

ANNUAL FINANCIAL STATEMENTS

for

INGQUZA HILL LOCAL MUNICIPALITY

for the period ended 30 June: **2014**

Province: Eastern Cape

Contact Information:

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INGQUZA HILL LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the period ended 30 June 2014

General information

Municipal demarcation code: EC 153

Members of the Executive Council and Leadership

Councillor J P Mdingi	Mayor
Councillor D Mjokovana	Speaker
Councillor P Dutshwa	Chief Whip
Councillor P Ntshobo	MPAC Chair
Councillor N F Mtsofso	Members Interest Chair
Councillor T T Besi	Member of the Executive committee
Councillor B B Goya	Member of the Executive committee
Councillor M Tenyane	Member of the Executive committee
Councillor P S Kango	Member of the Executive committee
Councillor (seat vacant)	Member of the Executive committee
Councillor NA Gagai	Member of the Executive committee
Councillor M G Maxhayi	Member of the Executive committee
Councillor S L Ngcingwana	Member of the Executive committee
Councillor N E Tshingana	Member of the Executive committee

Municipal Manager

M Fihlani

Chief Financial Officer

TL Madikizela

Grading of Local Authority

Grade 3 : low capacity

Auditors

Auditor-General(SA)

Bankers

First National Bank
Flagstaff Branch
6224175712 - Primary bank account

Lawyers

FT Tayi
Ximbi and Ncolo attorneys
Somacala and Linyana associates

INGQUZA HILL LOCAL MUNICIPALITY
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General information (continued)

Registered Office: 135 Main Street, Flagstaff

Physical addresses:
Flagstaff Office 135 Main Street
FLAGSTAFF
4810

Lusikisiki Office 66 Main Street
LUSIKISIKI
4820

Postal addresses:
Flagstaff Office PO Box 14
FLAGSTAFF
4810

Lusikisiki Office PO Box 7
LUSIKISIKI
4820

Telephone numbers:
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INGQUZA HILL LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2014

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 sphere, 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 in terms of Section 216 of the Constitution of the Republic of South Africa and other pieces of legislation governing local government.

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

We wish to thank the Council, its committees and our administration for their hard work in ensuring that we Ingquza Hill Local Municipality achieves positive results in respect of its financial management.

Thank you

Councillor J P Mdingi
Mayor

Date

INGQUZA HILL LOCAL MUNICIPALITY



ANNUAL FINANCIAL STATEMENTS

for the period ended

30 June 2014

Accounting Officer's Statement

I, Mluleki Fihlani, am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 57, in terms of Section 126(1) of the Municipal Finance Management Act no 56 of 2003(MFMA) and which I have signed on behalf of the Municipality.

I also certify that the salaries, allowances and benefits of Councillors as disclosed in notes 19 and 36 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

M Fihlani
Municipal Manager

Date

at (place of signing)

**INGQUZA HILL LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2014**

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INGQUZA HILL LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2014

	Notes	2014 R '1	2013 R '1
REVENUE			
Property rates	13	6 081 938	6 267 910
Service charges - refuse	14	411 301	926 679
Rental of facilities		24 267	20 604
Interest earned - external investments		3 362 158	3 458 080
Interest earned - outstanding receivables		572 955	147 691
Fines		949 586	772 420
Lease rentals		727 462	152 191
Government grants and subsidies	15	186 373 616	164 667 186
Other income	16	12 987 328	3 169 352
Total Revenue		211 490 611	179 582 114
EXPENDITURE			
Employee related costs	18	66 633 497	58 478 152
Remuneration of Councillors	19	15 707 607	14 606 696
Repairs and maintenance	31	20 610 944	7 966 850
(Reversal of impairment)/Impairment of debtors		(1 648 614)	1 601 732
Interest paid	20	479 903	529 006
General expenses	23	59 079 279	46 937 327
Depreciation		36 030 882	27 168 978
Total Expenditure		196 893 498	157 288 742
Profit / (loss) on fair value adjustment	21	13 114 496	153 173 004
SURPLUS FOR THE YEAR		27 711 609	175 466 375

**INGQUZA HILL LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
As at 30 June 2014**

	Notes	2014 R '1	2013 R '1
NET ASSETS AND LIABILITIES			
Net assets		853 082 572	816 937 571
Accumulated surplus	1	853 082 572	816 937 571
Non-current liabilities		10 094 765	10 144 129
Long term loan - DBSA	2	6 825 840	6 825 840
Finance lease liability	39	65 851	169 224
Long service awards	9	3 203 074	3 149 065
Current liabilities		36 845 265	25 412 230
Current provisions	3	3 677 971	2 699 308
Current portion of finance lease liability	39	103 373	165 061
Current portion of long service award	9	774 522	443 840
Trade and other payables from exchange transactions	4	19 125 855	16 980 218
Unspent conditional grants and receipts	5	12 467 162	3 275 502
Trade and other payables from non exchange transactions	17	581 513	1 720 079
Sundry payables	4	114 870	128 222
Total Net Assets and Liabilities		900 022 602	852 493 930.74
ASSETS			
Non-current assets		830 437 333	779 902 658
Property, plant and equipment	8	366 270 033	329 222 720
Intangible assets	0	87 250	69 800
Investment property	10	459 341 100	446 226 604
Investment held as a colateral	6	4 738 950	4 383 533
Current assets		69 585 270	72 591 273
Consumer receivables from non-exchange transactions	11	2 704 147	2 161 210
Sundry receivables from exchange transactions	11	12 069 912	2 620 815
VAT receivable	12	11 444 219	4 673 109
Inventory	26	13 588 160	13 251 805
Cash and cash equivalents	7	29 778 831	49 884 334
Total Assets		900 022 603	852 493 931

INGQUZA HILL LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2014

	Notes	Accumulated Surplus/(Deficit)	Total
<u>2 013</u>		R '1	R '1
Balance at 01 July 2012		620 645 792	620 645 792
Correction of prior period error		(4 180 980)	(4 180 980)
		(1 295 316)	(1 295 316)
Surplus for the year before restated figures			
Reported previous year		615 169 496	615 169 496
Adjustments as a result of GRAP implementation (Not 32.1		26 301 700	26 301 700
Adjusted surplus for the year		175 466 375	175 466 375
		816 937 571	816 937 571
<u>2014</u>			
Balance at 01 July 2012	-	816 937 571	816 937 571
Revaluation surplus		5 600 000	5 600 000
Change in accounting policy		1 861 473	1 861 473
Balance at 01 July 2012	-	824 399 045	824 399 045
Correction of errors		1 295 316	1 295 316
Surplus for the year		27 711 609	27 711 609
Revaluation surplus		(323 398)	(323 398)
Prior year adjustments			
Balance at 30 June 2012		853 082 572	853 082 572

INGQUZA HILL LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS
As at 30 June 2014

		Revaluation Surplus	Accumulated Surplus	Total: Net Assets
	Notes		R '1	R '1
Balance at 30 June 2012		-	620 645 792	620 645 792
Changes in accounting policy		-	(1 295 316)	(1 295 316)
Correction of prior period error		-	(4 180 980)	(4 180 980)
Restated balance as at 30 June 2012		-	615 169 496	615 169 496
Revaluation increase	8.2	26 301 700	-	26 301 700
Surplus for the period		-	175 466 375	175 466 375
Balance at 30 June 2013		26 301 700	790 635 871	816 937 571
Prior year adjustment	32	0	1 295 316	1 295 316
Restated balance		26 301 700	791 931 188	818 232 888
Retained income movements		-	(323 398)	(323 398)
Revaluation increase	8.2	5 600 000		5 600 000
Retained income movements		-	1 861 473	1 861 473
Surplus for the period		-	27 711 609	27 711 609
Balance at 30 June 2014		31 901 700	821 180 872	853 082 572

INGQUZA HILL LOCAL MUNICIPALITY
CASH FLOW STATEMENT
For the year ended 30 June 2014

	Note	2014 R '1	2013 R '1
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts		194 391 118	320 120 100
Taxation		6 081 938.03	6 267 910.36
Sales of goods and services		(14 413 922)	(18 902 928)
Grants		186 373 616	164 667 186
Interest received		3 362 158	3 458 080
Other receipts		12 987 328	164 629 851
Payments		185 406 454	118 587 147
Employee costs		82 341 104	73 084 849
Suppliers		104 234 061	(11 532 617)
Interest paid		479 903	529 006
Other payments		(1 648 614)	56 505 909
Net cash flows from operating activities	29	8 984 664	201 532 953
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets (PPE)	8.2	(31 447 313)	(216 684 240)
Intangible assets		(17 450)	0
Adjustments to equity		2 833 391	22 286 568
Net cash flows from investing activities		(28 631 372)	(194 397 672)
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease	39	(103 373)	13 974
Investment held as a collateral	6	(355 417)	(328 761)
Net cash flows from financing activities		(458 790)	(314 787)
Net increase in net cash and cash equivalents		(20 105 498)	6 820 494
Net cash and cash equivalents at beginning of period		49 884 327	43 063 833
Net cash and cash equivalents at end of period	7	29 778 830	49 884 327

INGQUZA HILL LOCAL MUNICIPALITY
 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
 For the year ended 30 June 2014

Actual 2013 R'1	Description	Actual 2014 R'1	Approved Budget 2014 R'1	Adjustments R'1	Final Budget 2014 R'1	Difference R'1	Management reasons
	Revenue						
6 267 910	Rates and taxes	6 081 938	8 000 000	-	8 000 000	1 918 062	General Valuation and supplementary valuation figures which did not show an increase as previously anticipated
772 420	Fees, fines, penalties & licences	949 586	800 000	-	800 000	(149 586)	N/A overachievement
4 705 245	Revenue from exchange transactions	14 263 395	47 494 123	-	47 494 123	33 230 728	Lack of demand for services from customers, these are the services that are sold to the customers
164 667 186	Transfers from other governments	186 373 616	195 811 000	-	195 811 000	9 437 384	N/A, the variance is emanating from the opening balances
-	External loans	-	3 000 000	-	3 000 000	3 000 000	Loan not yet taken by the Municipality
3 169 352	Other operating income	61 936 573	48 168 835	-	48 168 835	(13 767 738)	N/A overachievement
179 582 114	Total revenue	269 605 107	303 273 958	-	303 273 958	33 668 851	
	Expenses						
73 084 849	Personnel	82 341 104	97 375 249	-	97 375 249	15 034 146	Savings from the personnel budget
74 505 560	General expenditure	57 910 568	67 800 460	-	57 258 158	(652 409)	N//A, less than 10%
53 560 568	Capital expenditure	67 416 045	87 731 000	-	119 218 650	51 802 605	Projects are still continuing to 2015 financial year, some other capital projects are put on hold because of technical reasons
7 966 850	Repairs and maintenance	20 610 944	48 978 300	-	29 401 900	8 790 956	Projects are still continuing to 2015 financial year, last cluster
494 108	Finance costs	19 102	20 000	-	20 000	898	N//A
209 611 934	Total expenditure	228 297 763	301 905 010	-	303 273 958	74 976 195	
389 194 048	Surplus/(Deficit) for the year	41 307 344			-	(108 645 046)	
0	Attributable to: Net asset holder of the controlling entity	-			0	0	
0	Minority interest	-			0	0	

NB: variances given are those that are 10% and above

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2014

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) including any interpretations, guidelines and directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The Municipality has also made use of the approved but not yet effective standards to compile these accounting policies which are also a part of this list. The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statement
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 and separate financial statements
GRAP 7	Investments in Associates
GRAP 8	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 21	Impairment of non cash generating assets
GRAP 23	Revenue from non exchange transactions
GRAP 24	Presentation of budget information in financial statements
GRAP 25	Employee benefits
GRAP 26	Impairment of cash generating assets
GRAP 27	Agriculture
GRAP 31	Intangible assets
GRAP 100	Non-current assets held for sale and discontinued operations
GRAP 103	Heritage assets
GRAP 104	Financial instruments

The following are the standards that are approved but not yet effective, no effective date has been determined

GRAP 20	Related party disclosures
GRAP 32	Service concession arrangements: Grantor
GRAP 18	Segment reporting
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers
GRAP 108	Statutory receivables

Where there is no equivalent standard of GRAP or International Public Sector Accounting Standards (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	Income Taxes
IAS 14	Segment reporting
IAS 19	Employee benefits
IAS 20	Accounting for government grants and disclosure of government assistance
IAS 24	Related party disclosures
IAS 26	Accounting and rereporting by retirement benefit plans
IAS 29	Financial reporting in hyperinflationary economies
IAS 30	Disclosures in the financial statements of banks and similar financial institutions
IAS 32	Financial instruments: Disclosure and presentation
IAS 33	Earnings per share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of assets
IAS 39	Financial instruments: Recognition and measurement
IPSAS 20	Related party transactions
IFRS 2	Share-based payment
IFRS 3	Business combinations
IFRS 4	Insurance contracts
IFRS 6	Exploration for and evaluation of mineral resources
IFRS 7	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 2014

1. BASIS OF ACCOUNTING(continued)

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 prepared in accordance with GRAP 1 and GRAP 24 has been provided to these financial statements and forms part of the Annual Financial Statements. The budget information is prepared on the same basis as 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 or adoption of accounting standard 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 is fully complying with all the relevant GRAP standards.

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 discontinued from 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 Member of the Executive Council(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 or 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 or 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(IDP).

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

2.2 Government Grants Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus or deficit 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 or deficit. 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 or deficit.

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 or deficit.

2.3 Revaluation Reserve

The surplus/deficit 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 or deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus or 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, rental to others, or for administrative purposes, and are expected to be used for more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price or construction costs and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

Where an asset is acquired by the Municipality for no cost or nominal consideration (i.e. a non-exchange transaction), its cost is its fair value as at the date of acquisition.

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

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them for more than one year. 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.

The work in progress for infrastructure is initially measured at cost, and capitalised to an asset once the asset is completed.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

3. PROPERTY, PLANT AND EQUIPMENT (Cont.)

3.2 Subsequent measurement - revaluation model (Land and Buildings)

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses an accumulated decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

3.3 Subsequent measurement - cost model (Property, Plant & Equipment)

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

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

3.4 Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The assets are depreciated as follows:

Infrastructure

Access roads	20 years
Electricity	20 years

Community assets

Graveyard	50 years
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Other

Landfill site	10 years
Furniture	7 - 10 years
Plant and equipment	5 - 15 years
Motor vehicles	5 - 7 years
Tools	3 - 5 years
Computer equipment	3 - 5 years
Buildings	50 years

The residual value, the useful life of an asset and the depreciation method are reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

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

3.5 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 and/or when it is transferred to other organ of state (funder). 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 part of a building, or both) held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

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

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 - fair value model

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value which is determined annually with any changes to the fair value recognised in surplus or deficit.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

4. INVESTMENT PROPERTY (Cont.)

4.3 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 an investment property 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 receivables are categorised as financial assets at amortised cost and are initially recognised at fair value, plus transaction costs and subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate 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 recognition, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired (expected future cash flows to their present value using the effective interest rate at initial recognition). 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 assets.

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, net transaction costs and subsequently measured at amortised cost using the effective interest rate method which is the initial carrying amount, less repayment, plus interest.

7. CASH AND CASH EQUIVALENTS

7.1 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 at amortised cost and are initially recognised at the fair value, plus transaction costs and subsequently carried at amortised cost using the effective interest rate method.

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 at amortised cost, are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

7.2 Investments

Investments, which include [listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks] are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

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

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

8. INVENTORIES

8.1 Initial recognition

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 manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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, work-in-progress and finished goods, are valued at the lower of cost and 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 categorised as either financial assets or financial liabilities.

9.1 Financial Assets - Classification and Measurement

A financial asset is any asset that is cash or a contractual right to receive cash or another financial asset. 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:

- a) Investment in fixed deposits (Banking Institutions, etc)
- b) Long-term receivables
- c) Consumer debtors
- d) Other debtors
- e) Bank, cash and cash equivalents

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

9. FINANCIAL INSTRUMENTS (continued)

9.1 Financial assets - classification and measurement (continued)

Type of financial assets	Classification in terms of GRAP 104
Short term investment deposits - call	Cash and cash equivalents
Bank, cash and cash equivalents	Cash and cash equivalents
Long term receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other debtors	Loans and receivables
Bank, cash and cash equivalents	Held to maturity

Financial assets at fair value through surplus or deficit 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 investments 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.

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 that are not quoted in an active market. 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 subject to impairment. Financial assets at amortised cost are initially recognised at fair value plus transaction cost and subsequently carried at amortised cost, less provision for impairment.

9.2 Financial liabilities- Classification and Measurement

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:

- a) Long term liabilities
- b) Creditors
- c) Bank overdraft
- d) Short term loans
- e) 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 :

- (i) At fair value through surplus or deficit; or
- (ii) Not at fair value through surplus or deficit (other financial liabilities)

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

9. FINANCIAL INSTRUMENTS

9.2 Financial liabilities - Classification and measurement (continued)

Financial liabilities that are measured at fair value through surplus or deficit 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 at amortised cost that are not measured at fair value through surplus or deficit 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.

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 surplus or deficit being recognised in the Statement of Financial Performance.

9.3.2 Financial liabilities

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

9.4 Impairment of Financial Assets

Financial assets at amortised cost other than those at fair value through surplus or deficit, are assessed for indicators of impairment at each reporting 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.

Initially 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 debts based on past default experience of all outstanding amounts at year end. Bad debts are written off the year in which they are identified as irrecoverable.

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 the difference between the financial 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 the 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. Subsequent 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 2014

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 surplus or deficit are not reversed through the Statement of Financial Performance. Any increase in fair value subsequent to an impairment loss is recognised directly in net assets.

Consumer debtors 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 because 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 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 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 expire or it transfers the financial asset and substantially 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 retains substantially all the risks and rewards of the ownership and continues to control the transferred 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 2014

10. RISK MANAGEMENT OF FINANCIAL ASSETS AND FINANCIAL 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 shows the remaining contractual maturities.
- Liquidity risk is managed by ensuring that all financial 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 statements.

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 or service potential 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 or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is highly 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 deficits. 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 2014

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 impairment of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the definition of finance leases. Operating leases are accrued and accounted for on a straight-line basis over the term of the relevant lease, this is on the basis of the cash flows in the lease agreement.

12.2 Municipality as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Any outstanding amount is recognised as an asset in the Statement of Financial Position

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 obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

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ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

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 passed 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.

14.2 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity or person 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 proportion basis.

Fines constitute both spot fines and summons. Revenue from spot fines and summons are recognised when they are legally due to the Municipality, revenue is impaired when the probability of collecting is remote and/or when a fine is reduced or written off by the Magistrate

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

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

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 qualify for recognition and first become 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 becomes 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 and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

15. GRANTS, TRANSFERS AND DONATIONS

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. 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 no. 56 of 2003, the Municipal Systems Act 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.

19. RELATED PARTIES

Individuals as well as their close family members, and/or Municipality are related parties if one party has the ability, directly or indirectly to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as the related party and comprises the councillors and audit committee members.

INGQUZA HILL LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

20. 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.

21. EMPLOYEE BENEFITS

21.1 Post Employment 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 recognised as an expense when employees have rendered service entitling them to the contributions.

21.2 Short Term Employee Benefits

Short term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences, bonuses and short term portion of Long Service Award.

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

22. 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 2014) and the date on which the audit of the financial statements is completed (30 November 2014) are considered for inclusion in the annual financial statements.

23. IMPAIRMENT OF ASSETS

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount).

An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

23.1 Impairment of cash generating assets

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset. In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

23.2 Impairment of non cash generating assets

Where the asset is a non-cash generating asset the value in use is determined through depreciated replacement cost, restoration cost approach or service units approach. The decision to the approach to use is dependent on the nature of the identified impairment.

Impairment losses of continuing operations are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

Reversal of an impairment loss of an asset carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2014

	2014	2013
	R '1	R '1
1. ACCUMMULATED SURPLUS		
Opening balance	816 937 571	620 850 044
Movements :	27 711 609	176 703 751
Council	15 707 607	14 606 696
Municipal Manager	17 696 065	14 605 979
Budget and Treasury Office	(124 504 747)	(102 793 262)
Administration	26 194 370	18 768 217
Community and Social Services	19 014 398	14 093 622
Infrastructure	13 854 205	624 617
Planning and Development	4 326 493	(136 609 620)
Adjustment opening balance	<u>8 433 391</u>	<u>(19 383 777)</u>
Closing balance	<u>853 082 572</u>	<u>816 937 571</u>

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2014
R '1

2013
R '1

2 LONG TERM LIABILITY

Loan - DBSA	6 825 840	6 825 840
Interest accrued - DBSA- included in sundry creditors (note 4)	<u>114 870</u>	<u>117 571</u>
Total amount owed to DBSA as at 30 June 2014	6 940 711	6 943 411
Long service awards (LSA)	<u>3 203 074</u>	<u>3 149 065</u>
	<u>10 143 785</u>	<u>10 092 476</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 Municipality. The loan is secured by the investment held with FNB-RMB (Rand Merchant Bank) which was ceded to the DBSA which is an investment on zero coupon bond and has the following details: The loan was used to acquire property, plant and equipment.

- Account number - 128331
- Type of account – RMB
- Value – R 4 383 533

3 CURRENT PROVISIONS

3.1 Bonus provision

Opening balance	1 229 270	954 359
Current increase	158 559	274 911
	<u>1 387 829</u>	<u>1 229 270</u>

This is a provision for service bonus payable to employees as at 30 June 2014. The uncertainty is the timing of the bonus payments.

3.2 Performance bonus

Opening balance	1 470 039	1 203 977
Current increase	820 104	266 061
	<u>2 290 142</u>	<u>1 470 039</u>

This is a provision for performance bonuses due to s57 managers as at 30 June 2014. The uncertainty is on the assessment of the MPAC and approval by Council.

Total current provisions(Notes 3.1 + 3.2)	<u>3 677 971</u>	<u>2 699 308</u>
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INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

	2014	2013
	R '1	R '1
4 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS		
Retentions	8 695 948	6 812 235
Trade payables	3 257 623	3 423 479
Accrual for Leave Pay	5 564 923	4 328 031
Prepaid income	330 778	134 303
Other accruals	1 257 191	2 282 170
Payroll creditors	19 392	-
Balance at the end of the year	<u>19 125 855</u>	<u>16 980 218</u>
Sundry payables		
Interest on DBSA Loan (refer to note 2)	114 870	117 571
Net clearing account	-	10 651
	<u>114 870</u>	<u>128 222</u>

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

Department of Minerals and Energy (DOE) - Electrification	11 387 417	1 420 554
Municipal Infrastructure Grant (MIG) Grant	850 470	1 854 948
Local Economic Development (LED)	229 275	-
	<u>12 467 162</u>	<u>3 275 502</u>

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 no 56 of 2003 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 2014

	2014	2013
	R '1	R '1
6 INVESTMENT HELD AS A COLATERAL		
Investment held as a colateral - FNB: RMB	<u>4 738 950</u>	<u>4 383 533</u>
<p>The investment is with Rand Merchant Bank and is pledged as security for loan with DBSA and the Municipality has no access to the investment until the loan is repaid in 2019. This investment is on zero coupon bond and has the following details at 7.95% pm</p> <p>Account number - 128331 Type of account – RMB(INVESTMENT) Initial value – R3 287 467</p> <p>NB: this is a financial asset - (see Note 2)</p>		
7 CASH AND CASH EQUIVALENTS		
The Municipality has the following bank accounts:		
7.1 Current Account (Primary Bank Account)		
Bank statement Balance as at 01 July 2013	2 075 495	6 923 267
Bank statement balance as at 30 June 2014	<u>659 683</u>	<u>2 075 495</u>
7.2 Current and call accounts		
FNB - 6224175712 - primary account	659 683	2 075 495
FNB - 62003235307 - call account	2 045 351	16 339 033
FNB - 62219877836 - call account	180 645	177 068
FNB - 74233699310 - call account	16 517 132	1 442 311
FNB - 62231474537 - call account	4 879 107	6 833 780
FNB - 62231473761 - call account	5 496 000	22 920 108
Cash book balance at the end of the year	<u>29 777 919</u>	<u>49 787 795</u>
Bank statement balance at the end of the year	29 777 919	49 787 795
7.3 Credit cards		
Credit card A	-	43 550
Credit card B	-	52 972
	<u>-</u>	<u>96 521</u>
7.4 Petty cash balance	<u>913</u>	<u>17</u>
Bank and cash balance(7.2 + 7.3 +7.4)	<u><u>29 778 831</u></u>	<u><u>49 884 334</u></u>
Cash and cash equivalents	<u><u>29 778 831</u></u>	<u><u>49 884 334</u></u>

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

8 PROPERTY, PLANT AND EQUIPMENT

At 30 June 2013

8.1 Reconciliation of Carrying Value

Description	Land and buildings	Infrastructure	Community assets	Capitalised leased assets - Machinery	Furniture and Fittings	Plant and Equipment	Motor Vehicles	Computer Equipment	Other assets	Total
	R '1	R '1	R '1	R '1	R '1	R '1	R '1	R '1	R '1	R '1
Carrying values at 1 July 2013	29 176 754	283 206 911	4 930 288	451 051	923 617	7 372 961	1 445 129	872 907	843 102	329 222 720
Cost	29 364 554	350 295 374	5 120 660	496 499	1 280 795	7 492 220	4 203 981	1 264 692	1 091 247	400 610 022
Correction of error	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(187 800)	(67 088 463)	(190 372)	(45 448)	(357 178)	(119 259)	(2 758 852)	(391 785)	(248 144)	(71 387 303)
- Cost	(187 800)	(67 088 463)	(190 372)	(45 448)	(357 178)	(119 259)	(2 758 852)	(391 785)	(248 144)	(71 387 303)
- Correction of error	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	56 884 061	6 613 453	-	27 651	(0)	3 033 151	842 524	15 206	67 416 045
Capital asset transferred	-	-	-	-	-	-	-	-	-	-
Depreciation:	(62 500)	(33 313 940)	(151 785)	-	(251 137)	(654 440)	(1 028 134)	(446 720)	(122 126)	(36 030 782)
- based on cost	(62 500)	(33 313 940)	(151 785)	-	(251 137)	(654 440)	(1 028 134)	(446 720)	(122 126)	(36 030 782)
- based on revaluation	-	-	-	-	-	-	-	-	-	-
Carrying value of disposals:	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-
Carrying values at 30 June 2014	34 714 254	306 777 032	11 454 005	451 051	700 131	6 718 520	3 450 146	1 268 710	736 183	366 270 032
Cost	29 364 554	407 179 435	11 796 162	496 499	1 308 446	7 492 220	7 237 132	2 107 216	1 106 453	468 088 117
Revaluation	5 600 000	-	-	-	-	-	-	-	-	5 600 000
Accumulated depreciation:	(250 300)	(100 402 403)	(342 157)	(45 448)	(608 315)	(773 700)	(3 786 986)	(838 506)	(370 270)	(107 418 085)
- Current	(62 500)	(33 313 940)	(151 785)	-	(251 137)	(654 440)	(1 028 134)	(446 720)	(122 126)	(36 030 782)
- Opening	(187 800)	(67 088 463)	(190 372)	(45 448)	(357 178)	(119 259)	(2 758 852)	(391 785)	(248 144)	(71 387 303)

NB: asset register is available for inspection at the registered address of the Municipality in terms of Section 63 of MFMA

Description	Land and buildings	Infrastructure	Community assets	Capitalised leased assets - Motor vehicles	Furniture and Fittings	Plant and Equipment	Motor Vehicles	Computer Equipment	Other assets	Total
Carrying values at 1 July 2012	R '1 29 364 554	R '1 263 165 459	R '1 4 987 088	R '1 265 542	R '1 740 207	R '1 6 961 813	R '1 4 214 768	R '1 521 908	R '1 872 198	R '1 338 960 249
Cost	12 173 200	306 949 469	5 060 790	310 990	792 987	7 250 420	4 538 073	873 821	1 010 499	338 960 249
Correction of error	-	-	-	-	-	-	-	-	-	-
Revaluation	26 301 800	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(9 110 446)	(43 784 010)	(73 702)	(45 448)	(52 781)	(288 607)	(323 305)	(351 913)	(138 300)	-
- Cost	-	-	-	-	-	-	-	-	-	-
- Transfers	(9 110 446)	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	50 586 590	59 870	185 509	541 564	1 566 800	-	473 651	146 585	53 560 569
Capital under construction	-	(7 240 685)	-	-	-	-	-	-	-	(7 240 685)
Disposals	-	-	-	-	(53 756)	(1 325 000)	(334 092)	(82 780)	(65 837)	(1 861 464)
Depreciation:	187 800	(23 304 453)	(116 670)	-	(347 378)	(377 240)	(3 144 093)	(401 661)	(117 731)	(27 621 425)
- based on cost	187 800	(23 304 453)	(116 670)	-	(325 888)	(103 946)	(2 789 820)	(351 913)	(113 788)	(26 918 677)
- disposal	-	-	-	-	(21 490)	(273 294)	(354 273)	(49 748)	(3 943)	(702 748)
Carrying value of disposals:	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-
Carrying values at 30 June 20130	29 176 754	283 206 911	4 930 288	451 051	923 617	7 372 961	1 445 129	872 907	843 102	329 222 720
Cost	12 173 200	350 295 374	5 120 660	496 499	1 280 795	7 492 220	4 203 981	1 264 692	1 091 247	383 418 668
Revaluation	17 191 354	-	-	-	-	-	-	-	-	17 191 354
Accumulated depreciation:	(187 800)	(67 088 463)	(190 372)	(45 448)	(357 178)	(119 259)	(2 758 852)	(391 785)	(248 144)	(71 387 303)
- Cost	(187 800)	(23 304 453)	(116 670)	-	(304 397)	169 348	(2 435 547)	(302 165)	(109 844)	(26 591 529)
- Opening balance	-	(43 784 010)	(73 702)	(45 448)	(52 781)	(288 607)	(323 305)	(89 620)	(138 300)	(44 795 773)

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

8.2 ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2014

	ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2014								Carrying Value	
	Cost				Accumulated Depreciation					
	Opening Balance	Additions	Revaluation	Correction Balance	Closing Balance	Opening Balance	Additions	Correction		Closing Balance
Land and Buildings										
Land and buildings	29 364 554	-	5 600 000	0.00-	34 964 554	187 800	62 500		250 300	34 714 254
	29 364 554	-	5 600 000	0.00-	34 964 554	187 800	62 500		250 300	34 714 254
Infrastructure										
Infrastructure - Work in Prog	55 441 885	25 606 736		0.00-	81 048 621	-				81 048 621
Access Roads	294 853 489	31 277 325		0.00-	326 130 814	67 088 463	33 313 940		100 402 403	225 728 411
	350 295 374	56 884 061	-	0.00-	407 179 435	67 088 463	33 313 940		100 402 403	306 777 032
Community assets										
Graveyard	62 049				62 049	30 386	2 753		33 139	28 910
Community Halls	5 058 611	6 613 453			11 734 113	159 986	149 032		309 018	11 425 094
	5 120 660	6 613 453	-	-	11 796 162	190 372	151 785		342 157	11 454 005
Leased assets										
Pinting Machine	496 499	-		-	496 499	45 448	-		45 448	451 051
Other assets										
Landfill site	401 107				401 107	171 429	48 249		219 678	181 429
Fire arms	93 790	-0			93 790	-3 943	5 130		1 187	92 602
Furniture and fittings	1 280 795	27 651		-	1 308 446	357 178	251 137		608 315	700 131
Plant and equipment	7 492 220	-0			7 492 220	119 259	654 440		773 700	6 718 520
Motor vehicles	4 203 981	3 033 151			7 237 132	2 758 852	1 028 134		3 786 986	3 450 146
Mobile office	453 500	-			453 500	32 019	30 183		62 203	391 297
Tools, arms & mobile office	142 850	15 207			158 056	48 639	38 563		87 202	70 854
Computer equipment	1 264 692	842 524			2 107 216	391 785	446 720		838 506	1 268 710
	15 332 935	3 918 532	-	-	19 251 467	3 875 219	2 502 557		6 377 776	12 873 691
	400 610 022	67 416 045	5 600 000	-	473 688 116	71 387 303	36 030 782		107 418 085	366 270 033

NB: details for the revaluation amounts are stated in note 10

30-Jun-13										
		Cost	Revaluation				Accumulated Depreciation		Carrying	
	Opening Balance	Additions /		Transfer / Completed	Closing Balance	Opening Balance	Additions	Coreection	Closing Balance	Value
Land and Buildings										
Investment property	-	-		-	-	-	-		-	-
Land and buildings	12 173 200	-	26 301 800	(9 110 446)	29 364 554	125 200	62 600		187 800	29 176 754
	12 173 200	-	26 301 800	(9 110 446)	29 364 554	125 200	62 600		187 800	29 176 754
Infrastructure										
Street Lights					-	-	-		-	-
Infrastructure - Work in Prog	16 321 735	46 360 835		(7 240 685)	55 441 885	-	-		-	55 441 885
Access Roads	290 627 734	4 225 755		-	294 853 489	43 784 010	23 304 453		67 088 463	227 765 026
	306 949 469	50 586 590		(7 240 685)	350 295 374	43 784 010	23 304 453		67 088 463	283 206 911
Community assets										
Graveyard	62 049	-			62 049	25 899	4 487		30 386	31 663
Recreation grounds					-	-	-		-	-
Community Halls	4 998 741	59 870			5 058 611	47 803	112 183		159 986	4 898 625
	5 060 790	59 870		-	5 120 660	73 702	116 670		190 372	4 930 288
Leased assets										
Motor vehicles	310 990	185 509		-	496 499	45 448	-		45 448	451 051
Other assets										
Landfill site	401 107				401 107	118 336	53 094		171 429	229 678
Fire arms	60 500	33 290			93 790	-	(3 943)		-3 943	97 733
Furniture and fittings	792 987	541 564.00		(53 756)	1 280 795	52 781	325 888	(21 490)	357 178	923 617
Plant and equipment	7 250 420	1 566 800		(1 325 000)	7 492 220	288 607	103 946	(273 294)	119 259	7 372 961
Motor vehicles	4 538 073	-		(334 092)	4 203 981	323 305	2 789 820	(354 273)	2 758 852	1 445 129
Mobile office	453 500	-			453 500	1 836	30 183		32 019	421 481
Tools and equipment	95 392	113 295		(65 837)	142 850	18 128	30 511		48 639	94 211
Computer equipment	873 821	473 651		(82 780)	1 264 692	89 620	351 913	(49 748)	391 785	872 907
	14 465 800	2 728 600		(1 861 464)	15 332 935	892 613	3 685 354	(702 748)	3 875 219	11 457 716
	338 960 249	53 560 569	26 301 800	(18 212 596)	400 610 022	44 920 973	27 169 077	(702 748)	71 387 303	329 222 720

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

9 LONG SERVICE AWARDS

9.1 Current portion of long service award

	2015	2014	2013
	R'1	R'1	R'1
Short term portion		<u><u>774 522</u></u>	<u><u>443 840</u></u>

NB: The Municipality offers employees long service awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.

9.2 Reconciliation of long service award

Reconciliation of Long Service Awards

Opening balance	3 977 596	3 592 905	2 966 517
Total annual expense	774 522	443 840	312 848
Actuarial gain/(loss)	-	(59 149)	313 540
Closing balance	<u><u>3 203 074</u></u>	<u><u>3 977 596</u></u>	<u><u>3 592 905</u></u>

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

10 INVESTMENT PROPERTY CARRIED AT FAIR VALUE

10.1 Reconciliation of fair value	Investment property R'1	Investment property R'1	Total R'1
as at 01 July 2013	446 226 604	-	446 226 604
Profit / (loss) on fair value adjustment	13 114 496	-	13 114 496
as at 30 June 2014	459 341 100	-	459 341 100
2013			
as at 01 July 2012	433 112 108	-	433 112 108
Profit / (loss) on fair value adjustment	13 114 496	-	13 114 496
as at 30 June 2013	446 226 604	-	446 226 604
10.2 Investment property pledged as security	-	-	-
None			
10.3 Details of investment property	2014 R '1	2013 R '1	
Land held for an undetermined use	434 215 504	434 215 504	
Land under operating lease	25 125 596	4 263 600	
	<u>459 341 100</u>	<u>446 226 604</u>	

10.4 Valuation

The properties listed as "Investment properties" were valued on 30 June 2014 by a professional accredited valuer.

10.5 Details of valuation

The effective date of the fair value adjustment was 01 July 2014. Revaluations were performed by an independent valuer, Mr Clyde, of Kula Valuations. Kula Valuations is not connected to the Municipality and have recent experience in location and category of the investment property being valued.

Methods used are detailed in the attached Valuers methodology

The valuation was based on open market value for existing use.

10.6 Amounts recognised in surplus or deficit for the year.

	2014 R 1	2013 R 1
Fair value adjustments	13 114 496	153 173 004

NB: these are the fair value adjustment figures as determined by the Municipal valuer. These valuations were done on the 30 June 2014

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

11 RECEIVABLES

11.1 Consumer receivables from non-exchange transactions

	Gross balance	Provision for bad debts	Net balances
	R '1	R '1	R '1
As at 30 June 2014			
Business	19 044 632	(18 663 740)	380 893
Domestic	14 076 281	(13 794 756)	281 526
Government	6 327 824	-	6 327 824
	<u>39 448 738</u>	<u>(32 458 495)</u>	<u>6 990 243</u>

	Refuse	Rates
Discounting effect		
Consumer receivables	39 448 738	
Finance income	(474 582)	
Unearned finance charges	(3 732 234)	
Provision for bad debts	(31 983 913)	
Receivables at fair value	<u>3 258 008</u>	<u>2 704 147</u>

As at 30 June 2013

Receivables	40 484 371	(34 492 946)	5 991 425
	<u>40 484 371</u>	<u>(34 492 946)</u>	5 991 425
Un-earned interest 2013			(3 830 215)
Adjusted balance			<u>2 161 210</u>

	2014 R '1	2013 R '1
Refuse and Rates: Ageing		
0 - 30 days (current)	40 177	126 317
31 - 60 days	149 625	101 417
61 - 90 days	66 777	84 923
91 -120 days	94 544	97 595
121 - 150days	98 419	97 698
151 - 180 days	88 135	97 974
181 - 210 days	89 947	82 872
211 - 240 days	87 587	96 104
241 - 270 days	71 614	5 950 056
271 - 300 days	88 333	93 125
301 - 330 days	82 452	93 173
331 - 360 days	5 342 945	98 643
+361 days	33 148 183	33 464 473
Total	<u>39 448 738</u>	<u>40 484 371</u>

Summary of Receivables by Customer Classification

In terms of the financial instruments classification (Note 33), management has classified consumer receivables as financial assets at amortised cost 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 receivables 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 receivables comprises a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these receivables. Consumer receivables are presented net of provision for impairment.

11.2 Receivables from exchange transactions

Refuse	553 861	442 658
Sundry receivables from exchange transactions	916 635	2 178 157
Receipts in advance	10 599 415	-
	<u>12 069 912</u>	<u>2 620 815</u>

12 Value Added Tax	<u>11 444 219</u>	<u>4 673 109</u>
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INGQUZA HILL LOCAL MUNICIPALITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 For the year ended 30 June 2014

	Note	2014 R '1	2013 R '1
13 PROPERTY RATES			
<u>Actual</u>			
Rates		6 081 938	6 267 910
Finance charges		430 677	361 796
Total assessment rates		<u>6 512 615</u>	<u>6 629 706</u>
<u>Property valuations</u>			
Rates		1 083 960 448	1 083 960 448
Total property valuations		<u>1 083 960 448</u>	<u>1 083 960 448</u>
<p>Valuations on land and buildings are performed every four years. The last valuation came into effect on 01 July 2009. A factor of 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. There is an annual maintenance which is done when need arises.</p>			
14 SERVICE CHARGES			
Refuse charges		411 301	926 679
Finance charges		(43 678)	(50 670)
		<u>367 624</u>	<u>876 009</u>
15 GOVERNMENT GRANTS AND SUBSIDIES			
National Transfers			
Equitable share	15.1	126 581 000	107 948 000
Department of Minerals and Energy	15.2	10 033 137	10 612 359
Municipal Finance Management Grant	15.4	1 550 000	1 500 000
MIG Grant	15.5	45 595 479	40 365 827
Provincial Transfers			
MSIG Grant	15.3	890 000	800 000
Library services	15.6	724 000	724 000
LED grant	15.7	-	-
EPWP GRANT	15.8	1 000 000	2 717 000
Total government grants and subsidies		<u>186 373 616</u>	<u>164 667 186.32</u>

NB: There are no transfers(grants) that are made out by the Ingquza Hill Local Municipality to other organs of state. The equitable share gazetted amount differs with the received amount due to funds that were withheld by National Treasury to the amount of R 399 000.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

	2014 R '1	2013 R' 1
15 GOVERNMENT GRANTS AND SUBSIDIES (Continued)		
15.1 Equitable share		
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>126 581 000</u>	<u>107 948 000</u>
15.2 Department of Minerals and Energy		
Balance unspent at the beginning of the year	1 420 554	2 032 913
Current year receipts	20 000 000	10 000 000
Conditions met - transferred to revenue	<u>(10 033 137)</u>	<u>(10 612 359)</u>
Conditions not met - transferred to liability	<u>11 387 417</u>	<u>1 420 554</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		
15.3 MSIG Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	890 000	800 000
Conditions met - transferred to revenue	<u>(890 000)</u>	<u>(800 000)</u>
Conditions not met - transferred to liability	<u>-</u>	<u>-</u>
This grant is meant to help with the improvement and upgrading of municipal systems and is only spent on that		
15.4 Municipal Finance Management Grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	1 550 000	1 500 000
Conditions met - transferred to revenue	<u>(1 550 000)</u>	<u>(1 500 000)</u>
Conditions not met - transferred to liability	<u>-</u>	<u>-</u>
This grant is spent on capacity building on BTO officials and S57 managers and Internship		
15.5 MIG Grant		
Balance unspent at the beginning of the year	1 854 948	775 846
Current year receipts	44 591 000	37 735 033
Conditions met - transferred to revenue	<u>(45 595 479)</u>	<u>(40 365 827)</u>
Conditions not met - transferred to liability	<u>850 470</u>	<u>(1 854 948)</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		
15.6 Library Services		
Balance unspent at the beginning of the year	-	-
Current year receipts	724 000	724 000
Conditions met - transferred to revenue	<u>(724 000)</u>	<u>(724 000)</u>
Conditions not met - transferred to liability	<u>-</u>	<u>-</u>
This was spent on roads repairs and maintenance during the IEC period		
15.7 LED Projects		
Balance unspent at the beginning of the year	-	-
Current year receipts	229 275	0
Conditions met - transferred to revenue	<u>-</u>	<u>-</u>
Conditions not met - transferred to liability	<u>229 275</u>	<u>-</u>
Conditions to be met by building hawker stalls		
15.8 EPWP Grant		
Balance unspent at the beginning of the year	398 739	-
Current year receipts	1 000 000	2 717 000
Conditions met - transferred to revenue	<u>(1 398 739)</u>	<u>(2 318 261)</u>
Conditions met - transferred to revenue	<u>-</u>	<u>398 739</u>
EPWP assists 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 2014

16 OTHER INCOME	2014 R'1	2013 R'1
Advertising fees rental	235 065	195 477
Funeral fees	14 198	20 088
Plant hire	9 281 295	-
LG SETA	48 600	32 247
Insurance fund	92 842	-
Plan fees	245 568	123 174
Pound fees	92 838	7 053
Rezoning and sub-division	8 290	4 062
Sale of wood	-	13 394
Payment salaries	-	152 597
Natis agency fees	2 418 712	2 381 340
Sundry income	9 794	26 437
Tender document	223 625	113 143
Vuna award	210 000	45 000
Commission	-	50 222
Informal trading	-	5 120
National heritage	106 500	-
	12 987 328	3 169 352

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

	2014 R '1	2013 R '1
17 TRADE AND OTHER PAYABLES FROM NON EXCHANGE TRANSACTIONS		
Workmen's Compensation Fund	581 513	1 720 079
	<u>581 513</u>	<u>1 720 079</u>
18 EMPLOYEE RELATED COSTS		
Salaries and wages	44 909 677	39 555 052
Contributions for UIF, provident, m/aid, etc	10 775 396	9 141 496
Travel, motor car, accommodation, subsistence	4 771 441	3 894 256
Overtime payments	3 051 523	2 916 687
Housing benefits and allowances	1 345 317	1 316 792
Provisions	1 780 143	1 653 870
Total employee related costs	<u>66 633 497</u>	<u>58 478 152</u>
Remuneration of the Municipal Manager		
Annual remuneration	926 103	800 270
Car allowance	167 368	138 969
Contribution to UIF and other payments	22 316	147 583
	<u>1 115 787</u>	<u>1 086 822</u>
Remuneration of the Chief Finance Officer		
Annual remuneration	806 156	598 871
Car allowance	132 779	89 019
Contribution to UIF and other payments	45 104	133 243
	<u>984 039</u>	<u>821 133</u>
Remuneration of the Corporate Services Director		
Annual remuneration	787 188	679 284
Car allowance	161 231	144 786
Contribution to UIF and other payments		109 171
	<u>948 419</u>	<u>933 241</u>
Remuneration of the Technical Services Director		
Annual remuneration	711 313	563 287
Car allowance	170 715	126 349
Contribution to UIF and other payments	66 389	
	<u>948 417</u>	<u>689 636</u>
Remuneration of the Community Services Director		
Annual remuneration	796 672	620 430
Car allowance	142 263	129 733
Contribution to UIF and other payments	9 484	113 439
	<u>948 419</u>	<u>863 602</u>
Remuneration of the Strategic Planning Director		
Annual remuneration	730 459	348 024
Car allowance	142 263	67 557
Contribution to UIF and other payments	75 703	109 002
	<u>948 425</u>	<u>524 583</u>
Former Directors		
Former Strategic Planning Director- Performance bonus	-	104 013
Former CFO - Performance bonus	-	104 013

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

	2014 R '1	2013 R '1
19 REMUNERATION OF COUNCILLORS		
Mayor		
Annual remuneration	513 658	484 162
Allowances, contribution to UIF and related items	185 036	181 259
	698 694	665 421
Speaker		
Annual remuneration	533 102	345 300
Allowances, contribution to UIF and related items	152 087	123 442
	685 189	468 742
Chief Whip		
Annual remuneration	367 509	231 036
Allowances, contribution to UIF and related items	132 074	89 408
	499 583	320 444
Exco members		
Annual remuneration	1 850 323	2 006 975
Allowances, contribution to UIF and related items	715 632	793 952
	2 565 955	2 800 927
Other Councillors		
Annual remuneration	8 022 507	7 224 981
Allowances, contribution to UIF and related items	3 091 680	3 013 182
	11 114 186	10 238 163
Traditional leaders	144 000	113 000
Total remuneration for councillors	15 707 607	14 606 696
NB: full list of related party transactions as per GRAP standard is disclosed on Note 36		
20 INTEREST PAID		
Long term liabilities - DBSA	460 800	494 108
Finance lease	19 102	34 898
Total interest on external borrowings	479 903	529 006
21 REVALUATION AND FAIR VALUE SURPLUS		
Fair value adjustment on investment	13 114 496	13 114 496
Revaluation on land	5 600 000	-
	18 714 496	13 114 496
22 COUNCILLORS WITH ACCOUNTS IN ARREARS		
1. C N Yako	142 071	114 370
2. K Mviko	60 969	60 700
3. D Mjokovana (Speaker)	-	122 078
TOTAL	203 040	297 148

NB: These are the Councillors with accounts in arrears for more than 90 days and Speaker (D Mjokovana) owing for advance payments in 2013.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

23 GENERAL EXPENDITURE	2 014	2 013
	R'1	R'1
Accounting and audit fees	4 278 634	2 973 008
Advertising fees	358 064	255 109
Data lines	24 046	59 779
Bank charges	148 125	110 213
Catering- meetings	203 969	343 473
Cleaning material	53 225	20 072
Towing services	19 467	5 565
Public participation	125 540	28 500
Consultation & professional fees	1 068 550	1 203
Spatila development	-	30 226
Expanded Public Works Programme	2 381 814	2 318 261
Early childhood development	-	63 973
Equitable share	436 600	312 659
Electricity and water purchase	475 336	275 776
Communication strategy	235 620	329 774
Property valuation	764 352	359 615
Internal audit	672 630	334 725
IDP development	941 936	688 722
Insurance: external	679 371	597 455
Finance management grant expenditure	922 687	992 343
Legal fees	1 870 895	2 429 775
Licence fees	73 822	114 393
Crime prevention	129 180	37 490
Tourism	474 718	300 624
Postage	5 121	1 414
Printing and stationery	209 613	450 043
Disaster management	10 819	-
Protective clothing	98 444	6 291
Registering authority	167 277	23 500
Library services	68 705	36 040
Rent- office equipment	156 710	223 187
Subsistence and travelling	1 491 508	1 211 809
Survey and planning	1 409 934	603 257
Special programmes	2 142 533	1 420 591
Sport and recreation	60 726	105 810
Telephone	3 031 078	2 151 065
Parks, Pound and cemeteries	1 895	138 256
Training- officials	985 530	1 055 351
Training-councillors	387 726	121 354
Training- accomodation	654 914	460 875
Hire of toilets	6 650	26 280
Re-allocation costs	13 660	2 445
Vodacom	128 169	122 239
Beach management	118 050	142 751
Plant unit	9 228 229	4 603 673
Arts and culture	55 216	14 031
Munsoft and payday	796 416	876 411
Support to traditional leaders	49 090	65 123
Inter-governmental relations	10 402	11 750
Hotel accomodation	742 443	1 199 740
Refuse bags	630 428	231 054
Council functions	1 976 020	851 428
Vehicle- fuel & oil	2 907 997	3 115 267
Traffic law enforcement	160 078	168 676
Vehicle hire	1 330 912	733 290
Cleaning and greening	107 208	82 354
Audit committee costs	202 998	168 966
Allownace ward admin	2 880 621	2 889 683
Computer hardware	776 658	441 740
Whipery expense	88 712	114 708
Experiential trainees	110 000	55 200
HIV & Aids	54 950	62 750
Furniture	10 636	195 950
Team buiding	149 204	186 170
Motor vehicles	-	625 167
Electricity infrastructure	-	79 818
Landfill sites	-	69 002
Local economic development	8 332 421	8 508 265
Road construction	509 049	-1 513 801
Specialised equipment	1	1 435 202
Social facilities	-	355 919
Mobile office	-	24 500
Community halls	226 051	
EAP	225 301	
Health servicws	30 598	
Buildings	-	
	59 079 279	46 937 327

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

2014
R '1

2013
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	29 778 831	49 884 334
Bank overdraft	-	-
Total cash and cash equivalents	29 778 831	49 884 334

25 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

25.1 Irregular expenditure

Reconciliation of irregular expenditure:

Opening balance	-	73 927 758
Irregular expenditure current year - adverts not in the notice board		
Irregular expenditure current year	-	-
Approved by Council or condoned	-	(73 927 758)
Transfer to receivables for recovery	-	-
Total irregular expenditure for the year	-	-

Incident	Disciplinary steps / criminal proceedings	
This is the procurement of goods and services above R 30 000 (incl. VAT) without advertising them on the municipal notice board and website for at least seven days and adverts for less than 14 days before closing date. This is as a result of the ambiguity in the Treasury SCM regulation. Three quotations were obtained	None (relates to prior year)	-

Expenditure procured through a competitive bidding process where the specification prepared by the specifications committee were approved by the chairperson of the bid adjudication committee and not the accounting officer. The issue is that the deligation framework is not specifically deligating the approval of the specifications to the CFO who is the chairperson of the bid adjudication committee.	-	37 541 789
Expenditure relating to instances where there were no performance contracts - relating to the purchase of vehicles. Only vehicle dealer purchase agreements were signed and not the standard General Conditions of Contract per national treasury.	-	1 011 818
Expenditure relating to the instances where three quotations were not obtained for the following reasons: - Servicing of vehicles at manufacture approved service centre - Purchase of spare parts for the plant at manufacturer approved dealer - Accommodation from suppliers on municipal database treated on rotational basis - Placing of adverts with local media - Travel expenses booked through the travel agents on municipal database on a rotational basis	-	1 392 265
	-	

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

2014
R '1

2013
R '1

25 FRUITLESS AND WASTEFUL EXPENDITURE

25.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure:

Opening balance	-	338 986
Fruitless and wasteful expenditure current year	780	-
Condoned or written off by Council	-	(338 986)
Transfer to receivables for recovery	-	-
Fruitless and wasteful expenditure awaiting condonement	<u>780</u>	<u>-</u>

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	NA

Incident	Disciplinary steps / criminal proceedings	
Not applicable	Not applicable.	

26 INVENTORY

Opening balance	13 251 805	5 607 280
Increase in stationery	336 355	-
Land held for sale	-	7 644 525
Closing balance	<u>13 588 160</u>	<u>13 251 805</u>
Purchases during the year - stationery	442 225	511 194
Expensed during the year - stationery	(105 870)	(470 115)
Closing balance - stationery	<u>336 355</u>	<u>41 079</u>

The Municipality's inventory consists of consumables, stationery and land held for sale

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

		2014	2013
		R '1	R '1
27 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT			
27.1 Audit fees			
Current year audit fee		2 414 195	2 063 365
Amount paid - current year		<u>(2 083 248)</u>	<u>(2 063 365)</u>
Balance unpaid (included in payables)		<u>330 947</u>	<u>-</u>
27.2 PAYE, UIF & SDL			
Current year taxes		12 879 429	11 784 786
Amount paid - current year		<u>(12 879 429)</u>	<u>(11 784 786)</u>
Balance unpaid (included in payables)		<u>-</u>	<u>-</u>
27.3 MEDICAL AID			
Current year taxes		4 769 529	4 032 053
Amount paid - current year		<u>(4 769 529)</u>	<u>(4 032 053)</u>
Balance unpaid (included in payables)		<u>-</u>	<u>-</u>
27.4 PROVIDENT AND PENSION			
Current year taxes		7 275 260	6 383 491
Amount paid - current year		<u>(7 275 260)</u>	<u>(6 383 491)</u>
Balance unpaid (included in payables)		<u>-</u>	<u>-</u>
28 CONTINGENT LIABILITIES			
	<u>Sub Note</u>	<u>Amount claimed</u>	<u>Amount claimed</u>
Litigations that are still pending	(a)	2 387 332	3 956 175
Landfill site	(b)	263 139	231 955
Nokulunga Madolo	(c)	<u>1 089 195</u>	<u>1 089 195</u>
		<u>3 739 666</u>	<u>5 277 325</u>

(a) 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.

(b) This is a provision for the closing of the current dumping sites

(c) Nokulunga Madolo is claiming an amount of R 1 089 195 from the Municipality for the structure that was demolished by the Municipality because it was illegally constructed on municipal land.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

	2014	2013
	R '1	R '1
29 CASH GENERATED BY OPERATIONS		
Surplus/(deficit) for the year	27 711 609	178 890 846
Adjustment for:	-	-
-Depreciation	36 030 882	27 168 978
-Impairments	(1 648 614)	-
-Prior year adjustment	(3 362 158)	(3 458 080)
-Interest paid	479 903	529 006
Operating surplus or deficit before working capital changes:	59 211 623	203 130 750
Increase in inventories	(336 355)	(8 944 525)
Decrease in consumer debtors	(542 937)	(630 938)
(Increase)/decrease in other debtors	(9 449 097)	(225 500)
Increase in creditors	2 241 375	10 570 477
LSA	54 009	
Increase in VAT receivables	(6 771 110)	(2 833 909)
Decrease in unspent conditional grants and receipts	9 191 660	466 744
Cash generated by operations	53 599 168	201 533 099

30 ASSUMPTIONS

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 Republic of South Africa (Act 108) of 1996 the parliament is instructed to provide for an Act (Division of Revenue Act) that will enable the National Government to raise and collect revenue from all sources and distribute it equitable to both Provincial and Local Government (Municipalities). Allocation for 2014/15 is R 188.8 m and R 190.6m for 2015/16
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, The Municipality is 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 continues to procure funding for the on-going operations of the Municipality. However the Municipality is positively recovering from severe financial constraints. This is evident by the fact that none of the Municipality's creditors has been outstanding for a period over than 30 days, and the 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 more than four to discuss strategic documents.

30.2 EVENTS AFTER THE REPORTING DATE

The Municipality did consider all the incidents and events that took place after year end but before reporting date in the management meetings and there were no incidences or events to report in the Annual Financial

31 REPAIRS AND MAINTENANCE

	2014	2013
	R '1	R '1
Repairs and maintenance	20 610 944	7 966 850

NB: repairs and maintenance programme was intensified this year since it was the election year, this programme covered all the voting stations in all the wards. Roads were damaged by rainy season last year

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

				2014
32 CORRECTION OF PRIOR PERIOD ERROR				R'1
32.1 Prior year adjustments				Dr/(Cr)
The following restatements have been effected to prior period account balances and classes of transactions due to prior year errors/ommissions which have been identified				
Prior year correction	Trade payables	Previously reported Impact - reduction of creditors Restated balance	a) 2012/13	4 048 646 <u>(625 167)</u> 3 423 479
	Workmens compensation	Previously reported Impact - increase in payables Restated balance	b) 2012/13	1 641 783.00 <u>78 296</u> 1 720 079
	Inventory	Previously reported Impact - reduction of inventory Restated balance	c) 2012/13	14 551 805.00 <u>(1 300 000)</u> 13 251 805
	Intangible asset	Previously reported Impact - increase of Intangible assets Restated balance	d) 2012/13	- <u>69 800</u> 69 800
	PPE	Previously reported Impact - reduced PPE Restated balance	e) 2012/13	330 381 535 <u>(1 158 717)</u> 329 222 720
	Debtors - Traffic	Previously reported Impact - increaese in receivables Restated balance	f) 2012/13	- <u>546 730</u> 546 730
NB: all the above entries affected the accumulated surplus to a sum R 1 277 866, also refer to the Statement of Changes in Net Assets				
	Acc surplus	Previously reported Movement in Acc surplus as a result of the above entries Restated balance		818232987 <u>(1 295 316)</u> 816 937 671

32.2 Effect of change

- a) These payables were subsequently written off because the deal was cancelled
- b) These payables were subsequently raised because of the statement recently received
- c) Reversal of inventory raised in previous year
- d) Intangible asset not previously recognised and noew recognised in terms of iGRAP 16
- e) Corrections were made to PPE resulting to a reduction of R 1.1 million
- f) Receivables from traffic fines not previously raised

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

33 FINANCIAL INSTRUMENTS

33.1 Financial assets

Jun-14	Consumer debtors	Sundry debtors	Investment held as colateral	Bank and Cash	Held to maturity	Total
	R'1	R'1	R'1	R'1	R'1	R'1
Opening balance	2 161 210	2 620 815	4 383 533	49 884 334	-	59 049 892
Net gains or losses recognised directly in net assets						-
Interest income			355 417			355 417
Impairments						-
Net other movements	542 937	9 449 097	-	-20 105 502	-	-10 113 469
Closing balance	2 704 147	12 069 912	4 738 950	29 778 831	-	49 291 840

Maximum credit exposure

-

Interest income includes:

Interest on financial assets that are not at fair value through surplus or deficit

-

Subsequent interest on impaired financial assets

Jun-13	Consumer debtors	Sundry debtors	Investment held as colateral	Bank and Cash	Held to maturity	Total
	R'1	R'1	R'1	R'1	R'1	R'1
Opening balance	1 530 273	1 848 585	4 054 772	43 063 696	-	50 497 325
Movements Details	630 938	772 230				1 403 168
Interest income	-		328 761			328 761
Impairments						-
Net other movements	-	-		6 820 638	-	6 820 638
Closing balance	2 161 210	2 620 815	4 383 533	49 884 334	-	59 049 892

Interest income includes:

Interest on financial assets that are not at fair value through surplus or deficit

-

Subsequent interest on impaired financial assets

	2014 R'1	2013 R'1
Disclosed in the Statement of Financial Performance		
Fee income	474 582	412 465
On financial assets/liabilities not at fair value through profit and loss	474 582	412 465
Trust and/or other fiduciary activities		
Other fee income		
Disclosed in the Statement of Financial Position	60 736 059	63 723 001
Trade and other Receivables	2 704 147	2 161 210
Trade and other Receivables	12 069 912	2 620 815
Investment held as a colateral	4 738 950	4 383 533
VAT	11 444 219	4 673 109
Cash and cash equivalents	29 778 831	49 884 334

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2014

33.2 Financial liabilities

	FVTP - Held for trading at FV through P/L	Designated at FV through P/L	Loans and payables	Total
Jun-14	R'1	R'1	R'1	R'1
Opening balance	3 275 502	16 980 218	6 943 411	27 199 132
Interest expense			114 870	114 870
Net other movements	9 191 660	2 145 636		11 337 296
Closing balance	12 467 162	19 125 855	6 940 711	38 651 298

Interest expense include:

Interest on financial liabilities that are not at fair value through surplus or deficit

-

	Held for trading	Designated at FV through P/L	Loans and payables	Total
Jun-13	R'1	R'1	R'1	R'1
Opening balance	2 808 758	7 970 763	6 825 840	17 605 361
Interest expense		-	117 571	117 571
Net other movements	466 744	9 009 456	(1)	9 476 198
Closing balance	3 275 502	16 980 218	6 943 411	27 199 131

Interest expense includes:

Interest on financial assets that are not at fair value through surplus or deficit

	2014 R'1	2013 R'1
Disclosed in the Statement of Financial Performance		
Fee expenses	114 870	117 571
On financial assets/liabilities not at fair value through profit and loss		
Trust and/or other fiduciary activities		
Other fee expenses	114 870	117 571
Disclosed in the Statement of Financial Performance		
Categories of financial liabilities		
Unspent conditional grants	12 467 162	3 275 502
Trade creditors & other payables	19 125 855	16 980 218
Loans and payables	6 943 411	6 825 840
Overdraft	-	-
	38 536 428	27 081 560

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended 30 June 2014

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 write off the opening balances of the debtors.

The maximum exposure risk is estimated at 98% for the consumer debtors

Liquidity risk

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 6.75% per annum payable 6 monthly twice a year.

For maturity refer to note 2

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 2014

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:

Name	Designation	Description of Related Party Relationship
None	None	None

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 Municipal Finance Management Act, the municipality may not grant loans to its Councillors, management, staff and public with effect from 1 July 2004. No loans have been granted to anyone that can be considered as a related party.

34.4 Purchases from related parties

The Municipality did not buy goods from any companies which can be considered to be related parties.

34.5 Remuneration

NB: Please refer to Notes 19 and 36 for Councillors remunerations and Note 18 for the remuneration of management

34.6 Audit committee fees

PM Mancotywa	Chairperson	28 148
V Songela	Member	29 000
NB Kekana	Member	24 500
EBD Makhosi	Member	47 466
		<u><u>129 114</u></u>

INGQUZA HILL LOCAL MUNICIPALITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 For the year ended 30 June 2014

35 Actual versus budget (Revenue and expenditure)

Actual 2013	Description	Actual 2014	Approved Budget 2014	Variance	Management reasons
R'1		R'1	R'1	R'1	
	Revenue				
6 267 910	Taxes	6 081 938	8 000 000	(1 918 062)	Rates billed in the financial year
772 420	Fees, fines, penalties & licences	949 586	800 000	149 586	More
4 705 245	Revenue from exchange transactions	5 098 143	47 494 123	(42 395 980)	Lack of demand for services from consumers
164 667 186	Transfers from other governments	186 373 616	195 811 000	(9 437 384)	More
3 169 352	Other operating income	12 987 328	51 168 835	(38 181 507)	Lack of demand for services from consumers
179 582 114	Total revenue	211 490 611	303 273 958	(91 783 347)	
	Expenses				
(73 084 849)	Personnel	82 341 104	97 375 249	15 034 146	5%
(56 505 909)	General expenditure	93 461 547	57 258 158	(36 203 389)	More
-	Capital expenditure	67 416 045	119 218 650	51 802 605	Technical delays in the implementation of capital projects
-	Repairs and maintenance	20 610 944	29 401 900	8 790 956	More
(529 006)	Finance costs	479 903	20 000	(459 903)	Savings
(130 119 764)	Total expenditure	264 309 543	303 273 958	38 964 415	

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

36 RELATED PARTY LISTING

EMPLOYEE NAME		2014 R'1	2013 R'1
JP MDINGI	MAYOR	698 694	665 421
D MJOKOVANA	SPEAKER	685 189	468 742
P DUTSHWA	CHIEF WHIP	499 583	320 444
BESI TT	EXECUTIVE COMMITTEE MEMBER	300 471	278 685
TENYANE M	EXECUTIVE COMMITTEE MEMBER	300 471	278 685
MJOJELI NE	EXECUTIVE COMMITTEE MEMBER	300 471	273 949
GOYA BB	EXECUTIVE COMMITTEE MEMBER	300 471	272 949
MAXHAYI M	EXECUTIVE COMMITTEE MEMBER	300 471	272 949
NGCINGWANA SL	EXECUTIVE COMMITTEE MEMBER	300 471	272 949
KANGO PS	EXECUTIVE COMMITTEE MEMBER	300 471	272 949
GAGAI NA	EXECUTIVE COMMITTEE MEMBER	281 407	426 227
NTSHOBO P	MPAC	266 055	260 931
MTSOTSO NF	MEMBERS INTEREST	281 831	260 931
JOTILE T	ORDINARY COUNCILLOR	224 216	211 797
NGXAMILE PN	ORDINARY COUNCILLOR	224 216	211 797
VATSHA SB	ORDINARY COUNCILLOR	243 280	278 685
MVULANE B	ORDINARY COUNCILLOR	243 280	278 685
GEXU N	ORDINARY COUNCILLOR	74 739	211 797
JIKI N	ORDINARY COUNCILLOR	224 216	211 797
NDAYI N	ORDINARY COUNCILLOR	181 250	211 797
JIBA Z	ORDINARY COUNCILLOR	224 216	206 061
SOMANI V	ORDINARY COUNCILLOR	224 216	206 061
QWESHA M	ORDINARY COUNCILLOR	224 216	206 061
MGWILI NH	ORDINARY COUNCILLOR	224 216	206 061
MNGQINELWA NCB	ORDINARY COUNCILLOR	224 216	206 061
NDZUMO T	ORDINARY COUNCILLOR	224 216	206 061
MPONGOMA SH	ORDINARY COUNCILLOR	224 216	206 061
CAPA YN	ORDINARY COUNCILLOR	224 216	206 061
THIMLE L	ORDINARY COUNCILLOR	224 216	206 061
NKAYITSHANA N	ORDINARY COUNCILLOR	224 216	206 061
MALULWANA SE	ORDINARY COUNCILLOR	224 216	206 061
TAMBODALA ZJM	ORDINARY COUNCILLOR	224 216	206 061
ZATHI N	ORDINARY COUNCILLOR	224 216	206 061
DANISO N	ORDINARY COUNCILLOR	224 216	206 061
THWATSHUKA D	ORDINARY COUNCILLOR	224 216	206 061
DALIWE NA	ORDINARY COUNCILLOR	224 216	206 061
NKUNGU MI	ORDINARY COUNCILLOR	224 216	206 061
SIKHOSANA MN	ORDINARY COUNCILLOR	224 216	206 061
GXABHU T	ORDINARY COUNCILLOR	224 216	206 061
MAGAYA FA	ORDINARY COUNCILLOR	224 216	206 061
RULENI S	ORDINARY COUNCILLOR	224 216	206 061
MKIZWANE AM	ORDINARY COUNCILLOR	224 216	206 061
JOYI B	ORDINARY COUNCILLOR	224 216	206 061
KHOTSHOLO B	ORDINARY COUNCILLOR		103 030
MAQUTYWA B	ORDINARY COUNCILLOR	149 477	206 061
KEWANA D	ORDINARY COUNCILLOR	224 216	206 061
MVIKO K	ORDINARY COUNCILLOR	224 216	206 061
GOGO M	ORDINARY COUNCILLOR	224 216	206 061
MTSHULANA M	ORDINARY COUNCILLOR	51 515	206 061
YAKO N	ORDINARY COUNCILLOR	212 966	206 061
MHLAKUVANA N	ORDINARY COUNCILLOR	224 216	206 061
NKANI N	ORDINARY COUNCILLOR	224 216	206 061
NONKUBA N	ORDINARY COUNCILLOR	224 216	206 061
GXUMISA-CINGO FJ	ORDINARY COUNCILLOR	224 216	206 061
CWECWE N	ORDINARY COUNCILLOR	224 216	206 061
NOTYESI N	ORDINARY COUNCILLOR	224 216	206 061
NKWAKHWA S	ORDINARY COUNCILLOR	224 216	206 061
SIGCAU NE	ORDINARY COUNCILLOR	224 216	206 061
SIBUNGE T	ORDINARY COUNCILLOR	224 216	206 061
DUMISA T	ORDINARY COUNCILLOR	224 216	206 061
GWEGWE V	ORDINARY COUNCILLOR	224 216	206 061
DINGI X	ORDINARY COUNCILLOR	224 216	206 061
MKUMLEA CM	ORDINARY COUNCILLOR	93 423	-
MHLANGA ZE	ORDINARY COUNCILLOR	168 162	-
MKABAYI VS	ORDINARY COUNCILLOR	43 042	-
CELE KD	ORDINARY COUNCILLOR	93 558	
TRADITIONAL LEADERS	TRADITIONAL LEADERS	144 000	113 000
		15 707 607	14 606 696

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

37 SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2014

EXTERNAL	Loan Number	Redeemable	Balance at 01/07/2013	Paid during the year	Interest for the year	Balance at 30/06/2014
			R'1	R'1	R'1	R'1
			6 943 411	(460 800)	343 229	6 825 840
			6 943 411	(460 800)	343 229	6 825 840

Carrying Value of Property, Plant and Equipment	Other costs in accordance with the MFMA
R'1	R'1
6 718 520.21	-
6 718 520.21	-

NB: This is a financial liability

38 DEVIATION DISCLOSURE

Reconciliation of deviation's disclosure:

Opening balance	-	-
Deviations made in the current year	-	-
Condoned by council	-	-
Total deviations made in the current year	<u>-</u>	<u>-</u>

Incident

These are the deviations that occurred in terms of s17 of the Supply Chain regulations which allows the CFO or an official designated by CFO to approve such a deviation stating reasons why the Supply Chain regulations and/or Municipal Supply Chain Management policy was not when performing procurement procedures to acquire goods that require three quotes and only receive two quotes to make an example, unlike s36 of the regulations which does not apply in the case of this Municipality because there has been no instances where goods or services were acquired not through Supply Chain Management either by a service provider because of emergency, etc.

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

39 LEASES

39.1 Finance lease liability

Jun-14	Minimum lease payment R'1	Future finance charges R'1	Present value of minimum lease payments R'1
Amounts payable under finance leases			
Within one year	121 568	18 195	103 373
Within two to five years	71 489	5 638	65 851
	<u>193 057</u>	<u>23 833</u>	<u>169 224</u>
Less: Amount due for settlement within 12 months (current portion)			(103 373)
			<u><u>65 851</u></u>

The average lease term is 3 years and the average effective borrowing rate is 18%. Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

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Jun-13	Minimum lease payment R'1	Future finance charges R'1	Present value of minimum lease payments R'1
Amounts payable under finance leases			
Within one year	208 728	43 667	165 061
Within two to five years	193 057	23 833	169 224
	<u>401 785</u>	<u>67 500</u>	<u>334 285</u>
Less: Amount due for settlement within 12 months (current portion)			(165 061)
			<u><u>169 224</u></u>

The average lease term is 3 years and the average effective borrowing rate is 18%. Interest rates are fixed at the contract date. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

**INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 30 June 2014

39 LEASES (CONTINUED)

39.2 Operating lease

Jun-14	Minimum lease payment	Future finance charges	Present value of minimum lease payments
Amounts payable under finance leases	224216.02	224216.02	224216.02
Within one year	22 152	-	22 152
Within two to five years	85 428	-	85 428
	<u>107 580</u>	<u>-</u>	107 580
Less: Amount due for settlement within 12 months (current portion)			<u>(22 152)</u>
			85 428

These are the lease contracts given to people at a fixed monthly instalments

Jun-13	Minimum lease payment	Future finance charges	Present value of minimum lease payments
Amounts payable under finance leases	224216.02	224216.02	224216.02
Within one year	309 083	-	309 083
Within two to five years	107 580	-	107 580
	<u>416 663</u>	<u>-</u>	416 663
Less: Amount due for settlement within 12 months (current portion)			<u>(309 083)</u>
			107 580

These are the lease contracts given to people at a fixed monthly instalments

INGQUZA HILL LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2014

40 INTANGIBLE ASSETS

40.1 Reconciliation of carrying value	Computer Software R'1	Other R'1	Total R'1
as at 1 July 2013	69 800	-	69 800
Cost	87 250		87 250
Correction of error			
Accumulated amortisation and impairment losses	(17 450)		(17 450)
as at 30 June 2014	34 900	-	34 900
Opening balance	69 800	-	69 800
Accumulated amortisation and impairment losses	(34 900)		(34 900)
12.1 Reconciliation of carrying value	Computer Software R	Other* R	Total R
as at 1 July 2013	87 250	-	87 250
Cost	87 250	-	87 250
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			
as at 30 June 2014	87 250	-	87 250
Cost	87 250	-	87 250
Accumulated amortisation and impairment losses	-	-	-