

**INGQUZA HILL LOCAL MUNICIPALITY**  
**AUDIT FILE INDEX**  
**For the year ended 30 June 2016**



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**INGQUZA HILL LOCAL MUNICIPALITY**  
**AUDIT FILE (CONTINUED)**  
**For the year ended 30 June 2016**



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# ANNUAL FINANCIAL STATEMENTS

for

INGQUZA HILL LOCAL MUNICIPALITY

For the period ended 30 June 2016

Province: Eastern Cape

## Contact Information:

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**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2016

**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 Mtsotso	Members Interest Chair
Councillor B Mvulani	Petitions Committee Chair
Councillor N Jiki	Women's Caucus 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 N E Mjojeli	Member of the Executive Committee
Councillor N A Gagai	Member of the Executive Committee
Councillor M G Maxhayi	Member of the Executive Committee
Councillor S B Vatsha	Member of the Executive Committee
Councillor T T Gxabhu	Member of the Executive Committee

**Municipal Manager**

M Fihlani

**Chief Financial Officer**

T L Madikizela

**Grading of Local Authority**

Grade 3 : Low Capacity

**Auditors**

Auditor-General(South Africa)

**Bankers**

First National Bank  
Flagstaff Branch  
6224175712 - Primary bank account

**Lawyers**

FT Tayi Incorporated  
Ximbi Ncolo and Associates

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2016

**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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Lusikisiki

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**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2016

**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, achieve positive results in respect of financial management.

Thank you

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Councillor P J Mdingi  
Mayor

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Date

**INGQUZA HILL LOCAL MUNICIPALITY**



**ANNUAL FINANCIAL STATEMENTS**

**for the year ended 30 June 2016**

**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 59, 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 Act No 108 of 1996 of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act No 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

\_\_\_\_\_  
M Fihlani  
Municipal Manager

**Flagstaff**  
at (place of signing)

\_\_\_\_\_  
Date

**INGQUZA HILL LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
For the year ended 30 June 2016**

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**INGQUZA HILL LOCAL MUNICIPALITY  
STATEMENT OF FINANCIAL PERFORMANCE  
For the year ended 30 June 2016**

	Notes	2016 R	2015 R
<b>REVENUE</b>			
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>			
<b>TAXES</b>			
Property rates	13	19,666,779	16,101,007
<b>TRANSFERS AND FINES</b>			
Government grants and subsidies	15	273,941,148	239,116,593
Fines		1,111,150	1,472,200
Interest earned - outstanding receivables	42	752,905	713,767
<b>REVENUE FROM EXCHANGE TRANSACTIONS</b>			
Service charges - refuse	14	922,246	263,505
Rental of facilities		18,229	19,944
Interest earned - external investments	43	6,404,636	3,206,549
Interest earned - outstanding receivables	42	699,009	334,595
Lease rentals		791,294	277,713
Other income	16	11,508,246	11,511,946
<b>Total Revenue</b>		<b><u>315,815,643</u></b>	<b><u>273,017,820</u></b>
<b>EXPENDITURE</b>			
Employee related costs	18	84,751,116	75,952,806
Remuneration of Councillors	19	17,824,651	16,779,262
Repairs and maintenance	31	15,165,502	22,246,172
Impairment of debtors	35	5,471,932	2,213,635
Impairment of PPE	41	1,015,145	-
Interest paid	20	578,056	537,002
General expenses	23	52,806,644	71,742,140
Depreciation	8	35,804,601	31,193,658
<b>Total Expenditure</b>		<b><u>213,417,646</u></b>	<b><u>220,664,676</u></b>
Gain/(loss) on fair value adjustment	21	(313,675)	3,015,685
Loss on sale of assets	42	-	(933,361)
<b>SURPLUS FOR THE YEAR</b>		<b><u><u>102,084,322</u></u></b>	<b><u><u>54,435,468</u></u></b>

**INGQUZA HILL LOCAL MUNICIPALITY  
STATEMENT OF FINANCIAL POSITION  
As at 30 June 2016**

	Notes	2016 R	2015 R
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net assets</b>		<b>1,021,611,446</b>	<b>930,422,566</b>
Accumulated surplus	1	1,021,611,446	930,422,566
<b>Non-current liabilities</b>		<b>11,293,181</b>	<b>11,181,070</b>
Long term loan - DBSA	2	6,825,840	6,825,840
Finance lease liability	39	195,297	486,871
Long service awards	2	4,272,044	3,868,359
<b>Current liabilities</b>		<b>43,845,004</b>	<b>25,779,141</b>
Provisions	3	6,823,069	4,685,543
Current portion of finance lease liability	39	291,574	310,452
Current portion of long service awards	9	1,245,638	1,154,179
Trade and other payables from exchange transactions	4	28,265,817	18,605,412
Unspent conditional grants and receipts	5	6,644,420	894,568
Trade and other payables from non exchange transactions	17	459,463	-
Sundry payables	4	115,023	128,986
<b>Total Net Assets and Liabilities</b>		<b>1,076,749,631</b>	<b>967,382,777</b>
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>959,220,139</b>	<b>918,703,704</b>
Property, plant and equipment	8	513,713,777	454,239,420
Investment property	10	439,966,630	459,341,100
Investment held as a collateral	6	5,539,732	5,123,184
<b>Current assets</b>		<b>117,529,492</b>	<b>48,679,073</b>
Consumer receivables from non-exchange transactions	11	7,630,025	4,830,283
Sundry receivables from exchange transactions	11	13,955,848	3,894,424
VAT receivable	12	7,333,560	3,740,026
Inventory	26	15,456,338	16,626,565
Cash and cash equivalents	7	73,153,721	19,587,775
<b>Total Assets</b>		<b>1,076,749,631</b>	<b>967,382,777</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
For the year ended 30 June 2016

		Revaluation Surplus	Accumulated Surplus	Total: Net Assets
	Notes	R	R	R
<b>Balance at 30 June 2014</b>		-	863,629,163	863,629,163
Changes in accounting policy		(323,398)	-	(323,398)
Correction of prior period error		-	5,785,627	5,785,627
<b>Restated balance as at 30 June 2014</b>		<b>(323,398)</b>	<b>869,414,789</b>	<b>869,091,391</b>
Revaluation increase	8.2	10,035,066	-	10,035,066
Surplus for the period		-	54,435,468	54,435,468
<b>Balance at 30 June 2015</b>		<b>9,711,668</b>	<b>923,850,257</b>	<b>933,561,925</b>
Prior year adjustment	32		(3,139,359)	(3,139,359)
<b>Restated balance as at 30 June 2015</b>	1	<b>9,711,668</b>	<b>920,710,898</b>	<b>930,422,566</b>
Prior year adjustments		-	745,240	745,240
Current adjustments		-	(11,640,682)	(11,640,682)
Surplus for the period		-	102,084,322	102,084,322
<b>Balance as at 30 June 2016</b>	1	<b>9,711,668</b>	<b>1,011,899,778</b>	<b>1,021,611,446</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT**  
For the year ended 30 June 2016

	Note	2016 R	2015 R
<b>CASH INFLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		<b>300,217,496</b>	<b>280,150,442</b>
Property rates		19,666,779	16,101,007
Sales of goods and services		(11,303,314)	10,214,347
Grants	15	273,941,148	239,116,593
Interest received		6,404,636	3,206,549
Other receipts		11,508,246	11,511,946
Payments		<b>194,948,098</b>	<b>225,280,685</b>
Employee costs		102,575,767	92,703,211
Suppliers		85,307,198	129,826,837
Interest paid		578,056	537,002
Other payments/movements		6,487,077	2,213,635
<b>Net cash inflows from operating activities</b>	29	<b>105,269,398</b>	<b>54,869,756</b>
<b>CASH OUTFLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets (PPE)	8.2	(59,474,357)	(71,737,392)
Proceeds from sale of PPE		-	(933,052)
Proceeds from sale of investments			
Prior year adjustments		745,240	7,572,853
Current movements		(11,640,682)	-
Decrease on Investment property	10	19,374,470	-
<b>Net cash outflows from investing activities</b>		<b>(50,995,330)</b>	<b>(65,097,592)</b>
<b>CASH OUTFLOWS FROM FINANCING ACTIVITIES</b>			
Finance lease (payments)/receipts	39	(291,574)	421,020
Investment held as a collateral	6	(416,548)	(384,234)
<b>Net cash outflows from financing activities</b>		<b>(708,122)</b>	<b>36,786</b>
<b>Net increase /(decrease) in net cash and cash equivalents</b>		<b>53,565,946</b>	<b>(10,191,050)</b>
<b>Net cash and cash equivalents at beginning of period</b>		<b>19,587,775</b>	<b>29,778,824</b>
<b>Net cash and cash equivalents at end of period</b>	7	<b>73,153,720</b>	<b>19,587,775</b>

INGQUZA HILL LOCAL MUNICIPALITY  
 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
 As at 30 June 2016

Description	Actual 2016	Approved Budget 2016	Adjustments	Final Budget 2016	Variance	Management comments
	R	R	R	R	R	
<b>Revenue</b>						
Rates and taxes	13,000,000	12,000,000	1,000,000	13,000,000	100%	N/A
Fees, fines, penalties & licences	4,029,461	4,138,624	1,023,185	5,161,809	78%	Most of the line items here are demand driven from the clients and the negative outlook of the current market
Revenue from exchange transactions	22,190,097	31,637,729	2,506,001	34,143,730	65%	Most of the line items here are demand driven from the clients and the negative outlook of the current market
Transfers from other governments	273,941,148	275,191,000	-	275,191,000	100%	N/A
Other operating income	2,341,262	15,943,402	(3,529,185)	12,414,217	19%	Most of the line items here are demand driven from the clients and the negative outlook of the current market
<b>Total revenue</b>	<b>315,501,968</b>	<b>338,910,755</b>	<b>1,000,001</b>	<b>339,910,756</b>	<b>361%</b>	
<b>Expenses</b>						
Personnel	100,966,850	114,259,428	1,081,351	115,340,779	88%	Some budgeted benefits are not yet realised by the employees and these are some vacant positions
General expenditure	55,169,050	53,850,306	504,015	54,354,321	101%	N/A
Capital expenditure	3,687,582	145,145,180	638,820	145,784,000	3%	Expenditure is transferred to assets capitalised, refer to Note 8.2 on additions to PPE
Repairs and maintenance	15,165,502	25,655,840	(1,244,185)	24,411,655	62%	Repairs and maintenance per clusters started late because of the rainy season
Finance costs	115,869		20,000	20,000	579%	N/A
<b>Total expenditure</b>	<b>175,104,852</b>	<b>338,910,755</b>	<b>1,000,000</b>	<b>339,910,755</b>	<b>833%</b>	
<b>Un-adjustment surplus for the year</b>	<b>140,397,116</b>	<b>-0</b>		<b>1</b>		

Surplus for the year	102,084,322
	38,312,794
Depreciation	35,804,601
Gain of fair value adjustment	313,675
Impairment of PPE	1,015,145
Loss on disposal of PPE	(313,675)
Finance costs	(115,869)
HR provisions	1,608,916
	<b>140,397,116</b>

**NB:** all the movements between the approved budget and the final budget are a consequence of reallocations within the budget

**NB:** Management comments are in respect of variances that are 10% and above. The adjustments are the movements within the approved budget by the Council.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2016**

**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 18	Segment reporting
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	Discontinued operations
GRAP 103	Heritage assets
GRAP 104	Financial instruments
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

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 108	Statutory receivables

The impact of the above standards: the Municipality already has the accounting policy for the above standards and is already complying with the requirements of these accounting standards.

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

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2016**

**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. All figures have been rounded off to the nearest one Rand.

**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 2016**

**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 derecognised, 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.



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**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2016**

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

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

Subsequent to initial recognition, land and buildings are carried at revalued amount, being their fair value 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

**Community assets**

Graveyard 50 years

**Other**

Landfill site 10 years  
Furniture 7 - 10 years  
Mobile office 15 years  
Fire arms 10  
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.

**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 from all sources.

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.

**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 land held for sale and stationery, 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) Investment held as a collateral
- c) Consumer receivables from non-exchange transactions
- d) Sundry receivables from exchange transactions
- e) Cash and cash equivalents

**9. FINANCIAL INSTRUMENTS (continued)**

**9.2 Financial assets - classification and measurement at amortised cost (continued)**

<b>Type of financial assets</b>	<b>Classification in terms of GRAP 104</b>
Short term investment deposits - call	Financial asset at amortised cost
Cash and cash equivalents	Financial asset at amortised cost
Long term receivables	Financial asset at amortised cost
Receivables from non exchange transactions	Financial asset at amortised cost
Sundry receivables from exchange transactions	Financial asset at amortised cost
Investment held as a collateral	Financial asset at amortised cost

Financial assets at fair value 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.

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.

Financial assets at amortised costs 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.

**9.3 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) Trade and payables from exchange and non-exchange transactions
- c) Bank overdraft
- d) Short term loans
- e) Current portion of long term liabilities
- f) Finance lease liability

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 or
- (ii) Financial liabilities at amortised costs

**9. FINANCIAL INSTRUMENTS**

**9.4 Financial liabilities - Classification and measurement (continued)**

Financial liabilities that are measured at fair value 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 are classified as financial liabilities at amortised cost and 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.

**9.5 Initial and Subsequent Measurement**

**9.5.1 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 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.

**9.5.2 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.

**9.6 Impairment of Financial Assets**

Financial assets at amortised cost other than those at fair value 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.

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**9. FINANCIAL INSTRUMENTS (continued)**

**9.6 Impairment of Financial Assets (continued)**

With the exception of financial assets at cost, 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 financial assets at cost, 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 and sundry receivables are stated at cost less a provision for impairment. The provision is made in accordance with GRAP 104 whereby the recoverability of consumer and sundry receivables 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.

**9.7 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.

**9.8 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)**  
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**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**

- 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 2016**

**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.



**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 recognised.

**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.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

## **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.

### **21.3 Long term employee benefits**

The municipality has an obligation to provide long-term service allowance benefits to all its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:  
the present value of the defined obligation at the reporting date,  
minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another standard requires or permits their inclusion in the cost of an asset:

- current service cost,
- interest cost,
- the expected return on any plan assets and on any reimbursement right recognised as an asset,
- actuarial gains and losses, which is recognised immediately,
- past service cost, which is recognised immediately, and
- the effect of any curtailments or settlements.

## **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 2016) and the date on which the audit of the financial statements is completed (30 November 2016) 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.

## 24 INTANGIBLE ASSETS

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually, in accordance with GRAP.

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the is recognised immediately, past service cost, which is recognised immediately, and the effect of any curtailments or settlements. 195 94

### **Subsequent Measurement, Amortisation and Impairment**

After initial recognition, an intangible asset are carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 31, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The usefull lives per category of intangible assets are detailed below:

Intangible asset useful lives:

- Software 3
- Website 5

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets 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 except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2016**

		<b>2016</b>	<b>2015</b>
		<b>R</b>	<b>R</b>
<b>1. ACCUMMULATED SURPLUS</b>			
Opening balance		930,422,566	869,091,392
Movements :		102,402,687	54,400,567
Council		(10,421,493)	(9,077,319)
Municipal Manager		(18,769,907)	(15,874,360)
Budget and Treasury Office		192,581,720	110,685,414
Administration		(31,117,991)	(30,502,225)
Community and Social Services		(30,116,138)	(27,859,907)
Infrastructure		9,739,643	36,655,136
Planning and Development		(9,493,148)	(9,626,172)
Prior year adjustments	32	<u>745,240</u>	<u>(8,989,669)</u>
Other retained income movements		(11,640,682)	5,885,209
Revaluation			
Increase/fair value	10		
adjustment		(318,365)	10,035,066
Closing balance		<u><u>1,021,611,446</u></u>	<u><u>930,422,566</u></u>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 30 June 2016

	2016 R	2015 R
<b>2 LONG TERM LIABILITY</b>		
Loan - Development Bank of Southern Africa(DBSA)	6,825,840	6,825,840
Interest accrued - DBSA- included in sundry creditors (note 4)	<u>114,870</u>	<u>114,870</u>
Total amount owed to DBSA as at 30 June 2016	<u>6,940,711</u>	<u>6,940,711</u>
Long Service Awards (LSA)	<u>4,272,044</u>	<u>3,868,359</u>
	<u><b>11,212,755</b></u>	<u><b>10,809,070</b></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:

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

The loan was used to acquire property, plant and equipment.

**3 PROVISIONS**

**3.1 Bonus provision**

Opening balance	1,540,839	1,387,829
Addition to unpaid bonuses	111,864	153,010
	<u><b>1,652,703</b></u>	<u><b>1,540,839</b></u>

This is a provision for service bonus payable to employees as at 30 June 2016. The uncertainty is the timing of the bonus payments.

**3.2 Performance bonus**

Opening balance	3,002,926	2,290,142
Addition to unpaid performance bonuses	1,814,387	712,784
	<u><b>4,817,313</b></u>	<u><b>3,002,926</b></u>

This is a provision for performance bonuses due to all s57 (14%) managers as at 30 June 2016. The uncertainty is on the assessment by Evaluation Committee and approval by Council.

**3.3 Landfil sites**

Opening balance	141,777	141,777
Addition of Flagstaff site to the provision and expenditure increase	211,275	-
Provision for the restoration of the langfil site. The Municipality received an approval by the Office of The Environmenatl Affairs.	<u><b>353,053</b></u>	<u><b>141,777</b></u>

Total current provisions(Notes 3.1 + 3.2 + 3.3)	<u><b>6,823,069</b></u>	<u><b>4,685,543</b></u>
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**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

	2016 R	2015 R
<b>4 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Retentions with-held from contractors	10,622,092	9,390,040
Trade payables	6,410,931	1,279,657
Accrual for leave pay	7,578,979	6,577,072
Prepaid income	833,556	348,513
Other accruals	2,820,260	1,010,130
<b>Balance at the end of the year</b>	<b><u>28,265,817</u></b>	<b><u>18,605,412</u></b>
<b>Sundry payables</b>		
Interest on DBSA Loan (refer to note 2)	114,870	114,870
Petrol card	152	14,116
	<b><u>115,023</u></b>	<b><u>128,986</u></b>

The management of the Municipality is of the opinion that the carrying value of trade payables approximate their fair values.

The fair value of trade payables 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 Energy (DOE) - Electrification	3,243,559	-
Municipal Infrastructure Grant (MIG)	-	756,146
Local Economic Development (LED)	3,400,861	138,423
	<b><u>6,644,420</u></b>	<b><u>894,568</u></b>

See note 15 for reconciliation of grants from other spheres of government. These unspent conditional grants at year end are directly cash backed as required by the MFMA. 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 2016

	2016 R	2015 R
<b>6 INVESTMENT HELD AS A COLATERAL</b>		
Investment held as a colateral - FNB: RMB	<u>5,539,732</u>	<u>5,123,184</u>
<b>NB:</b> this is a financial asset - (see Note 2)		
<b>7 CASH AND CASH EQUIVALENTS</b>		
The Municipality has the following bank accounts:		
<b>7.1 Current Account (Primary Bank Account)</b>		
Bank statement balance at the beginning of the year	<u>1,134,499</u>	<u>659,683</u>
Bank statement balance at the end of the year	<u>1,234,570</u>	<u>1,134,499</u>
<b>7.2 Current and call accounts</b>		
FNB - 62224175712 - primary account	1,234,570	1,134,499
FNB - 62003235307 - call account	7,487,682	304,136
FNB - 62219877836 - call account	191,257	185,262
FNB - 74233699310 - call account	21,332,144	7,149,991
FNB - 62231474537 - call account	2,452,214	10,292,555
FNB - 62231473761 - call account	40,455,820	521,297
<b>Bank balances at the end of the year</b>	<u><b>73,153,686</b></u>	<u><b>19,587,740</b></u>
<b>Bank statement balance at the end of the year</b>	<b>73,153,686</b>	<b>19,587,740</b>
<b>7.3 Petty cash balance</b>	<u>35</u>	<u>35</u>
<b>Bank and cash balance(7.2 + 7.3)</b>	<u><u>73,153,721</u></u>	<u><u>19,587,775</u></u>
<b>Cash and cash equivalents</b>	<u><b>73,153,721</b></u>	<u><b>19,587,775</b></u>



INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2016

8 PROPERTY, PLANT AND EQUIPMENT  
 As at 30 June 2016

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	R	R	R	R	R	R	R	R	R
<b>Carrying values at 1 July 2015</b>	<b>55,835,213</b>	<b>355,402,582</b>	<b>31,655,276</b>	<b>876,900</b>	<b>861,071</b>	<b>3,144,378</b>	<b>3,970,352</b>	<b>1,043,352</b>	<b>1,450,296</b>	<b>454,239,419</b>
Cost	56,402,054	465,902,889	32,829,041	1,161,943	1,655,150	6,492,270	6,476,847	1,861,070	2,049,066	574,830,331
Disposals	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(566,840)	(110,500,307)	(1,173,766)	(285,043)	(794,080)	(3,347,892)	(2,506,495)	(817,718)	(598,770)	(120,590,912)
- Cost	(566,840)	(110,500,307)	(1,173,766)	(285,043)	(794,080)	(3,347,892)	(2,506,495)	(817,718)	(598,770)	(120,590,912)
- Correction of error	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	11,671,105	59,800,250	11,879,946	-	518,835	11,288,500	-	308,755	826,713	96,294,105
Revaluation	-	-	-	-	(70,212)	(773,900)	(886,790)	(164,951)	(67,698)	(1,963,552)
Capital asset impaired	-	-	-	-	(199,858)	(227,146)	(740,005)	(238,797)	(314,553)	(34,854,871)
Depreciation:	(441,540)	(30,192,676)	(2,168,060)	(332,236)	(260,182)	(759,981)	(876,063)	(391,936)	(380,602)	(35,803,276)
- based on cost	(441,540)	(30,192,676)	(2,168,060)	(332,236)	(260,182)	(759,981)	(876,063)	(391,936)	(380,602)	(35,803,276)
- based on impairment	-	-	-	-	60,325	532,836	136,058	153,139	66,048	948,405
Carrying value of disposals:	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
<b>Carrying values at 30 June 2016</b>	<b>67,064,778</b>	<b>385,010,156</b>	<b>41,367,162</b>	<b>544,664</b>	<b>1,109,836</b>	<b>13,431,832</b>	<b>2,343,558</b>	<b>948,359</b>	<b>1,894,757</b>	<b>513,715,102</b>
Cost	68,073,159	525,703,140	44,708,988	1,161,943	2,173,986	17,780,770	6,476,847	2,169,825	2,875,779	671,124,436
Revaluation	-	-	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	(70,212)	(773,900)	(886,790)	(164,951)	(67,698)	(1,963,552)
Accumulated depreciation:	(1,008,380)	(140,692,984)	(3,341,825)	(617,279)	(993,937)	(3,575,038)	(3,246,500)	(1,056,515)	(913,323)	(155,445,782)
- Current	(441,540)	(30,192,676)	(2,168,060)	(332,236)	(199,858)	(227,146)	(740,005)	(238,797)	(314,553)	(34,854,871)
- Opening	(566,840)	(110,500,307)	(1,173,766)	(285,043)	(794,080)	(3,347,892)	(2,506,495)	(817,718)	(598,770)	(120,590,912)

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

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

8 PROPERTY, PLANT AND EQUIPMENT, CONTINUED

As at 30 June 2015

8.1 Reconciliation of Carrying

Description	Land and Buildings	Infrastructure	Community Assets	Capitalised Leased assets - Printers	Furniture and Fittings	Plant and Equipment	Motor Vehicles	Computer Equipment	Other Assets	Total
<b>Carrying values at 1 July 2014</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
	<b>34,714,254</b>	<b>323,673,293</b>	<b>11,471,641</b>	<b>1,019,843</b>	<b>754,138</b>	<b>4,599,745</b>	<b>4,657,411</b>	<b>814,493</b>	<b>796,040</b>	<b>382,500,859</b>
Cost	34,964,554	407,206,166	11,796,162	1,317,438	1,510,745	7,492,220	7,237,132	1,516,912	1,134,771	474,176,100
Correction of error	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(250,300)	(83,532,873)	(324,521)	(297,595)	(756,607)	(2,892,475)	(2,579,721)	(702,419)	(338,731)	(91,675,242)
- Cost	(250,300)	(83,532,873)	(324,521)	(297,595)	(756,607)	(2,892,475)	(2,579,721)	(702,419)	(338,731)	(91,675,242)
- Transfers	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	12,964,934	58,696,723	21,032,880	-	561,760	-	886,790	914,474	989,999	96,047,559
Revaluation	10,035,066	-	-	-	-	-	-	-	-	10,035,066
Disposals	(1,562,500)	-	-	(155,495)	(417,355)	(999,950)	(1,647,075)	(570,315)	(75,704)	(5,428,394)
Depreciation:	(316,540)	(26,967,434)	(849,245)	12,552	(37,473)	(455,417)	73,226	(115,300)	(260,039)	(28,915,670)
- based on cost	(441,540)	(26,967,434)	(849,245)	(86,535)	(245,124)	(704,706)	(1,041,750)	(537,385)	(319,940)	(31,193,658)
- disposal	125,000	-	-	99,087	207,651	249,289	1,114,975	422,085	59,901	2,277,988
										-
<b>Carrying values at 30 June 2015</b>	<b>55,835,213</b>	<b>355,402,582</b>	<b>31,655,276</b>	<b>876,900</b>	<b>861,071</b>	<b>3,144,378</b>	<b>3,970,352</b>	<b>1,043,352</b>	<b>1,450,296</b>	<b>454,239,420</b>
Cost	47,929,488	465,902,889	32,829,041	1,317,438	2,072,505	7,492,220	8,123,922	2,431,385	2,124,770	570,223,660
Revaluation	10,035,066	-	-	-	-	-	-	-	-	10,035,066
Disposals	(1,562,500)	-	-	(155,495)	(417,355)	(999,950)	(1,647,075)	(570,315)	(75,704)	(5,428,394)
Accumulated depreciation:	(566,840)	(110,500,307)	(1,173,766)	(285,043)	(794,080)	(3,347,892)	(2,506,495)	(817,718)	(598,770)	(120,590,912)
- Cost	(316,540)	(26,967,434)	(849,245)	12,552	(37,473)	(455,417)	73,226	(115,300)	(260,039)	(28,915,670)
- Opening balance	(250,300)	(83,532,873)	(324,521)	(297,595)	(756,607)	(2,892,475)	(2,579,721)	(702,419)	(338,731)	(91,675,242)

INGQUZA HILL LOCAL MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 30 June 2016

8.2 Analysis of property plant and equipment as at

30 June 2016	Cost					Closing Balance	Accumulated Depreciation					Carrying Value
	Opening Balance	Additions	Impairment	Transfer to Completed	Revaluation		Opening Balance	Additions	Impairment	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	R	R
<b>Land and Buildings</b>												
Land and buildings	56,402,054	11,671,105	-	-	-	68,073,159	566,840	441,540	-	-	1,008,380	67,064,778
	<b>56,402,054</b>	<b>11,671,105</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68,073,159</b>	<b>566,840</b>	<b>441,540</b>	<b>-</b>	<b>-</b>	<b>1,008,380</b>	<b>67,064,778</b>
<b>Infrastructure</b>												
Infrastructure - Work in Prog	94,498,267	-		(5,471,008)		89,027,259	-	-	-			89,027,259
Street lights	-	632,031				632,031	-	115,134	-		115,134	516,897
High Masts	-	425,208				425,208	-	239,825	-		239,825	185,383
Access Roads	371,404,622	58,743,012		5,471,008		435,618,642	110,500,307	29,837,717	-		140,338,025	295,280,618
	<b>465,902,889</b>	<b>59,800,250</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>525,703,140</b>	<b>110,500,307</b>	<b>30,192,676</b>	<b>-</b>	<b>-</b>	<b>140,692,984</b>	<b>385,010,156</b>
<b>Community assets</b>												
Graveyard	62,049					62,049	32,705	2,692	-		35,397	26,652
Sport field	4,138,472	3,172,928				7,311,400	75,966	724,450			800,416	6,510,984
Community Halls	28,628,520	8,707,019				37,335,539	1,065,095	1,440,918	-		2,506,013	34,829,526
	<b>32,829,041</b>	<b>11,879,946</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,708,988</b>	<b>1,173,766</b>	<b>2,168,060</b>	<b>-</b>	<b>-</b>	<b>3,341,825</b>	<b>41,367,162</b>
<b>Leased assets</b>												
Pinting Machine	1,161,943	-	-	-	-	1,161,943	285,043	332,236			617,279	544,664
<b>Other assets</b>												
Landfill site	401,107		64,894			336,212	257,113	48,864	64,685		241,292	94,920
Fire arms	25,231	-				25,231	6,782	2,530			9,312	15,920
Furniture and fittings	1,655,150	518,835	70,212	-		2,103,773	794,080	260,182	60,325		993,937	1,109,836
Plant and equipment	6,492,270	11,288,500	773,900			17,006,870	3,347,892	759,981	532,836		3,575,038	13,431,832
Motor vehicles	6,476,847	-	886,790			5,590,057	2,506,495	876,063	136,058		3,246,500	2,343,558
Mobile office	453,000	-				453,000	92,437	30,283			122,720	330,280
Tools, arms & mobile office	1,169,728	826,713	2,804			1,993,637	242,438	298,925	1,363		541,325	1,452,312
Computer equipment	1,861,070	308,755	164,951			2,004,875	817,718	391,936	153,139		1,056,515	948,359
	<b>18,534,404</b>	<b>12,942,803</b>	<b>1,963,552</b>	<b>-</b>	<b>-</b>	<b>29,513,656</b>	<b>8,064,955</b>	<b>2,668,764</b>	<b>948,405</b>	<b>-</b>	<b>9,786,639</b>	<b>19,727,017</b>
	<b>574,830,331</b>	<b>96,294,105</b>	<b>1,963,552</b>	<b>-</b>	<b>-</b>	<b>669,160,884</b>	<b>120,590,912</b>	<b>35,803,276</b>	<b>948,405</b>	<b>-</b>	<b>155,447,107</b>	<b>513,713,777</b>

**NB:** Details for the revaluation amounts are stated in note 10, there are no items of property, plant and equipment that are pledged as security

30 June 2015												Carrying Value
		Cost	Disposal					Accumulated Depreciation				
	Opening Balance	Additions /		Transfer / Completed		Closing Balance	Opening Balance	Additions	Disposals	Correction	Closing Balance	
R	R	R	R	R	R	R	R	R	R	R	R	
<b>Land and Buildings</b>												
Investment property	-	-		-	-	-	-	-	-		-	-
Land and buildings	34,964,554	12,964,934	1,562,500	-	10,035,066	56,402,054	250,300	441,540	125,000		566,840	55,835,213
	<b>34,964,554</b>	<b>12,964,934</b>	<b>1,562,500</b>	<b>-</b>	<b>10,035,066</b>	<b>56,402,054</b>	<b>250,300</b>	<b>441,540</b>	<b>125,000</b>		<b>566,840</b>	<b>55,835,213</b>
<b>Infrastructure</b>												
Street Lights						-	-	-	-		-	-
Infrastructure - Work in Prog	81,075,352	13,422,915		-	-	94,498,267	-	-	-		-	94,498,267
Access Roads	326,130,814	45,273,808		-	-	371,404,622	83,532,873	26,967,434	-	-	110,500,307	260,904,315
	<b>407,206,166</b>	<b>58,696,723</b>		<b>-</b>	<b>-</b>	<b>465,902,889</b>	<b>83,532,873</b>	<b>26,967,434</b>	<b>-</b>	<b>-</b>	<b>110,500,307</b>	<b>355,402,582</b>
<b>Community assets</b>												
Graveyard	62,049	-				62,049	24,731	7,974	-		32,705	29,344
Recreation grounds	-	4,138,472				4,138,472	-	75,966	-		75,966	4,062,506
Community Halls	11,734,113	16,894,408				28,628,520	299,790	765,305	-		1,065,095	27,563,426
	<b>11,796,162</b>	<b>21,032,880</b>		<b>-</b>	<b>-</b>	<b>32,829,041</b>	<b>324,521</b>	<b>849,245</b>	<b>-</b>		<b>1,173,766</b>	<b>31,655,276</b>
<b>Leased assets</b>												
Printing machine	1,317,438	-	155,495	-	-	1,161,943	297,595	86,535	99,087	-	285,043	876,900
<b>Other assets</b>												
Landfill site	401,107					401,107	208,155	48,958			257,113	143,993
Fire arms	27,953	-	2,721			25,231	4,596	2,727	542		6,782	18,450
Furniture and fittings	1,510,745	561,760	417,355			1,655,150	756,607	245,124	207,651		794,080	861,071
Plant and equipment	7,492,220	-	999,950			6,492,270	2,892,475	704,706	249,289		3,347,892	3,144,378
Motor vehicles	7,237,132	886,790	1,647,075			6,476,847	2,579,721	1,041,750	1,114,975		2,506,495	3,970,352
Mobile office	453,000	-	-			453,000	62,237	30,200			92,437	360,563
Tools and equipment	252,712	989,999	72,983			1,169,728	63,743	238,055	59,359		242,438	927,289
Computer equipment	1,516,912	914,474	570,315			1,861,070	702,419	537,385	422,085		817,718	1,043,352
	<b>18,891,780</b>	<b>3,353,023</b>	<b>3,710,399</b>	<b>-</b>	<b>-</b>	<b>18,534,404</b>	<b>7,269,952</b>	<b>2,848,904</b>	<b>2,053,901</b>	<b>-</b>	<b>8,064,955</b>	<b>10,469,448</b>
	<b>474,176,100</b>	<b>96,047,559</b>	<b>5,428,394</b>	<b>0</b>	<b>10,035,066</b>	<b>574,830,331</b>	<b>91,675,242</b>	<b>31,193,658</b>	<b>2,277,988</b>	<b>-</b>	<b>120,590,912</b>	<b>454,239,420</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**9 LONG SERVICE AWARDS**

**9.1 Current portion of long service award**

Short term portion

2016 R	2015 R
<u>1,245,638</u>	<u>1,154,179</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.

Current portion of long service awards

Long service awards

1,245,638	1,154,179
<u>4,272,044</u>	<u>3,868,359</u>
<u><b>5,517,682</b></u>	<u><b>5,022,538</b></u>

**9.2 Reconciliation of long service award**

Opening balance

Total annual expense

Actuarial loss

Unfunded liability

5,022,538	3,977,596
379,657	774,522
115,487	270,420
<u><b>5,517,682</b></u>	<u><b>5,022,538</b></u>

**9.3 Assumptions used at the reporting date**

Discount rates used

Number of eligible employees

Expected remaining working lifetime

Average retirement age

Salary weighted annual average

General salary inflation

7.98%	8.51%
246	241
21.8 years	22.1 years
65	65
7%	7.4
7.08	7.08

NB: Qualifications and methodology attached in the file. This valuation is effective from the 01 July 2016 and the next valuation will be done on 30 June 2017.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**10 INVESTMENT PROPERTY CARRIED AT FAIR VALUE**

<b>10.1 Reconciliation of fair value</b>	<b>Investment property R</b>	<b>Total R</b>
<b>as at 1 July 2015</b>	<b>459,341,100</b>	<b>459,341,100</b>
Transferred to PPE	(19,301,105)	(19,301,105)
Transferred to inventory	(3,185,000)	(3,185,000)
Gain on fair value adjustment	(318,365)	(318,365)
Add new lease	3,430,000	-
<b>as at 30 June 2016</b>	<b><u>439,966,630</u></b>	<b><u>439,966,630</u></b>
<b>2015</b>		
<b>as at 1 July 2014</b>	<b>459,341,100</b>	<b>459,341,100</b>
Transferred to inventory	(2,770,049)	(2,770,049)
Transferred to PPE	(245,636)	(245,636)
Gain on fair value adjustment	3,015,685	3,015,685
<b>as at 30 June 2015</b>	<b><u>459,341,100</u></b>	<b><u>459,341,100</u></b>
<b>10.2 Investment property pledged as security</b>	-	-
None and no contractual obligations		
<b>10.3 Details of investment property</b>	<b>2016 R</b>	<b>2015 R</b>
Land held for an undetermined use	423,880,530	443,500,000
Land under operating lease	16,086,100	15,841,100
	<b><u>439,966,630</u></b>	<b><u>459,341,100</u></b>

**10.4 Details of valuation**

The effective date of the fair value adjustment was 1 July 2015. Revaluations were performed by an independent valuer, Mr Clyde, of Geospatial. Geospatial 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.

<b>10.5 Amounts recognised in surplus or deficit for the year.</b>	<b>2016 R</b>	<b>2015 R</b>
Fair value adjustments	<u>(318,365)</u>	<u>3,015,685</u>

NB: These are the fair value adjustment figures as determined by the Municipal valuer. These valuations were done on 30 June 2016

INGQUZA HILL LOCAL MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 30 June 2016

11 RECEIVABLES

11.1 Consumer receivables from non-exchange transactions

	<u>Gross balance</u>	<u>Provision for bad debts</u>	<u>Net balances</u>
For the year ended 30 June 2016	R	R	R
Business	24,219,312	(23,734,926)	484,386
Domestic	15,805,793	(15,489,677)	316,116
Government	10,639,104	-	10,639,104
Debtor's credit balances	-	-	-
	<u>50,664,209</u>	<u>(39,224,603)</u>	<u>11,439,606</u>

		Refuse	Rates
<b>Discounting effect</b>			
Consumer receivables	50,664,209	representin	representin
Finance income	(787,905)		
Unearned finance charges	(2,769,123)		
Provision for bad debts	(38,436,698)	o	o
<b>Receivables at fair value</b>	<u>8,670,483</u>	<b>1,040,458</b>	<b>7,630,025</b>

As at 30 June 2015

Receivables	43,373,299	(34,556,021)	8,817,278
	<u>43,373,299</u>	<u>(34,556,021)</u>	<u>8,817,278</u>
Un-earned interest 2015			(3,986,995)
<b>Adjusted balance</b>			<u>4,830,283</u>

	2016 R	2015 R
<b>Refuse and Rates: Ageing</b>		
0 - 30 days (current)	3,407,499	17,898
31 - 60 days	54,968	65,551
61 - 90 days	59,765	90,333
91 -120 days	76,323	359,583
121 - 150days	71,200	72,214
151 - 180 days	72,749	77,768
181 - 210 days	72,045	79,163
211 - 240 days	67,470	73,220
241 - 270 days	7,586	70,361
271 - 300 days	77,066	71,660
301 - 330 days	82,896	72,688
331 - 360 days	9,020,471	8,688,255
+361 days	37,594,171	33,634,604
<b>Total</b>	<u>50,664,209</u>	<u>43,373,299</u>

Summary of Receivables by Customer Classification

In terms of the financial instruments classification (Note 33), management has classified consumer and sundry receivables as financial assets at amortised cost for the purposes of assessing credit risk (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 Sundry receivables from exchange transactions

Refuse	1,040,458	553,861
Sundry receivables from exchange transactions	12,915,390	3,340,563
	<u>13,955,848</u>	<u>3,894,424</u>

12 VALUE ADDED TAX

<u>7,333,560</u>	<u>3,740,026</u>
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**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

	Note	2016 R	2015 R
<b>13 PROPERTY RATES</b>			
<b><u>Actual</u></b>			
Rates assessment		20,419,684	16,814,774.01
Finance charges		(752,905)	(713,767)
<b>Total property rates</b>		<b><u>19,666,779</u></b>	<b><u>16,101,007</u></b>
<b><u>Property valuations</u></b>			
Rates		2,065,474,150	1,815,615,804
<b>Total property valuations</b>		<b><u>2,065,474,150</u></b>	<b><u>1,815,615,804</u></b>
<p>Valuations on land and buildings are performed every four years. The last valuation came into effect on 01 July 2015. 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>			
<b>14 SERVICE CHARGES</b>			
Refuse charges		957,246	299,000
Finance charges		(34,999)	(35,494)
		<b><u>922,246</u></b>	<b><u>263,505</u></b>
<b>15 GOVERNMENT GRANTS AND SUBSIDIES</b>			
<b>National Transfers</b>			
Equitable share	15.1	200,197,000	152,692,000
Department of Energy (DOE) - Electrification	15.2	14,756,441	16,387,417
Municipal Systems Improvement Grant	15.3	930,000	934,000
Municipal Finance Management Grant	15.4	1,600,000	1,600,000
Municipal Infrastructure Grant	15.5	53,460,145	65,688,324
Expanded Public Works Programme Grant	15.8	1,036,000	1,000,000
<b>Provincial Transfers</b>			
Library services	15.6	724,000	724,000
Local Economic Development Projects	15.7	237,562	90,852
Independent Electoral Commission Grant		1,000,000	-
<b>Total government grants and subsidies</b>		<b><u>273,941,148</u></b>	<b><u>239,116,593</u></b>

**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 an amount of R 756 000.

There is no reconciliation for the IEC Grant because it is a once off grant for a special purpose which is maintenance of some gravel roads leading to some identified voting stations that were very bad.



**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

	2016 R	2015 R
<b>15 GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>15.1 Equitable share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. As part of this service, the municipality provides free basic electricity through a formalised mechanism through Eskom.	<b>200,197,000</b>	<b>152,692,000</b>
<b>15.2 Department of Energy (DOE) - Electrification</b>		
Balance unspent at the beginning of the year	-	11,387,417
Current year receipts	18,000,000	5,000,000
Conditions met - transferred to revenue	(14,756,441)	(16,387,417)
<b>Conditions not met - transferred to liability</b>	<b>3,243,559</b>	<b>-</b>
This is an electrification support grant. Conditions yet to be met are that the municipality must still utilise this funding for electrification expenditure purposes. This expenditure is only for wards electrification		
<b>15.3 Municipal Systems Improvement Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
<b>Conditions not met - transferred to liability</b>	<b>-</b>	<b>-</b>
This grant is meant to help with the improvement and upgrading of municipal systems and is only spent on that		
<b>15.4 Municipal Finance Management Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	1,600,000	1,600,000
Conditions met - transferred to revenue	(1,600,000)	(1,600,000)
<b>Conditions not met - transferred to liability</b>	<b>-</b>	<b>-</b>
This grant is spent on capacity building on BTO officials and S57 managers and Internship		
<b>15.5 Municipal Infrastructure Grant</b>		
Balance unspent at the beginning of the year	756,146	850,470
Current year receipts	65,594,000	65,594,000
Conditions met - transferred to revenue	(53,460,145)	(65,688,324)
<b>Conditions not met - transferred to liability</b>	<b>-</b>	<b>756,146</b>
This is an infrastructure support grant. Conditions yet to be met are that the municipality must still utilise this funding for Capital expenditure purposes, this grant is only spent on road construction and community halls		
<b>15.6 Library Services</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	724,000	724,000
Conditions met - transferred to revenue	(724,000)	(724,000)
<b>Conditions not met - transferred to liability</b>	<b>-</b>	<b>-</b>
This was spent on libraries and running of the libraries in this period		
<b>15.7 Local Economic Development Projects</b>		
Balance unspent at the beginning of the year	138,423	229,275
Current year receipts	3,500,000	-
Conditions met - transferred to revenue	(237,562)	(90,852)
<b>Conditions not met - transferred to liability</b>	<b>3,400,861</b>	<b>138,423</b>
Conditions to be met by building hawker stalls		
<b>15.8 Expanded Public Works Programme Grant</b>		
Balance spent at the beginning of the year	-	-
Current year receipts	1,036,000	1,000,000
Conditions met - transferred to revenue	(1,036,000)	(1,000,000)
<b>Conditions met - transferred to revenue</b>	<b>-</b>	<b>-</b>
The amount recognised as revenue is limited to the funding as per DoRA R 1 036 000 and not the whole expenditure incurred		

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

16 OTHER INCOME	2016 R	2015 R
Advertising fees rental	234,519	234,181
Commission	37,687	44,113
Funeral fees	27,137	24,488
Insurance refund	647,712	-
LG SETA	269,757	185,379
Natis agency fees	2,918,311	2,749,365
Plan fees	206,946	301,991
Plant hire	6,993,858	4,561,200
Pound fees	4,021	15,277
Rezoning and sub-division	11,432	1,779
Sale of sites	21,491	3,074,724
Sundry income	18,670	140,570
Tender document	116,705	178,877
	<u><u>11,508,246</u></u>	<u><u>11,511,946</u></u>

NB: These are all revenues from non exchange transactions that were earned, measured and recognised by the Municipality, none of these revenues are pledged as a security to other party.

Plant hire - represents the revenue earned by the Municipality through the projects that are done inhouse which are funded by the Municipal Infrastructure Grant.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

	2016 R	2015 R
<b>17 TRADE AND OTHER PAYABLES FROM NON EXCHANGE TRANSACTIONS</b>		
Workmen's Compensation Fund	459,463	-
	<u>459,463</u>	<u>-</u>
<b>18 EMPLOYEE RELATED COSTS</b>		
Salaries and wages	57,347,028	50,813,634
Contributions for UIF, provident, medical aid, etc	14,393,030	12,452,941
Travel, motor car, accommodation, subsistence	5,853,718	5,559,454
Overtime payments	3,783,319	3,367,674
Housing benefits and allowances	1,765,105	1,549,001
Employee provisions	1,608,916	2,210,101
<b>Total employee related costs</b>	<u>84,751,116</u>	<u>75,952,806</u>
<b>Remuneration of the Municipal Manager</b>		
Annual remuneration	1,057,226	988,986
Car allowance	191,065	178,732
Contribution to UIF and other payments	25,475	269,808
	<u>1,273,766</u>	<u>1,437,526</u>
<b>Remuneration of the Chief Finance Officer</b>		
Annual remuneration	920,296	860,894
Car allowance	151,578	141,794
Contribution to UIF and other payments	10,827	126,115
	<u>1,082,701</u>	<u>1,128,804</u>
<b>Remuneration of the Corporate Services Director</b>		
Annual remuneration	691,263	840,638
Car allowance	138,044	172,179
Contribution to UIF and other payments	147,678	146,625
	<u>976,985</u>	<u>1,159,442</u>
<b>Remuneration of the Technical Services Director</b>		
Annual remuneration	812,024	759,611
Car allowance	194,886	182,307
Contribution to UIF and other payments	75,788	160,117
	<u>1,082,699</u>	<u>1,102,035</u>
<b>Remuneration of the Community Services Director</b>		
Annual remuneration	338,357	785,322
Car allowance		139,262
Contribution to UIF and other payments	115,987	9,284
	<u>454,344</u>	<u>933,869</u>
<b>Remuneration of the Strategic Planning Director</b>		
Annual remuneration	833,964	780,135
Car allowance	162,405	151,923
Contribution to UIF and other payments	86,332	196,747
	<u>1,082,701</u>	<u>1,128,804</u>

INGQUZA HILL LOCAL MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 30 June 2016

	Note	2016 R	2015 R
<b>19 REMUNERATION OF COUNCILLORS</b>			
<b>Mayor</b>			
Annual remuneration		553,509	546,497
Allowances, contribution to UIF and related items		225,371	192,866
		<b>778,880</b>	<b>739,363</b>
<b>Speaker</b>			
Annual remuneration		454,808	437,197
Allowances, contribution to UIF and related items		172,471	158,467
		<b>627,278</b>	<b>595,664</b>
<b>Chief Whip</b>			
Annual remuneration		426,383	409,873
Allowances, contribution to UIF and related items		162,996	149,867
		<b>589,378</b>	<b>559,740</b>
<b>Exco members</b>			
Annual remuneration		2,120,634	2,084,280
Allowances, contribution to UIF and related items		894,690	858,651
		<b>3,015,324</b>	<b>2,942,931</b>
<b>Other Councillors</b>			
Annual remuneration		9,181,314	8,741,749
Allowances, contribution to UIF and related items		3,353,476	3,077,815
		<b>12,534,790</b>	<b>11,819,564</b>
<b>Traditional leaders</b>		<b>279,000</b>	<b>122,000</b>
<b>Total remuneration for councillors</b>	36	<b>17,824,651</b>	<b>16,779,262</b>
<b>NB:</b> full list of related party transactions as per GRAP standard is disclosed on <b>Note 36</b>			
<b>20 INTEREST PAID</b>			
Long term liabilities - DBSA	37	462,187	460,857
Finance lease	39	115,869	76,145
<b>Total interest on external borrowings</b>		<b>578,056</b>	<b>537,002</b>
<b>21 REVALUATION AND FAIR VALUE SURPLUS</b>			
Fair value adjustment on investment	10.1	(313,675)	3,015,685
Revaluation on land	8.2	-	1,562,500
		<b>-313,675</b>	<b>4,578,185</b>
<b>22 COUNCILLORS WITH ACCOUNTS IN ARREARS</b>			
1. C N Yako		202,105	172,432
2. K Mviko		54,444	62,469
<b>TOTAL</b>		<b>256,549</b>	<b>234,901</b>

**NB:** These are the Councillors with accounts in arrears for more than 90 days.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

23 GENERAL EXPENDITURE	2016 R	2015 R
Accounting and audit fees	6,418,066	6,860,516
Advertising fees	265,988	279,905
Allowance ward admin	3,739,484	2,939,970
Arts and culture	158,491	44,000
Auction expense	-	24,662
Audit committee costs	229,040	208,965
Bank charges	51,182	87,116
Furniture halls	537,470	-
Buildings	14,900	3,296,590
Catering- meetings	93,384	145,996
Cleaning and greening	16,773	19,074
Cleaning material	157,932	95,519
Communication strategy	270,040	272,016
Community halls	4,800	2,936,835
Computer hardware	16,951	343,781
Consultation & professional fees	52,016	150,878
Council functions	2,846,266	3,008,479
Crime prevention	65,725	109,790
Data lines	22,105	22,879
Disaster management	-	19,300
Employee assistance programme	48,208	87,158
Early childhood development	69,906	69,636
Electricity and water purchase	79,297	214,416
Electricity infrastructure	893,472	-
Equitable share	1,083,661	465,018
Expanded Public Works Programme	2,617,020	1,735,240
Experiential trainees	251,000	214,000
Finance management grant expenditure - Capacity building	1,699,762	1,883,720
Flagstaff paving	112,372	95,744
Furniture	-164,247	169,049
Health services	144,907	18,750
Records management	15,700	-
HIV & Aids	64,800	85,820
Hotel accomodation	663,300	991,245
IDP development	661,247	616,891
Insurance: external	831,867	905,947
Inter-governmental relations	11,290	17,485
Internal audit	203,545	41,874
Labour relations	35,011	3,558
Hawker stalls	6,960	-
Legal fees	1,185,727	858,509
Library services	82,454	140,317
Licence fees	83,759	93,264
Local economic development	1,556,210	6,964,916
Mobile office	99,850	4,332
Motor vehicles	-	6,320
Munsoft and payday	658,620	831,584
Parks, pound and cemeteries	15,827	50,500
Plant unit	6,275,831	13,581,827
Postage	1,016	1,427
Printing and stationery	437,706	3,797,713
Property valuation	401,609	788,057
Protective clothing	128,886	187,272
Public participation	107,097	60,984
Re-allocation costs	66,623	2,410
Refuse bags	657,584	602,384
Registering authority	191,810	374,685
Rent- office equipment	220,054	161,167
Road construction	935,039	-569,923
Special programmes	1,437,591	1,481,935
Sport and recreation	179,958	64,218
Sport fields	-	1,428,010
Subsistence and travelling	1,453,046	1,154,064
Sundry expense	955	1,957
Support to traditional leaders	33,550	48,553
Survey and planning	588,768	635,311
Team buiding	427,862	288,838
Telephone	3,087,640	3,242,953
Tourism	437,331	885,667
Towing services	26,310	27,745
Traffic law enforcement	33,381	132,586
Training	1,029,080	769,371
Training- accomodation	1,121,174	650,161
Beach management	226,981	-
Vehicle hire	1,791,466	1,043,938
Vehicle- fuel & oil	3,250,809	3,151,897
Vodacom	6,023	272,283
Whippery expense	59,048	43,087
Waste management	9,000	-
Landfil sites	211,275	-
	<b>52,806,644</b>	<b>71,742,140</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2016**

		<b>2016</b>	<b>2015</b>
		<b>R</b>	<b>R</b>
<b>24 CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:			
Bank balances and cash	7.3	73,153,721	19,587,775
Petrol card	4	(152)	(14,116)
<b>Total cash and cash equivalents</b>		<b><u>73,153,569</u></b>	<b><u>19,573,659</u></b>

**NB:** The Municipality did not have any overdraft or any accounts that were overdrawn as at 30 June 2016. Only the petrol card and is disclosed under payables in note 4.

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

**25.1 Irregular expenditure**

Reconciliation of irregular expenditure:

Opening balance		-	
Irregular expenditure current year - adverts not in the notice board			
Irregular expenditure current year		-	-
Approved by Council or condoned		-	
Transfer to receivables for recovery		-	-
<b>Total irregular expenditure for the year</b>		<b><u>-</u></b>	<b><u>-</u></b>

Incident	Disciplinary steps / criminal proceedings

**NB:** There are no identified instances and or transactions that fall within the definition of irregular expenditure. The management is reviewing all the transactions and SCM activities and report to all the oversight structures of the Municipality through the monthly reports.

Previous years instances are no longer reported in this paragraph

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2016

	2016 R	2015 R
<b>UNAUTHORISED, IRREGULAR, FRUITLESS AND 25 WASTEFULL EXPENDITURE (Continued)</b>		
<b>25.2 Fruitless and wasteful expenditure</b>		
Reconciliation of fruitless and wasteful expenditure:		
Opening balance	-	-
Fruitless and wasteful expenditure current year	-	-
Condoned or written off by Council	-	-
Transfer to receivables for recovery	-	-
Fruitless and wasteful expenditure awaiting condonement	<u>-</u>	<u>-</u>

**NB:** The management has considered all the expenditure that has been incurred during the year and the management believes that there were no instances or transactions that maybe classified as fruitless and wasteful expenditure

**26 INVENTORY**

Stationery and land held for sale		
Stationery	388,227	370,810
Land held for sale	15,068,111	16,255,756
Closing balance	<u>15,456,338</u>	<u>16,626,565</u>
Land held for sale	16,255,756	13,588,160
Movements	(1,187,644)	2,667,595
Closing balance	<u>15,068,111</u>	<u>16,255,756</u>
Opening balance - stationery	370,810	245,855
Phurchases during the year	429,646	249,910
Consumed during the year	(412,229)	(124,955)
Closing balance	<u>388,227</u>	<u>370,810</u>

**NB:** 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 2016

		2016 R	2015 R
<b>27 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>			
<b>27.1 Audit fees</b>			
Current year audit fee		3,293,268	3,883,598
Amount paid - current year		<u>(3,293,268)</u>	<u>(3,883,598)</u>
<b>Balance unpaid (included in payables)</b>		<u><u>-</u></u>	<u><u>-</u></u>
<b>27.2 PAYE, UIF &amp; SDL</b>			
Current year taxes		15,571,460.01	14,699,892
Amount paid - current year		<u>(15,571,460.01)</u>	<u>(14,699,892)</u>
<b>Balance unpaid (included in payables)</b>		<u><u>-</u></u>	<u><u>-</u></u>
<b>27.3 Medical aid</b>			
Current year taxes		3,298,977	5,502,454
Amount paid - current year		<u>(3,298,977)</u>	<u>(5,502,454)</u>
<b>Balance unpaid (included in payables)</b>		<u><u>-</u></u>	<u><u>-</u></u>
<b>27.4 Provident and pension funds</b>			
Current year taxes		8,932,207	8,208,988
Amount paid - current year		<u>(8,932,207)</u>	<u>(8,208,988)</u>
<b>Balance unpaid (included in payables)</b>		<u><u>-</u></u>	<u><u>-</u></u>
<b>28 CONTINGENT LIABILITIES</b>		<b>Amount</b>	<b>Amount</b>
	<b><u>Sub Note</u></b>	<b><u>claimed</u></b>	<b><u>claimed</u></b>
Litigations that are still pending	(a)	2,702,034	2,463,793
Landfill site	(b)	-	121,404
All cases against the Municipality	(c)	<u>4,211,796</u>	<u>4,411,599</u>
		<u><b>6,913,830</b></u>	<u><b>6,996,796</b></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) Both sites are now licensed, therefore no longer a contingent

(c) Cases against the Municipality, by the people that are suing the Municipality for issues relating to land invasion



**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>29 CASH GENERATED BY OPERATIONS</b>		
Un-adjusted surplus for the year	65,932,899.23	26,678,197.51
Adjustment for:		
-Depreciation	35,804,601	31,228,867
-Impairments	6,487,077	2,213,635
-Interest earned	(6,404,636)	(3,206,549)
-Gain on fair value adjustment	(313,675)	(3,015,685)
-Interest paid	578,056	537,002
<b>Operating surplus before working capital changes:</b>	<b>102,084,322</b>	<b>54,435,468</b>
Inventories	1,170,227	610,182
Consumer receivables from exchange transactions	(2,799,742)	(2,126,136)
Sundry receivables from exchange transactions	(10,061,424)	8,233,527
Trade and other payables from exchange transactions	12,316,012	7,270,907
Long service awards	403,685	665,285
VAT receivables	(3,593,533)	(2,554,027)
Unspent conditional grants and receipts	5,749,851	(11,572,593)
<b>Cash generated by operations</b>	<b>105,269,398</b>	<b>54,962,612</b>

**30 ASSUMPTIONS**

**30.1 Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a 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 2016/17 is R 195 945 000 and R 208 426 000 for 2017/18
2. Debtors collection - to fully comply with the credit control and debt collection policy the Municipality procured 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 ongoing 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 reporting date**

in the management meetings and through other sources such as media reports, announcements by the CoGTA and gazettes by CoGTA, the whole Council, Executive committee and s79 committees of IHLM has been changed due to elections held on 3 August 2016.

**31 REPAIRS AND MAINTENANCE**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Repairs and maintenance	15,165,502	22,246,172

NB: Repairs and maintenance programme started very late last year due to other delays that couldn't be avoided by the Municipality. These repairs are mainly gravel road repairs and a little bit of buildings, vehicles and computers - they are all not enhancing the capacity of the respective assets and as such are expensed.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

			2016	
32 CORRECTION OF PRIOR PERIOD ERROR				R
32.1 Prior year adjustments	Effect	Sub-note	Period	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	<b>Trade payables from exchange transactions</b>	a)	2014/15	1,324,984
	Reduction of payables			<u>(45,327)</u>
	Restated balance			<u>1,279,657</u>
	<b>Trade payables from exchange transactions</b>	b)	2014/15	2,058,020
	Other accruals			<u>(1,047,890)</u>
	Restated balance			<u>1,010,130</u>
	<b>Lease rentals - operating</b>	c)	2014/15	231,099
	Increase			<u>46,614</u>
	Restated balance			<u>277,713</u>
	<b>Employee related costs</b>	d)	2014/15	75,923,949
	Increase			<u>28,857</u>
	Restated balance			<u>75,952,806</u>
	<b>General expenditure</b>	e)	2014/15	72,731,049
	Decrease			<u>(988,909)</u>
	Restated balance			<u>71,742,140</u>
	<b>Depreciation</b>	f)	2014/15	31,228,867
	Decrease			<u>(35,209)</u>
	Restated balance			<u>31,193,658</u>
	<b>Sundry debtors</b>	g)	2014/15	3,841,284
	Increase			<u>53,140</u>
	Restated balance			<u>3,894,424</u>
	<b>VAT Receivable</b>	h)	2014/15	12,628,146
	Reduction of receivables			<u>(8,888,120)</u>
	Restated balance			<u>3,740,026</u>
	<b>Inventory</b>	i)	2014/15	12,977,978
	Increase			<u>3,648,587</u>
	Restated balance			<u>16,626,565</u>
	<b>Intangible assets</b>	j)	2014/15	87,250
	Decrease			<u>(87,250)</u>
	Restated balance			<u>-</u>
	<b>Accumulated depreciation</b>	k)	2014/15	125,147,796
	Decrease			<u>(4,556,884)</u>
	Restated balance			<u>120,590,912</u>

**32.2 Effect of change and details of the changes**

- a) This is due to the reversal of the trade payables that were raised in the previous year
- b) This is due to the reversal of the trade payables that were raised in the previous year
- c) Raising of the lease that was renewed this year and backdated to last year
- d) Leave provision that was not raised last year for the deceased employee
- e) This is the effect of a and b above
- f) Correction of the error that was made on disposed assets
- g) This is the effect of c above
- h) This is the effect of a, b and c above
- i) Correction of an error in the recording of inventory
- j) Writing off of the intangible asset that was incorrectly recognised
- k) Correction of previously incorrectly calculated accumulated depreciation

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**33 FINANCIAL INSTRUMENTS**

**33.1 Financial assets**

30 June 2016	Consumer receivables	Sundry receivables	Investment held as collateral	cash and cash equivalents	Total
	R	R	R	R	R
Opening balance	4,830,283	3,894,424	5,123,184	19,587,775	33,435,666
Net gains or losses recognised directly in net assets					-
Interest income	-	-	416,548	-	416,548
Impairments					-
Net other movements	2,799,742	10,061,424	-	53,565,946	66,427,112
<b>Closing balance</b>	<b>7,630,025</b>	<b>13,955,848</b>	<b>5,539,732</b>	<b>73,153,721</b>	<b>100,279,326</b>

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

30 June 2015	Consumer receivables	Sundry receivables	Investment held as collateral	cash and cash equivalents	Total
	R	R	R	R	R
Opening balance	2,704,147	12,074,812	4,738,950	29,778,831	49,296,740
Movements Details	2,126,136	(8,180,387)	-	-	(6,054,251)
Interest income	-	-	384,234	-	384,234
Net other movements	-	-	-	(10,191,057)	(10,191,057)
<b>Closing balance</b>	<b>4,830,283</b>	<b>3,894,424</b>	<b>5,123,184</b>	<b>19,587,775</b>	<b>33,435,666</b>

Interest income include:

Interest on financial assets that are carried at amortised cost  
Subsequent interest on impaired financial assets

Disclosed in the Statement of Financial Performance	2016	2015
	R	R
Fee income	<b>787,905</b>	<b>749,262</b>
On financial assets/liabilities carried at amortised cost	787,905	749,262
Trust and/or other fiduciary activities	-	-
Other fee income	-	-
<b>Disclosed in the Statement of Financial Position</b>	<b>107,612,885</b>	<b>37,175,692</b>

Consumer receivables from non-exchange transactions	7,630,025	4,830,283
Sundry receivables from exchange transactions	13,955,848	3,894,424
Investment held as a collateral	5,539,732	5,123,184
VAT	7,333,560	3,740,026
Cash and cash equivalents	73,153,721	19,587,775

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**33.2 Financial liabilities**

	Financial instruments at cost	Financial instruments at cost	Financial liabilities at fair value	Total
30 June 2016	R	R	R	R
Opening balance	894,568	18,605,412	6,940,710	26,440,691
Interest expense	-	-	114,870	114,870
Net other movements	5,749,851	9,660,405	-	15,410,257
<b>Closing balance</b>	<b>6,644,420</b>	<b>28,265,817</b>	<b>6,940,711</b>	<b>41,965,818</b>

Interest expense include:

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

-

	Financial instruments at cost	Financial instruments at cost	Financial liabilities at fair value	Total
30 June 2015	R	R	R	R
Opening balance	12,467,162	13,284,042	6,825,840	32,577,043
Interest expense	-	-	114,870	114,870
Net other movements	(11,572,593)	5,321,370	-	(6,251,223)
<b>Closing balance</b>	<b>894,568</b>	<b>18,605,412</b>	<b>6,940,710</b>	<b>26,440,691</b>

Interest expense

includes:

Interest on financial liabilities that are carried at amortised cost

	2016	2015
	R	R
<b>Disclosed in the Statement of Financial Performance</b>		
Fee expenses	462,187	460,857
On financial assets/liabilities carried at amortised cost	-	-
Trust and/or other fiduciary activities	-	-
Other fee expenses	462,187	460,857
<b>Disclosed in the Statement of Financial Position</b>		
Categories of financial liabilities		
Unspent conditional grants and receipts	6,644,420	894,568
Trade and other payables from exchange transactions	28,265,817	18,605,412
Long term loan - DBSA	6,825,840	6,825,840
	<b>41,736,077</b>	<b>26,325,821</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**33.3 Qualitative disclosure**

Key assumptions

**Credit risk**

Ingquza Hill Local Municipality has a very serious credit risk exposure because of the debtors that are not paying for rates, taxes and 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. For ageing refer to Note 11

The maximum exposure to credit risk is the 100% of the carrying amounts of the financial assets as indicated above even for the consumer receivables where the maximum exposure is estimated to be at 100% of the carrying amount of the 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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the Municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<b>Not later than one month</b>	<b>Later than one month and not later than three months</b>
	<b>R</b>	<b>R</b>
<b>2016</b>		
Loan - DBSA	-	231,000
Finance lease liability	-	177,416
Provisions	-	-
Trade and other payables	10,524,209	-
Sundry payables	115,023	-
<b>2015</b>		
Loan - DBSA	-	231,000
Finance lease liability	-	177,416
Provisions	-	-
Trade and other payables	2,638,300	-
Sundry payables	128,986	-

**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. Maturity is detailed in Note 2.

*Foreign currency risk*

Not applicable to the Municipality because the Municipality does not deal with foreign currency, and only 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 2016

**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

<b>34.6 Audit committee fees</b>		<b>2016</b>	<b>2015</b>
		<b>R</b>	<b>R</b>
PM Mancotywa	Chairperson	40,745	50,795
VM Songelwa	Member	30,000	27,500
NB Kekana	Member	24,000	11,000
EBD Makhosi	Member	44,241	35,253
		<u>138,986</u>	<u>124,548</u>

This is an independent advisory body which advises the Ingquza Hill Local Municipality Council, the political Office Bearers, the Accounting Officer and the Management on matters relating to performance and financial management. This body is appointed in terms of s166(4)a of the Municipal Finance Management Act Number 56 of 2003.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**35 PROVISION FOR IMPAIRMENT**

**Reconciliation of the provision**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
<b>Consumer debtor account</b>	50,664,209	43,645,793
Provision balance @ 98%	39,224,603	34,556,021
Opening balance	34,556,021	32,452,086
Current increase	4,668,582	2,103,935
<b>Discounted debtors account</b>	<b>11,439,606</b>	<b>9,089,772</b>
<b>CALCULATIONS @ 98%</b>		
Businesses	23,734,926	20,005,123
Churches	130,483	105,109
Domestic	15,359,194	14,445,788
<b>TOTAL</b>	<b>39,224,603</b>	<b>34,556,020</b>
Debtors	11,439,606	9,089,772
Provision	(4,668,582)	(2,103,935)
Traffic fines impaired	(803,350)	(109,700)
Government debtor - equitable share	(756,000)	0
<b>Total impairment</b>	<b>(5,471,932)</b>	<b>(2,213,635)</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**36 RELATED PARTY LISTING**

<b>EMPLOYEE NAME</b>		<b>2016</b>	<b>2015</b>
		<b>R</b>	<b>R</b>
MDINGI JP	MAYOR	778,880	739,363
MJOKOVANA D	SPEAKER	627,278	595,664
DUTSHWA P	CHIEF WHIP	589,378	559,740
BESI TT	EXECUTIVE COMMITTEE MEMBER	335,036	317,247
GAGAI NA	EXECUTIVE COMMITTEE MEMBER	335,036	317,247
GOYA BB	EXECUTIVE COMMITTEE MEMBER	335,036	317,247
GXABHU T	EXECUTIVE COMMITTEE MEMBER	335,036	290,303
MAXHAYI M	EXECUTIVE COMMITTEE MEMBER	335,036	317,247
MJOJELI NE	EXECUTIVE COMMITTEE MEMBER	335,036	317,247
NGCINGWANA SL	EXECUTIVE COMMITTEE MEMBER	-	175,275
KANGO PS	EXECUTIVE COMMITTEE MEMBER	335,036	317,247
TENYANE M	EXECUTIVE COMMITTEE MEMBER	335,036	317,247
VATSHA SB	EXECUTIVE COMMITTEE MEMBER	335,036	256,624
NTSHOBO P	MUNICIPAL PUBLIC ACCOUNTS COMI	314,085	297,488
MTSOTSO NF	MEMBERS INTEREST	314,085	297,488
JIKI N	WOMEN CAUCUS COMMITTEE	314,085	297,488
MVULANE B	PUBLIC PARTICIPATION & PETITIONS	314,085	277,131
CAPA YN	ORDINARY COUNCILLOR	249,349	236,416
CELE KD	ORDINARY COUNCILLOR	249,349	236,416
CWECWE N	ORDINARY COUNCILLOR	249,349	236,416
DALIWE NA	ORDINARY COUNCILLOR	249,349	236,416
DANISO N	ORDINARY COUNCILLOR	249,349	236,416
DINGI X	ORDINARY COUNCILLOR	249,349	236,416
DUMISA T	ORDINARY COUNCILLOR	249,349	236,416
GOGO M	ORDINARY COUNCILLOR	249,349	236,416
GWEGWE V	ORDINARY COUNCILLOR	249,349	236,416
GXUMISA-CINGO FJ	ORDINARY COUNCILLOR	249,349	236,416
JIBA Z	ORDINARY COUNCILLOR	249,349	236,416
JOTILE T	ORDINARY COUNCILLOR	249,349	236,416
JOYI B	ORDINARY COUNCILLOR	249,349	236,416
KEWANA D	ORDINARY COUNCILLOR	249,349	236,416
MAGAYA FA	ORDINARY COUNCILLOR	249,349	236,416
MALULWANA SE	ORDINARY COUNCILLOR	244,759	236,416
MFAISE VD	ORDINARY COUNCILLOR	249,349	236,416
MGWILI NH	ORDINARY COUNCILLOR	249,349	236,416
MHLAKUVANA N	ORDINARY COUNCILLOR	249,349	236,416
MHLANGA ZE	ORDINARY COUNCILLOR	249,349	236,416
MKIZWANE AM	ORDINARY COUNCILLOR	249,349	236,416
MKUMLEA CM	ORDINARY COUNCILLOR	249,349	236,416
MNGQINELWA NCB	ORDINARY COUNCILLOR	249,349	236,416
MOTHUSI ZH	ORDINARY COUNCILLOR	249,349	236,416
MPONGOMA SH	ORDINARY COUNCILLOR	249,349	236,416
MVIKO K	ORDINARY COUNCILLOR	249,349	177,312
NDZUMO T	ORDINARY COUNCILLOR	249,349	236,416
NGXAMILE PN	ORDINARY COUNCILLOR	249,349	236,416
NKANI N	ORDINARY COUNCILLOR	249,349	236,416
NKAYITSHANA N	ORDINARY COUNCILLOR	249,349	59,104
NKUNGU MI	ORDINARY COUNCILLOR	249,349	247,666
NKWAKHWA S	ORDINARY COUNCILLOR	249,349	236,416
NONKUBA N	ORDINARY COUNCILLOR	249,349	236,416
NOTYESI N	ORDINARY COUNCILLOR	249,349	236,416
QWESHA M	ORDINARY COUNCILLOR	249,349	236,416
RULENI S	ORDINARY COUNCILLOR	249,349	236,416
SIBUNGE T	ORDINARY COUNCILLOR	249,349	236,416
SIGCAU NE	ORDINARY COUNCILLOR	249,349	236,416
SIKHOSANA MN	ORDINARY COUNCILLOR	249,349	236,416
SOMANI V	ORDINARY COUNCILLOR	249,349	236,416
SOQASHI IL	ORDINARY COUNCILLOR	62,337	236,416
TAMBODALA ZJM	ORDINARY COUNCILLOR	249,349	236,416
THIMLE L	ORDINARY COUNCILLOR	249,349	236,416
THWATSHUKA D	ORDINARY COUNCILLOR	249,349	236,416
YAKO N	ORDINARY COUNCILLOR	249,349	236,416
ZATHI N	ORDINARY COUNCILLOR	249,349	236,416
TRADITIONAL LEADERS	TRADITIONAL LEADERS	279,000	122,000
		<b>17,824,651</b>	<b>16,779,262</b>



INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2016

37 SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2016

EXTERNAL I	Loan Number	Redeemable	Balance at 01/07/2015	Paid during the year	Interest for the year	Balance at 30/06/2016	Carrying Value of Property, Plant and Equipment	Other costs in accordance with the MFMA
			R	R	R	R	R	R
		Loan - Development Bank of Southern Africa(DBS)	6,940,711	(460,800)	343,229	6,823,139	13,431,832	-
			6,940,711	(460,800)	343,229	6,823,139	13,431,832	-

**NB:** This is a financial liability

38 UNAUTHORISED EXPENDITURE

Actual expenditure in excess of approved budget votes

	2016 R	2015 R
Opening balance	-	644,934
Non cash items	-	-
Condoned by council	-	(644,934)
Total deviations made in the current year	-	-

Incident
This is the actual expenditure for certain budget votes exceeded the approved adjustments budget due to non-cash flow items, included in the actual expenditure which could not reasonably have been budgeted for.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**39 LEASES**  
**39.1 Finance lease liability**

<b>30 June 2016</b>	<b>Minimum lease payment R</b>	<b>Future finance charges R</b>	<b>Present value of minimum lease payments R</b>
<b>Amounts payable under finance leases</b>			
Within one year	354,832	63,257	291,574
Within two to five years	206,985	11,688	195,297
	<u>561,817</u>	<u>74,946</u>	<u>486,871</u>
Less: Amount due for settlement within 12 months (current portion)			<u>(291,574)</u>
			<u><b>195,297</b></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.

<b>30 June 2015</b>	<b>Minimum lease payment R</b>	<b>Future finance charges R</b>	<b>Present value of minimum lease payments R</b>
<b>Amounts payable under finance leases</b>			
Within one year	426,321	115,869	310,452
Within two to five years	561,817	74,946	486,871
	<u>988,138</u>	<u>190,814</u>	<u>797,323</u>
Less: Amount due for settlement within 12 months (current portion)			<u>(310,452)</u>
			<u><b>486,871</b></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 2016

**39 LEASES (CONTINUED)**  
**39.2 Operating lease**

<b>30 June 2016</b>	<b>Minimum lease receipts</b>	<b>Future finance charges</b>	<b>Present value of minimum lease receipts</b>
	<b>R</b>	<b>R</b>	<b>R</b>
<b>Amounts receivable under operating leases</b>			
Within one year	295,988	-	295,988
Within two to five years	295,097	-	295,097
	<u>591,084</u>	<u>-</u>	<u>591,084</u>
Less: Amount due for settlement within 12 months (current portion)			<u>(295,988)</u>
			<u><b>295,097</b></u>

These are the lease contracts given to people at a fixed monthly instalments, one of the contracts will expire in 2026. Details per each lease are attached in the schedule.

<b>30 June 2015</b>	<b>Minimum lease receipts</b>	<b>Future finance charges</b>	<b>Present value of minimum lease receipts</b>
	<b>R</b>	<b>R</b>	<b>R</b>
<b>Amounts receivable under operating leases</b>			
Within one year	23,700	-	23,700
Within two to five years	61,728	-	61,728
	<u>85,428</u>	<u>-</u>	<u>85,428</u>
Less: Amount due for settlement within 12 months (current portion)			<u>(23,700)</u>
			<u><b>61,728</b></u>

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 2016

**40 WORK IN PROGRESS**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Access Roads	20,621,173	(350,759)
Electrification	21,270,180	22,097,517
Driver's Licence Testing Centre	11,395,988	1,931,782
Municipal Offices	15,340,199	4,569,791
Community Halls	2,428,252	-
Street Lights	2,406,107	121,605
VTC - structure	12,655,699	12,655,699
Development of business sites over portion ERF 49 Lusikisiki	2,343,118	1,434,544
Sport Fields	566,544	2,890,189
	<b><u>89,027,259</u></b>	<b><u>45,350,369</u></b>

**RECONCILIATION**

<b>Opening Balances</b>	<b>94,498,268</b>	<b>81,048,620</b>
Adjustments	-	26,732
<b>Restated Opening Balance</b>	<b>94,498,268</b>	<b>81,075,352</b>
Less Completed Projects transferred FAR	(76,093,967)	(66,306,687)
Less Completed Projects transferred to Expenditure	(12,960,120)	(880,773)
Plus Additional Expenditure	83,583,079	80,610,376
<b>Closing Balance</b>	<b><u>89,027,259</u></b>	<b><u>94,498,268</u></b>

These are the capital projects that are being constructed by the Municipality utilising a mix of grants and own revenue, all these projects are in the IDP of the Municipality and the progress, delays and stopages per each project is reported in the APR which is a document submitted together with these financial statements.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**41 IMPAIRMENT**

**IMPAIRMENT OF PROPERTY PLANT AND EQUIPEMENT**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Landfill site	208	-
Furniture and fittings	9,888	-
Plant and equipment	241,064	-
Motor vehicles	750,732	-
Tools, arms & mobile office	1,441	-
Computer equipment	11,812	-
	<u><b>1,015,145</b></u>	<u><b>-</b></u>

These assets were impaired during the year because of their bad conditions which are beyond repairable and some were stolen or lost

**42 LOSS ON DISPOSAL OF ASSETS**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Pinting Machine	-	56,407
Safes	-	923
Furniture and fittings	-	209,614
Plant and equipment	-	410,661
Motor vehicles	-	147,099
Tools, arms & mobile office	-	13,620
Computer equipment	-	95,036
	<u><b>-</b></u>	<u><b>933,361</b></u>

No items of property plant and equipment were disposed-off this year in terms of MFMA no. 56 of 2003

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2016

**43 INTERESTS EARNED**

**INTEREST EARNED ON OUTSTANDING**

**43.1 DEBTORS**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
Discounting of debtors	787,905	749,262
Unearned interest movement	664,010	299,101
	<u><b>1,451,915</b></u>	<u><b>1,048,363</b></u>

**INTEREST EARNED ON EXTERNAL**

**43.2 INVESTMENTS**

	<b>2016</b>	<b>2015</b>
	<b>R</b>	<b>R</b>
FNB - 62224175712 - primary account	1,334,034.38	237,774
FNB - 62003235307 - call account	205,481.72	152,372
FNB - 62219877836 - call account	6,007.69	4,630
FNB - 74233699310 - call account	813,153.98	640,258
FNB - 62231474537 - call account	382,296.70	501,548
FNB - 62231473761 - call account	3,247,113.40	1,285,725
RMB account	416,548.10	384,234
	<u><b>6,404,636</b></u>	<u><b>3,206,540</b></u>