010</b>
Bank statement Balance as at 01 July 2010	757 380	(5 028 730)
Bank statement balance as at 30 June 2011	<u>1 269 181</u>	<u>757 380</u>
Bank statement balance at the end of the year 2010 - overdrawn		
<b>Bank statement balance at the end of the year - overdrawn</b>	<u>-</u>	<u>(16 907)</u>
<b>7.2 Current and call accounts</b>	<b>2011</b>	<b>2010</b>
Meeg - 40-5276-4652 - call account	2 898 785	-
FNB - 6224175712 - primary account	1 240 492.17	40 047
FNB - 62003235307 - call account	1 403 411	11 209
FNB - 62219877836 - call account	169 978	165 648
Meeg - 9191358983 - call account	5 180	5 201
Meeg - 9119635044 - call account	268 758	263 381
Meeg - 9191358488 - call account	5 180	5 202
Std bank - 2800784090 - call account	9 625	10 631
Std bank - 388760435005 - call account	91 665	2 350
FNB - 74233699310 - call account	7 503 209	9 010 563.00
FNB - 62231474537 - call account	1 227 563	1 700 000.00
FNB - 62231473761 - call account	581 039	6 823.00
<b>Cash book balance at the end of the year</b>	<u>15 404 885</u>	<u>11 221 055</u>
<b>Bank statement balance at the end of the year</b>	<b>15 404 885</b>	<b>11 221 055</b>
<b>7.3 Credit cards</b>		
Credit card	43 550	-
Credit card - 42571526747011	<u>22 972</u>	
	<u>66 521</u>	
<b>7.4 Petty cash balance</b>	<u>508</u>	<u>82</u>
<b>Bank and cash balance</b>	<u>15 471 914</u>	<u>11 221 137</u>
<b>Cash and cash equivalents</b>	<u>15 471 914</u>	<u>11 204 230</u>

INGQUZA HILL LOCAL MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 30 June 2011

8 PROPERTY, PLANT AND EQUIPMENT  
At 30 June 2011

8.1 Reconciliation of Carrying Value

Description	Land and buildings	Infrastructure	Community assets	Capitalised leased assets - Motor vehicles	Other assets	Total
	R '1	R '1	R '1	R '1	R '1	R '1
<b>Carrying values at 1 July 2010</b>	<b>3 442 069</b>	<b>39 305 476</b>	-	-	<b>6 965 115</b>	<b>49 712 660</b>
Cost	3 442 069	39 305 476	-	-	6 965 115	49 712 660
Correction of error	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-
- Cost	-	-	-	-	-	-
- Correction of error	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-
Acquisitions	-	16 617 869	-	-	705 116	17 322 985
Capital under construction	-	23 546 016	-	-	-	23 546 016
Depreciation:	-	-	-	-	-	-
- based on cost	-	-	-	-	-	-
- based on revaluation	-	-	-	-	-	-
Carrying value of disposals:	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Other movements	-	-	-	-	-	-
<b>Carrying values at 30 June 2011</b>	<b>3 442 069</b>	<b>79 469 361</b>	-	-	<b>7 670 231</b>	<b>90 581 661</b>
Cost	3 442 069	79 469 361	-	-	7 670 231	90 581 661.13
Revaluation	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-
- Cost	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-

**NB:** No depreciation, impairment and measurement of useful-lives of "Property, Plant and Equipment" was done. The municipality took advantage of the transitional provisions in Directive 4 from the Accounting Standards Board and aims to comply fully with GRAP by 30 June 2012.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**9 INTANGIBLE ASSETS**

**9.1 Reconciliation of carrying value**

	Computer Software	Other*	Total
	R	R	R
<b>as at 01 July 2010</b>	-	-	-
Cost	-	-	-
Correction of error			-
Change in accounting policy			-
Accumulated amortisation and impairment losses	-	-	-
Acquisitions	-	-	-
Amortisation	-	-	-
Carrying value of disposals	-	-	-
Cost	-	-	-
Accumulated amortisation	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
Transfers	-	-	-
Other movements	-	-	-
<b>as at 30 June 2011</b>	-	-	-
Cost	-	-	-
Accumulated amortisation and impairment losses	-	-	-

**NB:** This is not complied with because of the application of Directive 4

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**10 INVESTMENT PROPERTY CARRIED AT FAIR VALUE**

10.1 Reconciliation of fair value	Investment property	Investment property	Total
	R	R	R
as at 01 July 2010	-	-	-
Acquisitions	-	-	-
Fair value adjustment	-	-	-
Fair value of disposals	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
Transfers	-	-	-
Other movements	-	-	-
<b>as at 30 June 2011</b>	<b>-</b>	<b>-</b>	<b>-</b>

10.2 Investment property pledged as security

**10.3 Details of property**

**Investment property**

Terms and conditions  
Purchase price: date  
Additions since purchase  
Capitalised expenditure

-	-
-	-

**Investment property**

Terms and conditions  
Purchase price: date  
Additions since purchase  
Capitalised expenditure

-	-
-	-

**10.4 Rental income from investment property**

Direct operating expenses from rental generating property  
Direct operating expenses from non-rental generating property

**10.5 Details of valuation**

The effective date of the revaluations was x. Revaluations were performed by an independent valuer, Mr Botha [specify qualifications], of Messrs Botha and Rudd. Botha and Rudd are not connected to the entity and have recent experience in location and category of the investment property being valued. The valuation was based on open market value for existing use.

For investment property, totalling R - (2007: R -), where there was a lack of comparable market data, the valuation was based on discounted cash flows. The following assumptions were used:  
Discount rate  
Other  
Other  
These assumptions are based on current market conditions.

**10.6 Amounts recognised in surplus or deficit for the year.**

**NB:** This statement is not yet complied with because of directive 4

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**11 DEBTORS**

**11.1 CONSUMER DEBTORS FROM EXCHANGE TRANSACTIONS**

	<u>Gross balance</u> R '1	<u>Provision for bad debts</u> R '1	<u>Net balances</u> R '1
<b>As at 30 June 2011</b>			
Business	17 534 048.76	(17 183 368)	350 681
Domestic	16 057 185	(15 736 042)	321 144
Government	4 175 551	-	4 175 551
	<u><b>37 766 785</b></u>	<u><b>(32 919 409)</b></u>	<u><b>4 847 376</b></u>
<b>Discounting effect</b>			
Consumer debtors	37 766 785		
Finance income	(412 658)		
Provision for bad debts	(32 506 751)		
<b>Debtors @ fair value</b>	<u><b>4 847 376</b></u>		
<b>As at 30 June 2010</b>			
Rates	32 524 811	(27 409 526)	5 115 285
	<u><b>32 524 811</b></u>	<u><b>(27 409 526)</b></u>	<u><b>5 115 285</b></u>
<b>Adjusted balance</b>			<u><b>5 115 285.37</b></u>

	<b>2011 R</b>	<b>2010 R</b>
<b><u>Refuse and Rates: Ageing</u></b>		
0 - 30 days (current)	130 075	140 598
31 - 60 days	102 292	112 395
61 - 90 days	109 336	112 251
91 -120 days	64 411	(867 872)
121 - 150days	109 114	112 024
151 - 180 days	108 273	111 083
181 - 210 days	113 646	11 972 243
211 - 240 days	6 615 688	110 736
241 - 270 days	89 149	110 683
271 - 300 days	97 407	105 529
301 - 330 days	92 065	109 335
331 - 360 days	109 024	109 994
+361 days	30 026 306	20 285 812
<b>Total</b>	<u><b>37 766 785</b></u>	<u><b>32 524 811</b></u>

**Summary of Debtors by Customer Classification**

In terms of the financial instruments classification (Note 32), management has classified consumer debtors as loans and receivables for the purposes of assessing credit risk and liquidity (Notes 11.1 and 11.2). The concentration of credit risk has been on residential consumers. Provision for impairment of consumer debtors has been more aggressive in the year under review, and has been made for all residential consumer balances outstanding for 98% of outstanding debt bases on collection. In management's professional judgement, no further credit provision is required in excess of the Provision for impairment.

Consumer Debtors comprises a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer Debtors are presented net of provision for impairment.

<b>11.2 Sundry debtors from exchange transactions</b>	<u><b>1 009 477</b></u>	<u><b>1 018 883</b></u>
<b>12 VAT</b>	<u><b>6 762 668</b></u>	<u><b>1 972 759</b></u>



**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

	<b>2011</b>	<b>2010</b>
	<b>R '1</b>	<b>R '1</b>
<b>13 PROPERTY RATES</b>		
<b><u>Actual</u></b>		
Rates	8 485 304	14 898 260.82
Finance charge	358 384	493 517.95
<b>Total assessment rates</b>	<b><u>8 843 688</u></b>	<b><u>15 391 778.77</u></b>
<b><u>Property valuations</u></b>		
Rates		
<b>Total property valuations</b>	<b><u>-</u></b>	<b><u>-</u></b>
<p>Valuations on land and buildings are performed every four years.            The last valuation came into effect on 01 July 2009. A 0.02 for Government and businesses and 0.015 for residential is applied to property valuations to determine the assessment rates. Rates are levied on an annual basis on property owners.</p>		
<b>14 SERVICE CHARGES</b>		
Refuse charges	1 177 934	1 058 050
Finance charge	54 274	170 036
	<b><u>1 232 208</u></b>	<b><u>1 228 086</u></b>
<b>15 GOVERNMENT GRANTS AND SUBSIDIES</b>		
<b>National Transfers</b>		
Equitable share	73 505 177	60 075 534.65
Department of Minerals and Energy	16 513 868	10 989 436.72
Municipal Finance Management Grant	1 200 000	1 000 000.00
MIG Grant	27 213 512	20 866 998.70
<b>Provincial Transfers</b>		
MSIG Grant	750 000	735 000.00
Municipal Support Programme	-	2 251 000.00
IEC GRANT	1 050 000	0.00
LED grant	-	0.00
EPWP GRANT	2 113 000	0.00
<b>District Transfers</b>		
IDP Development - Grant	445 428	120 280.00
<b>Total government grants and subsidies</b>	<b><u>122 790 985</u></b>	<b><u>96 038 250.07</u></b>

**NB:** there are no transfers(grants) that are made out by the Municipality

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2011

	2011 R '1	2010 R' 1
<b>15 GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>15.1 Equitable share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. As part of this service, the municipality provides free basic electricity through a formalised mechanism through Eskom.		
	<u>73 505 177</u>	<u>60 075 535</u>
<b>15.2 Department of Minerals and Energy</b>		
Balance unspent at the beginning of the year	9 010 563	-
Current year receipts	15 000 000	20 000 000
Conditions met - transferred to revenue	<u>(16 513 868)</u>	<u>(10 989 437)</u>
<b>Conditions still to be met - transferred to liabilities</b>	<u>7 496 695</u>	<u>9 010 563</u>
This is an electrification support grant. Conditions yet to be met are that the municipality must still utilise this funding for electrification expenditure purposes. This expenditure is only for wards electrification		
<b>15.3 MSIG Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	750 000	735 000
Conditions met - transferred to revenue	<u>(750 000)</u>	<u>(735 000)</u>
<b>Conditions still to be met - transferred to liabilities</b>	<u>-</u>	<u>-</u>
This grant is meant to help with the improvement and upgrading of municipal systems and is only spent on that		
<b>15.4 Municipal Finance Management Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	1 200 000	1 000 000
Conditions met - transferred to revenue	<u>(1 200 000)</u>	<u>(1 000 000)</u>
<b>Conditions still to be met - transferred to liabilities</b>	<u>-</u>	<u>-</u>
This grant is spent on capacity building on BTO officials and S57 managers and Internship		
<b>15.5 IDP Development - Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	445 428	120 000
Conditions met - transferred to revenue	<u>(445 428)</u>	<u>(120 000)</u>
<b>Conditions still to be met - transferred to liabilities</b>	<u>-</u>	<u>-</u>
This is the grant spent on IDP and Budget related purposes		
<b>15.6 MIG Grant</b>		
Balance unspent at the beginning of the year	1 700 001	4 000 000
Current year receipts	26 226 000	18 567 000
Conditions met - transferred to revenue	<u>(27 213 512)</u>	<u>(20 866 999)</u>
<b>Conditions still to be met - transferred to liabilities</b>	<u>712 489</u>	<u>1 700 001</u>
This is an infrastructure support grant. Conditions yet to be met are that the municipality must still utilise this funding for Capital expenditure purposes, this grant is only spent on road construction and community halls		
<b>15.7 IEC GRANT</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	1 050 000	-
Conditions met - transferred to revenue	<u>(1 050 000)</u>	<u>-</u>
<b>Conditions met - transferred to revenue</b>	<u>-</u>	<u>-</u>
This was spent on roads repairs and maintenance during the IEC period		
<b>15.8 LED PROJECTS</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	500 000	-
Conditions met - transferred to revenue	<u>-</u>	<u>-</u>
<b>Conditions met - transferred to revenue</b>	<u>500 000</u>	<u>-</u>
Conditions to be met by building hawker stalls		
<b>15.9 EPWP GRANT</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	2 113 000	-
Conditions met - transferred to revenue	<u>(2 341 580)</u>	<u>-</u>
<b>Conditions met - transferred to revenue</b>	<u>(228 580)</u>	<u>-</u>
EPWP assist in the road construction and maintenance and road fencing		

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

16 Other Income	2011 R'1	2010 R'1
ADVERTISING FEES RENTAL	138 696	129 829
FUNERAL FEES	13 684	10 219
PLANT HIRE	7 594 875	540
LG SETA	24 000	16 004
INSURANCE REFUND	-	10 633
PLAN FEES	119 962	109 231
POUND FEES	19 915	31 547
REZONING & SUBDIVISION	2 763	9 346
SALE OF SITES	-	30 472
SALE OF WOOD	58 589	59 115
PAYMENT SUSPENSE	116 002	-
NATIS AGENCY FEES	2 272 977	2 264 063
SUNDRY INCOME	2 040	1 026
TENDER DOCUMENTS	51 704	72 500
ADJUSTMENTS	-	(1 572 328)
VENDING & HAWKING	13 450	9 890
	<b><u>10 428 658</u></b>	<b><u>1 182 088</u></b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

	<b>2011</b>	<b>2010</b>
	<b>R '1</b>	<b>R '1</b>
<b>17 Municipal Support Programme</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	2 251 000
Conditions met - transferred to revenue	-	(2 251 000)
<b>Conditions still to be met - transferred to liabilities</b>	<u>-</u>	<u>-</u>
<b>18 EMPLOYEE RELATED COSTS</b>		
Employee related costs - Salaries and wages	31 875 853	32 559 396
Employee related costs - Contributions for UIF, provident, m/aid, etc	5 689 377	5 021 650
Travel, motor car, accommodation, subsistence	2 672 064	2 196 952
Overtime payments	2 480 417	2 371 916
Housing benefits and allowances	1 237 048	1 132 305
Provision for Bonus	1 995 664	1 760 549
<b>Total employee related costs</b>	<u><b>45 950 423</b></u>	<u><b>45 042 767</b></u>
<b>Remuneration of the Municipal Manager</b>		
Annual remuneration	715 425	624 907
Car allowance	129 141	131 943
Contribution to UIF and related items	17 771	50 346
	<u><b>862 338</b></u>	<u><b>807 196</b></u>
<b>Remuneration of the Chief Finance Officer</b>		
Annual remuneration	613 794	529 271
Car allowance	98 800	126 468
Contribution to UIF and related items	30 340	16 239
	<u><b>742 934</b></u>	<u><b>671 978</b></u>
<b>Remuneration of the Corporate Services</b>		
Annual remuneration	608 395	531 797
Car allowance	134 551	120 834
Contribution to UIF and related items	0	42 787
	<u><b>742 947</b></u>	<u><b>695 418</b></u>
<b>Remuneration of the Technical Services</b>		
Annual remuneration	102 316	529 271
Car allowance	16 000	126 468
Contribution to UIF and related items	52 750	29 231.00
	<u><b>171 066</b></u>	<u><b>684 970</b></u>
<b>Remuneration of the Community Services</b>		
Annual remuneration	608 395	531 797
Car allowance	134 551	120 834
Contribution to UIF and related items	0	42 787
	<u><b>742 947</b></u>	<u><b>695 418</b></u>
<b>Remuneration of the Strategic Planning</b>		
Annual remuneration	608 395	531 787
Car allowance	134 551	115 660
Contribution to UIF and related items	0	42 787
	<u><b>742 947</b></u>	<u><b>690 234</b></u>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

	<b>2011</b>	<b>2010</b>
	<b>R '1</b>	<b>R '1</b>
<b>19 REMUNERATION OF COUNCILLORS</b>		
<b>Mayor</b>		
Annual remuneration	429 747	424 786
Allowances, contribution to UIF and related items	159 998	150 268
	<u><b>589 745</b></u>	<u><b>575 054</b></u>
<b>Speaker</b>		
Annual remuneration	343 832	363 504
Allowances, contribution to UIF and related items	122 779	123 897
	<u><b>466 611</b></u>	<u><b>487 401</b></u>
<b>Chief Whip</b>		
Annual remuneration	179 617	175 446
Allowances, contribution to UIF and related items	70 204	65 646
	<u><b>249 821</b></u>	<u><b>241 093</b></u>
<b>Exco members</b>		
Annual remuneration	1 616 550	1 579 018
Allowances, contribution to UIF and related items	631 836	590 814
	<u><b>2 248 386</b></u>	<u><b>2 169 833</b></u>
<b>Councillors</b>		
Annual remuneration	5 660 243	5 342 851
Allowances, contribution to UIF and related items	2 185 830	2 084 985
	<u><b>7 846 073</b></u>	<u><b>7 427 836</b></u>
<b>Total remuneration for councillors</b>	<u><b>11 400 635</b></u>	<u><b>10 901 216</b></u>
<b>20 INTEREST PAID</b>		
Long term liabilities	575 615	524 064
Bank overdraft	-	-
<b>Total interest on external borrowings</b>	<u><b>575 615</b></u>	<u><b>524 064</b></u>
<b>21 CHANGE IN ACCOUNTING POLICY</b>		
<b>21.1 Provision for the landfill site rehabilitation</b>	<u>-</u>	<u>-</u>
This provision is not made in current financial year because the Municipality is still under Directive 4		
<b>22 COUNCILLORS OWING RATES</b>		
1. C N Yako	71 630	-
2. K Mviko	46 596	-
<b>TOTAL</b>	<u><b>118 226</b></u>	<u><b>-</b></u>
<b>NB:</b> These are the Councillors with accounts in arrears for more than 90 days		

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2011**

23 GENERAL EXPENDITURE	2011 R'1	2010 R'1
ACCOUNTING AND AUDIT FEES	1 882 430	723 124
ADVERTISING FEES	117 713	101 225
DATA LINES	70 855	59 167
BANK CHARGES	100 627	855 388
CATERING - MEETINGS	89 565	261 992
CLEANING MATERIALS	15 053	48 358
TOWING SERVICES	5 415	1 500
CONFERENCE FEES/WORKSHOP & ACC	18 050	137 262
CONSULTANTS & PROF. FEES	1 257 584	2 080 674
HEALTH SERVICE	5 741	5 874
EPWP	2 341 580	-
EARLYCHILDHOOD DEVELOPMENT	16 930	-
EQUITABLE SHARE	371 125	387 840
ELECTRICITY AND WATER PURCHASE	228 905	179 701
CONVERSION OF AFS	403 362	798 325
CRIME PREVENTION	-	5 396
INTERNAL AUDIT	-	31 421
IDP DEVELOPMENT	128 037	242 484
INSURANCE : EXTERNAL	410 207	463 353
PAYMENT SUSPENSE	1 000	-
LEGAL FEES	1 055 371	1 098 689
LICENCE FEES	39 915	92 959
IDP & BUDGET	286 703	242 484
PAUPER BURIALS	3 018	3 600
POSTAGE	4 243	637
PRINTING AND STATIONERY	271 986	248 701
DISASTER MANAGEMENT	-	29 453
PROTECTIVE CLOTHING	105 338	53 685
PUBLIC PARTICIPATION	13 550	44 881
LIBRARY SERVICES	35 683	-
RENT - OFFICE EQUIPMENT	92 103	273 116
SUBSISTENCE & TRAVELLING	675 710	534 392
SURVEY AND PLANNING	393 497	372 070
SPECIAL PROGRAMMES	171 963	110 606
SPORTS & RECREATION	31 240	-
TELEPHONE	1 241 670	1 722 291
PORVERTY ALLEVIATION	85 965	89 500
TEAM BUILDING	15 575	1 750
TRAINING - OFFICIALS	437 970	170 484
VODACOM	184 446	63 916
BEACH MANAGEMENT	82 500	59 711
PLANT UNIT	3 899 251	268 825
ARTS & CULTURE	64 455	-
MUNSOFT & PAYDAY	423 533	297 783
SUPPORT TO TRADITIONAL LEADERS	168 361	48 930
Vat	-	535 502
HOTEL ACCOMMODATION	385 977	661 426
REFUSE BAGS	161 438	139 581
COUNCIL FUNCTION	58 529	-
VEHICLES - FUEL & OIL	1 675 821	1 402 294
TRAFFIC LAW ENFORCEMENT	100 370	-
VEHICLE HIRE	749 131	494 734
CLEANING & GREENING	19 535	-
HIV & AIDS	50 000	14 340
MAYORAL FUND	-	191 312
COMPUTER HARDWARE	17 757	26 764
ALLOWANCE WARD ADMIN	-	541 783
DEPARTMENT OF TRANSPORT	-	172 372
COMPUTER SOFTWARE	23 421	-
LOCAL ECONOMIC DEVELOPMENT	426 967	92 948
	<b>20 917 171</b>	<b>12 308 533</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**2011**                      **2010**  
**R '1**                              **R '1**

**24 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:

Bank balances and cash	15 471 915	11 221 137
Bank overdraft	-	(16 907)
<b>Total cash and cash equivalents</b>	<b>15 471 915</b>	<b>11 204 230</b>

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

**25.1 Unauthorised expenditure**

Reconciliation of unauthorised expenditure:

Opening balance	-	-
Unauthorised expenditure current year	-	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-

Incident	Disciplinary steps / criminal proceedings
N/A	None.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

	2011 R '1	2010 R '1
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**26 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**

**26.1 Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure:

Opening balance	888 325	-
Fruitless and wasteful expenditure current year	301 509	888 325
Condoned or written off by Council	(888 325)	-
Transfer to receivables for recovery	-	-
Irregular expenditure awaiting condonement	301 509	888 325

Incident	Disciplinary steps / criminal proceedings
PAYE, UIF and SDL penalty and interest for non payment of these statutory deduction resulted in expenditure Included in the reported amount there is interest paid to Department of Labour for compensation commissioner	NA

**26.2 Irregular expenditure**

Reconciliation of irregular expenditure:

Opening balance	-	-
Irregular expenditure current year	-	-
Approved by Council or condoned	-	-
Transfer to receivables for recovery - not condoned	-	-
Irregular expenditure awaiting authorisation	-	-

Incident	Disciplinary steps / criminal proceedings
Not applicable	Not applicable.

**26.3 PROVISION FOR LAND-FILL SITE**

Opening balance	-	-
Adjustments	-	-
Closing balance	-	-

**NB:** this has not been complied with because of the application of the transitional provisions in Directive 4



**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

	2011 R '1	2010 R '1
<b>27 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>		
<b>27.1 Audit fees</b>		
Opening balance	842 844	554 143
Current year audit fee	2 709 037	1 011 825
Amount paid - current year	(3 551 881)	(723 124)
Amount paid - previous years		
<b>Balance unpaid (included in creditors)</b>	<u><u>-</u></u>	<u><u>842 844</u></u>
<b>27.2 VAT</b>		
VAT input receivables are shown in note 12.	6 762 668	1 972 759
<b>27.3 PAYE and UIF</b>		
Opening balance	5 141 700	429 271
Current year payroll deductions	-	5 141 700
Amount paid - current year	(5 141 700)	(429 271)
Amount paid - previous years	-	0.00-
<b>Balance unpaid (included in creditors)</b>	<u><u>-</u></u>	<u><u>5 141 700</u></u>
<b>27.4 Pension and Medical Aid Deductions</b>		
Opening balance	-	-
Current year payroll deductions and council contributions	-	3 171 164
Amount paid - current year	0.00-	(3 171 164)
Amount paid - previous years	-	0
Interest on arrears		
<b>Balance unpaid (included in creditors)</b>	<u><u>-</u></u>	<u><u>-</u></u>
<b>28 CONTINGENT LIABILITY</b>	<b>Amount claimed</b>	<b>Amount claimed</b>
<b>Litigations that are still pending</b>	<u><u>1 621 182</u></u>	<u><u>551 052</u></u>

These are employees with cases that are still pending and / or under arbitration process from which the outcome may favour any of the two parties involved. These employees are still on suspension pending their cases.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

	<b>2011</b>	<b>2010</b>
	<b>R '1</b>	<b>R '1</b>
<b>29 CASH GENERATED/(UTILISED) BY OPERATIONS</b>		
Surplus/(deficit) for the year	59 284 966	33 854 475
Adjustment for:	-	-
Depreciation	-	-
Proceeds on sale of assets	-	-
Prior year adjustment	-	(1 245 060)
Investment income	(1 603 335)	(575 143)
Interest paid	246 248	524 064
<b>Operating surplus/(deficit) before working capital changes:</b>	<b>57 927 879</b>	<b>32 558 336</b>
Increase in inventories	-	-
Decrease in consumer debtors	267 910	1 624 798
(Increase)/decrease in other debtors	-	-
Increase in creditors	(7 586 964)	3 290 276
Decrease in VAT	(4 789 909)	246 251
Decrease in unspent conditional grants and receipts	(2 001 382)	8 649 201
<b>Cash generated by / (utilised in) operations</b>	<b>43 817 533</b>	<b>46 368 862</b>

**30 30.1 GOING CONCERN**

The annual financial statements have been prepared on the basis of accounting policies applicable to the going concern. This 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 dependant on a number of factors.

1. Liquidity - in terms of section 214 of the Constitution of RSA (Act 108) the parliament is instructed to provide for an Act (DORA) that will enable the National Government to raise and collect revenue from all sources and distribute it equitably to both Provincial and Local Government (Municipalities). Allocation for 2011/12 is R 97.1m and R 107.5m for 2012/13

2. Debtors collection - to fully comply with the credit control and debt collection policy the Municipality is procuring the services of the skilled debt collector to collect the outstanding debts from business and residents, we are embarking on a revenue enhancement programme.

3. Statutory payments - the municipality has settled all the major debts that were long outstanding including AGSA and SARS. The most significant of these is that the Accounting Officer continue to procure funding for the on-going operations of the Municipality. However the Municipality is positively recovering from a severe financial constraints. This is evident by the fact that non of the Municipality's creditors has been outstanding for a over than 30 days and there fact that there has been no overdraft in the current financial year. The sitting of Council meetings has improved in the current year, the council meetings that took place were 7 times to discuss strategic documents

**30.2 EVENTS AFTER THE REPORTING DATE**

There are no major or significant activities that took place after year end which may pose as a threat to assets and/or liabilities as reported in annual financial statements of the Municipality after 30 June 2011 but befor 31 August 2011

**31 COMPARISON WITH THE BUDGET**

The comparison of the Municipality's actual financial performance performance with that budgeted is set out in Appendix E(1).

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

32	Prior year adjustments	Sub-note	R'1 Dr/Cr
	The following restatements have been affected to prior period account balances and classes of transactions due to errors which have been identified		
	<b>Bank balances and cash</b>		
	Balance previously reported		12 789 552
	Duplication of transfers	32.1	(1 500 000)
	Bank reconciliation items	32.2	(68 413)
	Restated balance		<u>11 221 139</u>
	<b>Unspent conditional grants and receipts</b>		
	Balance previously reported		(12 649 201)
	MIG incorrectly recorded	32.3	1 938 638
	Restated balance		<u>(10 710 563)</u>
	<b>Government grants and subsidies</b>		
	Balance previously reported		(94 099 614)
	MIG incorrectly recorded	32.3	(1 938 638)
	Restated balance		<u>(96 038 252)</u>
	Effect on Accumulated Surplus		(1 938 638)
	<b>General expenses</b>		
	Balance previously reported		12 485 263.00
	Vat re-allocation	32.4	(176 731)
	Restated balance		<u>12 308 532</u>
	Effect on Accumulated Surplus		(176 731)
	<b>VAT receivable</b>		
	Balance previously reported		1 796 029.00
	Vat re-allocation	32.4	176 731.00
	Restated balance		<u>1 972 760.00</u>
	<b>Property rates</b>		
	Balance previously reported		(15 391 779)
	Effect of discounting of debtors	32.5	493 518
	Restated balance		<u>(14 898 261)</u>
	Effect on accumulated surplus		493 518
	<b>Service charges - Refuse</b>		
	Balance previously reported		(1 228 086)
	Effect of discounting of debtors	32.5	170 036
	Restated balance		<u>(1 058 050)</u>
	Effect on accumulated surplus		170 036

**Interest earned - outstanding receivables**

Balance previously reported		-
Effect of discounting of debtors	32.5	(663 554)
Restated balance		<u>(663 554)</u>
Effect on accumulated surplus		(663 554)

**Other income**

Balance previously reported		(2 891 379)
Duplication of transfers	32.1	1 500 000
Bank reconciliation items	32.2	68 413
Re-classification of lease income	32.6	140 878
Restated balance		<u>(1 182 088)</u>
Effect on accumulated surplus		1 709 291

**Lease rentals**

Balance previously reported		-
Re-classification of lease income	32.6	(140 878)
Lease rentals raising	32.7	(69 353)
Restated balance		<u>(210 231)</u>
Effect on accumulated surplus		(210 231)

**Sundry debtors**

Balance previously reported		949 529
Lease rentals raising	32.7	69 353
Restated balance		<u>1 018 882</u>

**Accumulated surplus**

Balance previously reported		(39 106 809)
MiG incorrectly recorded	32.3	(1 938 638)
Vat re-allocation	32.4	(176 731)
Effect of discounting of debtors	32.5	493 518
Effect of discounting of debtors	32.5	170 036
Effect of discounting of debtors	32.5	(663 554)
Duplication of transfers	32.1	1 500 000
Bank reconciling items	32.2	68 413
Re-classification of lease income	32.6	140 878
Re-classification of lease income	32.6	(140 878)
Lease rentals raising	32.7	(69 353)
Restated balance		<u>(39 723 118)</u>

**SUB-NOTES****32.1 Duplication of transfers**

During the 2010 financial year, transfers were duplicated in cash book which have corrected as follows:

**32.2 Bank reconciling items**

During the 2010 financial year, reconciling items were identified as not being valid which has now been corrected

**32.3 MiG incorrectly recorded**

During the 2010 financial year, reconciling items were identified as not being valid which has now been corrected

**32.4 VAT re-allocation**

VAT portion was not allocated to the vat control account for 2010 accruals

**32.5 Effect of discounting of debtors**

The effect of the time value of money on the collection of debtors has been taken to account and resulted in the re-allocation of revenue from rates and services to interest income

**32.6 Re-classification of lease income**

Lease income has been identified in 2010 has been re-classified from other income to lease rentals

**32.7 Lease rental raising**

Lease rentals has been adjusted with lease amounts not correctly raised in 2010. Consequently, lease rentals and sundry debtors have been adjusted with 69 353

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**33 Financial Instruments**

**33.1 Financial assets**

2011	Consumer debtors	Sundry debtors	Investment held as collateral	Bank and Cash	Held to maturity	Total
	R'1	R'1	R'1	R'1	R'1	R'1
Opening balance	5 115 286	1 018 883	3 554 016	11 221 137	-	20 909 322
Net gains or losses recognised directly i	(680 568)	(9 406)		4 250 778		3 560 804
Interest income	412 658					412 658
Impairments						-
Net other movements	-	-	263 657	-	-	263 657
<b>Closing balance</b>	<b>4 847 376</b>	<b>1 009 477</b>	<b>3 817 673</b>	<b>15 471 915</b>	<b>-</b>	<b>25 146 441</b>

Maximum credit exposure

-

Interest income includes:

Interest on financial assets that are not at fair value through profit and loss

-

Subsequent interest on impaired financial assets

2010	Consumer debtors	Sundry debtors	Investment held as collateral	Bank and Cash	Held to maturity	Total
	R'1	R'1	R'1	R'1	R'1	R'1
Opening balance						-
Interest income	663 554					663 554
Impairments						-
Net other movements	4 451 732	1 018 883	3 554 016	11 221 137	-	20 245 768
<b>Closing balance</b>	<b>5 115 286</b>	<b>1 018 883</b>	<b>3 554 016</b>	<b>11 221 137</b>	<b>-</b>	<b>20 909 322</b>

Interest income includes:

Interest on financial assets that are not at fair value through profit and loss

-

Subsequent interest on impaired financial assets

**Disclosed in the Statement of Financial Performance**

	2011 R'1	2010 R'1
Fee income	412 658	663 554
On financial assets/liabilities not at fair value through profit and loss	412 658	663 554
Trust and/or other fiduciary activities		
Other fee income		

**Disclosed in the Statement of Financial Position**

	2011 R'1	2010 R'1
Trade and other Receivables	4 847 376	5 115 286
Trade and other Receivables	1 009 477	1 018 883
Investment held as a colatera	3 817 673	3 554 016
Cash and cash equivalents	15 471 915	11 221 137

**NB:** The disclosures in IFRS 7.20 can either be presented in a list format as shown above or in a tabular format, depending on the preference of the user.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**33.2 Financial liability**

2011	Designated		Loans and payables	Total
	FVTP - Held for trading	at FV through P/L		
	R'1	R'1	R'1	R'1
Opening balance	10 710 565	14 414 786	6 825 841	31 951 192
Interest expense				-
Net other movements	(2 001 382)	(7 055 562)	(1)	(9 056 945)
<b>Closing balance</b>	<b>8 709 183</b>	<b>7 359 224</b>	<b>6 825 840</b>	<b>22 894 247</b>

Interest expense include:

Interest on financial liabilities that are not at fair value through profit and loss -

2010	Designated at		Loans and payables	Total
	Held for trading	FV through P/L		
	R'1	R'1	R'1	R'1
Opening balance				-
Interest expense		-		-
Net other movements	10 710 565	14 414 786	6 825 841	31 951 192
<b>Closing balance</b>	<b>10 710 565</b>	<b>14 414 786</b>	<b>6 825 841</b>	<b>31 951 192</b>

Interest expense includes:

Interest on financial assets that are not at fair value through profit and loss

	2011	2010
	R'1	R'1
Disclosed in the Statement of Financial Performance		
Fee expenses	575 615	575 615
On financial assets/liabilities not at fair value through profit and loss		
Trust and/or other fiduciary activities		
Other fee expenses	575 615	575 615

	2011	2010
	R'1	R'1
Categories of financial instruments		
Unspent conditional grants	8 709 183	10 710 565
Trade creditors & other payables	7 359 224	14 414 786
Loans and payables	6 825 840	6 825 841
Overdraft	-	16 907
	<b>22 894 247</b>	<b>31 968 099</b>

# INGQUZA HILL LOCAL MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2011

### 33.3 Qualitative disclosure:

Key assumptions

#### ***Credit risk***

Ingquza Hill Local Municipality has a very serious credit risk because of the debtors that are not paying for rates and taxes together with services. The Municipality has since engaged the use of a Debt collector to collect monies owed by the debtors and the Council has also resolved to right off the opening balances of the debts

#### ***Liquidity risk***

The Ingquza Hill Local Municipality does not foresee any threat with regards to servicing of its debts utilising assets that can be quickly converted into cash and cash equivalents because the municipality is committing guaranteed income when budgeting to avoid the use of external loans and overdrafts to finance its operations.

#### ***Market risk***

##### *Interest rate risk*

Not applicable to the Municipality, the loan with DBSA has a fixed interest rate of 7.5% per annum payable 6 monthly twice a year.

##### *Foreign currency risk*

Not applicable to the Municipality because the Municipality does not deal with foreign currency and banks with the approved financial institutions in the Country

##### *Price risk*

Not applicable to the Municipality



**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2011

**34 RELATED PARTY TRANSACTIONS**

**34.1 Interest of related parties**

**Councillors and/or managers of the municipality that have relationships with businesses as indicated below:**

<b>Name</b>	<b>Designation</b>	<b>Description of Related Party Relationship</b>
B Nkungu	Councillor	Nkungu Investments

**34.2 Services rendered to related parties**

The municipality did not render any services during the year to anyone that can be considered as a related party.

**34.3 Loans granted to related parties**

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004. No

**34.4 Purchases from related parties**

The municipality did not buy goods from any companies which can be considered to be Related Parties.

**However:** the Municipality did procure the services of **NKUNGU INVESTMENTS** in the current year for the construction of Mpoza to Mjikallale Access Road, this project was awarded before the owner was elected as Councillor on May 2011  
The transactions were concluded in full compliance with the municipality's Supply Chain Management

INGQUZA HILL LOCAL MUNICIPALITY

APPENDIX A  
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2011

EXTERNAL LOANS	Loan Number	Redeemable	Balance at 01/07/2010	Paid during the year	Interest for the year	Balance at 30/06/2011
			R	R	R	R
DBSA - Loans			6 940 712	575 615	(575 615)	6 940 712
			6 940 712	575 615	(575 615)	6 940 712

Carrying Value of Property, Plant and Equipment	Other costs in accordance with the MFMA
R	R
-	-
-	-

**NB:** This is a financial liability

INGQUZA HILL LOCAL MUNICIPALITY

APPENDIX B  
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2010

	Cost / Revaluation					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions / Revaluation	Under Construction	Transfer / Completed	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
<b>Land and Buildings</b>										
Land	-	-	-	-	-	-	-	-	-	-
Land and buildings	3 442 069	-	-	-	3 442 069	-	-	-	-	3 442 069
	<b>3 442 069</b>	-	-	-	<b>3 442 069</b>	-	-	-	-	<b>3 442 069</b>
<b>Infrastructure</b>										
Street Lights					-	-	-	-	-	-
Infrastructure - Work in Progress	9 729 772	-	23 546 016	-	33 275 788	-	-	-	-	33 275 788
Access Roads	29 575 704	16 617 869	-	-	46 193 573	-	-	-	-	46 193 573
	<b>39 305 476</b>	<b>16 617 869</b>	<b>23 546 016</b>	-	<b>79 469 361</b>	-	-	-	-	<b>79 469 361</b>
<b>Community assets</b>										
Graveyard					-	-	-	-	-	-
Recreation grounds					-	-	-	-	-	-
Community Halls					-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
<b>Leased assets</b>										
Motor vehicles		-	-	-	-	-	-	-	-	-
<b>Other assets</b>										
Landfill site					-	-	-	-	-	-
Fencing pound	-	88 815			88 815	-	-	-	-	88 815
Furniture and fittings	453 378	-			453 378	-	-	-	-	453 378
Plant and equipment	6 108 523	-			6 108 523	-	-	-	-	6 108 523
Motor vehicles	360 640	388 527			749 167	-	-	-	-	749 167
Tools and equipment					-	-	-	-	-	-
Office and traffic equipment					-	-	-	-	-	-
Computer equipment	42 574	227 774			270 348	-	-	-	-	270 348
	<b>6 965 115</b>	<b>705 116</b>	-	-	<b>7 670 231</b>	-	-	-	-	<b>7 670 231</b>
	<b>49 712 660</b>	<b>17 322 985</b>	<b>23 546 016</b>	-	<b>90 581 661</b>	-	-	-	-	<b>90 581 661</b>

INGQUZA HILL LOCAL MUNICIPALITY

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT  
FOR THE YEAR ENDED 30 JUNE 2010

	Cost / Revaluation					Accumulated Depreciation				Carrying value
	Opening Balance	Additions	Under Construction	Transfer / Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	
Municipal council	361 693	388 527	-	-	750 220	-	-	-	-	750 220
Management office	1 053	-	-	-	1 053	-	-	-	-	1 053
Budget and treasury	92 020	-	-	-	92 020	-	-	-	-	92 020
Community & Social Services	97 755	88 815	-	-	186 570	-	-	-	-	186 570
Human resources	170 690	227 774	-	-	398 464	-	-	-	-	398 464
Local Economic Development	89 945	-	-	-	89 945	-	-	-	-	89 945
Infrastructure and engineering	38 312 872	16 617 869	23 546 016	-	78 476 757	-	-	-	-	78 476 757
<b>Total</b>	<b>39 126 028</b>	<b>17 322 985</b>	<b>23 546 016</b>	<b>-</b>	<b>79 995 029</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79 995 029</b>

INGQUZA HILL LOCAL MUNICIPALITY

APPENDIX E(1)

Actual versus budget (Revenue and expenditure)

For the year ended 30 June 2011

Actual 2010	Description	Actual 2011	Approved Budget 2011	Difference	Management reasons
	<b>Revenue</b>				
14 898 261	Taxes	8 485 304	9 411 151	925 847	6%
238 523	Fees, fines, penalties & licences	232 857	150 000	(82 857)	Improved collections on fines, summons, etc
2 534 614	Revenue from exchange transactions	3 447 496	1 250 000	(2 197 496)	Improved demand on sale transaction & other revenue sources
96 038 250	Transfers from other governments	122 790 985	119 009 528	(3 781 457)	3%
1 182 088	Other operating	10 428 658	24 313 200	13 884 542	Decrease in demand from customers for these services
<b>114 891 735</b>	<b>Total revenue</b>	<b>145 385 300</b>	<b>154 133 879</b>	<b>8 748 579</b>	6%
	<b>Expenses</b>				
(55 943 983)	Personnel	(57 351 058)	(66 168 902)	(8 817 843)	Some posts remain vacant in the year
(24 569 214)	Administrative	(28 503 028)	(30 831 379)	(2 328 351)	8%
-	Transfer payments	-	-	-	Some projects are still pending and funds reported as such
-	Capital expenditure	(40 869 001)	(57 969 125)	(17 100 124)	
-	Miscellaneous	-	-	-	Decrease due to adjustments, by banks and SARS
(524 064)	Finance costs	(246 248)	(705 732)	(459 484)	
<b>(81 037 261)</b>	<b>Total expenditure</b>	<b>(126 969 335)</b>	<b>(155 675 138)</b>	<b>(28 705 802)</b>	