



Nquthu Local Municipality  
Financial statements  
for the year ended June 30, 2016

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## General Information

---

<b>Nature of business and principal activities</b>	Local Municipality
<b>The following is included in the scope of operation</b>	Provision of basic service to the community as per the powers and functions as stated in the Constitution of the Republic of South Africa
<b>Executive Committee</b>	Cllr. (Mayor) Cllr. (Deputy Mayor) Cllr. Cllr. Cllr. Cllr. Cllr. (Speaker)
Ordinary Councillors	Cllr. SZ Khuzwayo Cllr. RS Langa Cllr. EM Mkhwanazi Cllr. ME Mnguni. Cllr. IL Shabalala Cllr. MSK Gumbi Cllr. NM Buthelezi Cllr. SM Buthelezi Cllr. SP Mathe Cllr. BJ Ngwenya Cllr. SM Kunene Cllr. JN Khoza Cllr. SN Buthelezi Cllr. AS Zulu Cllr. GF Molefe Cllr. SMC Zikode Cllr. CT Buthezi Cllr. LS Hoffman Cllr. CN Xulu Cllr. MN Khanye Cllr. NS Mkhize Cllr. TJ Motloung Cllr. LC Moloj Cllr. BI Zwane Cllr. PP Ntombela Cllr. NG Mdlalose Cllr. MR Ngobese Cllr. NM Zungu Cllr. TA Dlamini Cllr. BN Nkosi Cllr. ET Nhlebela Cllr. MF Mdletshe
<b>Accounting Officer</b>	Mr. BP Gumbi
<b>Chief Finance Officer (CFO)</b>	Mr. WS Mpanza
<b>Registered office</b>	Municipal Building 83/11 Mdlalose Street Nquthu

---

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## General Information

---

	3135
<b>Business address</b>	Municipal Building 83/11 Mdlalose Street Nquthu 3135
<b>Postal address</b>	Private Bag X 5521 Nquthu 3135
<b>Banker</b>	ABSA South Africa
<b>Auditors</b>	Auditor General
<b>Attorneys</b>	Rafiq Khan Inc.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Index

---

The reports and statements set out below comprise the financial statements presented to the Nquthu Local Municipality Council.:

<b>Index</b>	<b>Page</b>
Statement of Financial Position	5
Statement of Changes in Net Assets	7
Statement of Financial Performance	6
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	11 - 24
Notes to the Financial Statements	25 - 51
Unaudited Appendixes:	
Unaudited Appendix A: Schedule of External loans	52
Unaudited Appendix B: Analysis of Property, Plant and Equipment	53
Unaudited Appendix C: Segmental analysis of Property, Plant and Equipment	55
Unaudited Appendix E(1): Actual versus Budget (Revenue and Expenditure)	56
Unaudited Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)	57
Unaudited Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	58
Unaudited Appendix G(3): Budgeted Financial Performance (revenue and expenditure)	59
Unaudited Appendix G(5): Budgeted Cash Flows	61

### Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Officer's Responsibilities and Approval

---

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for independently auditing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 51, which have been prepared on the going concern basis, were approved by the municipal council on 30 August 2016 and were signed on its behalf by:

---

**Accounting Officer**

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Statement of Financial Position as at June 30, 2016

Figures in Rand	Note(s)	2016	2015
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	9	1,114,778	868,797
Receivables from exchange transactions	10	11,231,143	9,222,609
Receivables from non-exchange transactions	11	19,611,576	9,134,886
VAT receivable	12	11,945,446	5,580,550
Prepayments		-	1,390,095
Cash and cash equivalents	14	118,769,162	114,553,368
		<b>162,672,105</b>	<b>140,750,305</b>
<b>Non-Current Assets</b>			
Investment property	4	953,000	1,021,840
Property, plant and equipment	5	293,887,737	201,823,666
Intangible assets	6	306,757	460,195
Heritage assets	7	78,888	78,888
		<b>295,226,382</b>	<b>203,384,589</b>
<b>Total Assets</b>		<b>457,898,487</b>	<b>344,134,894</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	18	10,985,213	19,406,906
Consumer deposits	19	514,687	488,494
Unspent conditional grants and receipts	15	1,503,111	14,525,899
Provisions	16	4,003,239	2,975,132
Current portion long-term liabilities	17	125,643	242,142
Employee benefit obligation -current portion		251,659	103,683
Bank overdraft	14	17,684	-
		<b>17,401,236</b>	<b>37,742,256</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	8	1,384,397	1,246,247
Long-term loan	17	-	125,643
		<b>1,384,397</b>	<b>1,371,890</b>
<b>Total Liabilities</b>		<b>18,785,633</b>	<b>39,114,146</b>
<b>Net Assets</b>		<b>439,112,854</b>	<b>305,020,748</b>
Reserves			
Housing Development Fund		100,206	94,951
Accumulated surplus		439,012,639	304,925,789
<b>Total Net Assets</b>		<b>439,112,845</b>	<b>305,020,740</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
<b>Revenue</b>			
Service charges	22	13,631,465	12,230,108
Rental of facilities and equipment		509,986	485,304
Licences and permits		676,412	84,526
Miscellaneous other revenue		1,027,642	541,981
Commissions received		122,019	106,635
Interest received - investment		10,368,197	7,540,262
Property rates	21	20,493,450	17,837,519
Interest on late payments		1,513,460	1,264,854
Government grants & subsidies	23	209,230,188	132,859,284
Fines, Penalties and Forfeits		762,644	629,383
<b>Total revenue</b>		<b>258,335,463</b>	<b>173,579,856</b>
<b>Expenditure</b>			
Employee Costs	26	(38,218,628)	(31,111,275)
Remuneration of councillors	27	(10,015,903)	(9,388,737)
Depreciation and amortisation	30	(11,158,660)	(8,343,312)
Finance costs	31	(15,442)	(28,540)
Lease rentals on operating lease		(157,495)	(145,338)
Debt Impairment	28	(1,124,372)	(1,361,591)
Repairs and maintenance		(1,788,473)	(5,378,913)
Bulk purchases	35	(16,138,484)	(17,314,896)
Contracted services	34	(3,099,618)	(2,663,637)
General Expenses	25	(42,615,197)	(59,613,929)
<b>Total expenditure</b>		<b>(124,332,272)</b>	<b>(135,350,168)</b>
<b>Operating surplus</b>		<b>134,003,191</b>	<b>38,229,688</b>
Loss on disposal of assets and liabilities		(187,672)	(20,127)
<b>Surplus for the year</b>		<b>133,815,519</b>	<b>38,209,561</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
<b>Balance at July 1, 2014</b>	-	<b>264,087,566</b>	<b>264,087,566</b>
Changes in net assets			
Surplus for the year	94,951	38,209,561	38,304,512
Prior year adjustment	-	2,628,662	2,628,662
Total changes	94,951	40,838,223	40,933,174
<b>Balance at July 1, 2015</b>	<b>94,951</b>	<b>304,925,789</b>	<b>305,020,740</b>
Changes in net assets			
Surplus for the year	5,255	133,815,519	133,820,774
Prior year adjustment	-	271,331	271,331
Total changes	5,255	134,086,850	134,092,105
<b>Balance at June 30, 2016</b>	<b>100,206</b>	<b>439,012,639</b>	<b>439,112,845</b>

Note(s)

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		13,631,465	8,712,130
Grants		209,295,253	132,485,685
Interest income		10,368,197	7,540,262
Other receipts		25,110,869	13,072,890
		<u>258,405,784</u>	<u>161,810,967</u>
<b>Payments</b>			
Employee costs		(47,800,428)	(38,987,152)
Suppliers		(102,961,533)	(56,046,505)
Finance costs		(15,442)	(28,540)
		<u>(150,777,403)</u>	<u>(95,062,197)</u>
<b>Net cash flows from operating activities</b>	36	<b><u>107,628,381</u></b>	<b><u>66,748,770</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(103,188,129)	(69,207,605)
Proceeds from sale of property, plant and equipment		-	23,061,533
Purchase of other intangible assets	6	-	(488,569)
<b>Net cash flows from investing activities</b>		<b><u>(103,188,129)</u></b>	<b><u>(46,634,641)</u></b>
<b>Cash flows from financing activities</b>			
Movement in loan - long-term loan		(242,142)	(520,621)
<b>Net increase in cash and cash equivalents</b>		<b>4,198,110</b>	<b>19,593,508</b>
Cash and cash equivalents at the beginning of the year		114,553,368	94,959,860
<b>Cash and cash equivalents at the end of the year</b>	14	<b><u>118,751,478</u></b>	<b><u>114,553,368</u></b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	17,311,000	-	<b>17,311,000</b>	13,631,465	<b>(3,679,535)</b>	50
Rental of facilities and equipment	608,714	-	<b>608,714</b>	509,986	<b>(98,728)</b>	50
Licences and permits	-	-	-	676,412	<b>676,412</b>	50
Miscellaneous other revenue	52,500	-	<b>52,500</b>	1,027,642	<b>975,142</b>	50
Commissions received	-	-	-	122,019	<b>122,019</b>	50
Interest received - investment	2,900,000	-	<b>2,900,000</b>	10,368,197	<b>7,468,197</b>	50
<b>Total revenue from exchange transactions</b>	<b>20,872,214</b>	-	<b>20,872,214</b>	<b>26,335,721</b>	<b>5,463,507</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	17,334,000	-	<b>17,334,000</b>	20,493,450	<b>3,159,450</b>	50
Property rates - penalties imposed	702,600	-	<b>702,600</b>	1,513,460	<b>810,860</b>	50
<b>Transfer revenue</b>						
Government grants & subsidies	179,052,000	-	<b>179,052,000</b>	209,230,188	<b>30,178,188</b>	50
Fines, Penalties and Forfeits	250,000	-	<b>250,000</b>	762,644	<b>512,644</b>	50
<b>Total revenue from non-exchange transactions</b>	<b>197,338,600</b>	-	<b>197,338,600</b>	<b>231,999,742</b>	<b>34,661,142</b>	
<b>Total revenue</b>	<b>218,210,814</b>	-	<b>218,210,814</b>	<b>258,335,463</b>	<b>40,124,649</b>	
<b>Expenditure</b>						
Personnel	(43,644,402)	-	<b>(43,644,402)</b>	(38,218,628)	<b>5,425,774</b>	50
Remuneration of councillors	(18,179,507)	-	<b>(18,179,507)</b>	(10,015,903)	<b>8,163,604</b>	50
Depreciation and amortisation	(6,500,000)	-	<b>(6,500,000)</b>	(11,158,660)	<b>(4,658,660)</b>	50
Finance costs	(4,202)	-	<b>(4,202)</b>	(15,442)	<b>(11,240)</b>	50
Lease rentals on operating lease	(237,000)	-	<b>(237,000)</b>	(157,495)	<b>79,505</b>	50
Debt Impairment	(1,200,000)	-	<b>(1,200,000)</b>	(1,124,372)	<b>75,628</b>	50
Repairs and maintenance	(12,572,020)	-	<b>(12,572,020)</b>	(1,788,473)	<b>10,783,547</b>	50
Bulk purchases	(18,800,000)	-	<b>(18,800,000)</b>	(16,138,484)	<b>2,661,516</b>	50
Contracted Services	(3,284,601)	-	<b>(3,284,601)</b>	(3,099,618)	<b>184,983</b>	50
Transfers and Subsidies	(5,523,000)	-	<b>(5,523,000)</b>	-	<b>5,523,000</b>	50
General Expenses	(40,386,137)	-	<b>(40,386,137)</b>	(42,615,197)	<b>(2,229,060)</b>	50
<b>Total expenditure</b>	<b>(150,330,869)</b>	-	<b>(150,330,869)</b>	<b>(124,332,272)</b>	<b>25,998,597</b>	
<b>Operating surplus</b>	<b>67,879,945</b>	-	<b>67,879,945</b>	<b>134,003,191</b>	<b>66,123,246</b>	
Loss on disposal of assets and liabilities	-	-	-	(187,672)	<b>(187,672)</b>	
<b>Surplus</b>	<b>67,879,945</b>	-	<b>67,879,945</b>	<b>133,815,519</b>	<b>65,935,574</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>67,879,945</b>	-	<b>67,879,945</b>	<b>133,815,519</b>	<b>65,935,574</b>	

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	-----------------	-------------	--------------	------------------------------------	--	-----------

Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	2,651,000	-	<b>2,651,000</b>	1,114,778	<b>(1,536,222)</b>	50
Receivables from exchange transactions	18,593,000	-	<b>18,593,000</b>	11,231,143	<b>(7,361,857)</b>	50
Receivables from non-exchange transactions	-	-	-	19,611,576	<b>19,611,576</b>	50
VAT receivable	-	-	-	11,945,446	<b>11,945,446</b>	50
Cash and cash equivalents	252,660,000	-	<b>252,660,000</b>	118,769,162	<b>(133,890,838)</b>	50
	<b>273,904,000</b>	-	<b>273,904,000</b>	<b>162,672,105</b>	<b>(111,231,895)</b>	

##### Non-Current Assets

Investment property	-	-	-	953,000	<b>953,000</b>	50
Property, plant and equipment	215,943,000	-	<b>215,943,000</b>	293,887,737	<b>77,944,737</b>	50
Intangible assets	-	-	-	306,757	<b>306,757</b>	50
Heritage assets	-	-	-	78,888	<b>78,888</b>	50
	<b>215,943,000</b>	-	<b>215,943,000</b>	<b>295,226,382</b>	<b>79,283,382</b>	

#### Total Assets

	<b>489,847,000</b>	-	<b>489,847,000</b>	<b>457,898,487</b>	<b>(31,948,513)</b>	
--	--------------------	---	--------------------	--------------------	---------------------	--

#### Liabilities

##### Current Liabilities

Payables from exchange transactions	10,870,000	-	<b>10,870,000</b>	10,985,213	<b>115,213</b>	50
Consumer deposits	-	-	-	514,687	<b>514,687</b>	50
Unspent conditional grants and receipts	-	-	-	1,503,111	<b>1,503,111</b>	50
Provisions	5,156,000	-	<b>5,156,000</b>	4,003,239	<b>(1,152,761)</b>	50
Current portion long-term liabilities	521,000	-	<b>521,000</b>	125,643	<b>(395,357)</b>	50
Employee benefit obligation - current portion	-	-	-	251,659	<b>251,659</b>	50
Bank overdraft	-	-	-	17,684	<b>17,684</b>	50
	<b>16,547,000</b>	-	<b>16,547,000</b>	<b>17,401,236</b>	<b>854,236</b>	

##### Non-Current Liabilities

Employee benefit obligation	1,232,000	-	<b>1,232,000</b>	1,384,397	<b>152,397</b>	50
-----------------------------	-----------	---	------------------	-----------	----------------	----

#### Total Liabilities

	<b>17,779,000</b>	-	<b>17,779,000</b>	<b>18,785,633</b>	<b>1,006,633</b>	
--	-------------------	---	-------------------	-------------------	------------------	--

#### Net Assets

	<b>472,068,000</b>	-	<b>472,068,000</b>	<b>439,112,854</b>	<b>(32,955,146)</b>	
--	--------------------	---	--------------------	--------------------	---------------------	--

#### Net Assets

##### Net Assets

##### Reserves

Housing Development	-	-	-	100,206	<b>100,206</b>	50
Accumulated surplus	472,068,000	-	<b>472,068,000</b>	439,012,648	<b>(33,055,352)</b>	50
	<b>472,068,000</b>	-	<b>472,068,000</b>	<b>439,112,854</b>	<b>(32,955,146)</b>	

#### Total Net Assets

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

#### 1.1 Presentation currency

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

#### 1.2 Significant judgements and sources of estimation uncertainty

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

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

##### Post retirement benefits

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

##### Allowance for doubtful debts

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

#### 1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or,
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is derecognised on disposal, or when the investment property is permanently withdrawn from use and no future economic benefits or service potential is expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.”.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.3 Investment property (continued)

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.4 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

<b>Item</b>	<b>Average useful life</b>
Land	Indefinite
Buildings	30
Plant and machinery	3-10
Furniture and fixtures	3-10
Motor vehicles	5
IT equipment	5
Capital work in progress - Roads	
Finance leased Assets	3-5
Investment property	30
Heritage	Indefinite

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

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

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.

## Accounting Policies

---

### 1.4 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised 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.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

### 1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.6 Heritage assets (continued)

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

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The heritage assets will be revalued every five years from initial recognition

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

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

### 1.7 Financial instruments

#### Classification and derecognition

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

The municipality derecognises a financial asset when and only when; the rights to the cash flows from the financial asset expire; or it transfers the financial asset and the transfer qualifies for derecognition. The municipality first needs to evaluate the extent to which it retains the risks and rewards of ownership of the financial asset.

The municipality transfers a financial asset if and only if: the rights to receive cash flows from the asset have expired, or if the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the municipality has transferred substantially all the risks and rewards of the asset, or the municipality has neither transferred nor retained substantially all the risks and rewards of the asset.

The municipality removes a financial liability (or part of financial liability) from its statement of financial position when, and only when, it is extinguished i.e. when the obligation specified in the contract is discharged or called or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

#### Receivables from exchange transactions

Trade receivables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 150 days overdue) are considered indicators that the trade receivable is impaired.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.7 Financial instruments (continued)

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against surplus or deficit.

#### Payables from exchange transactions

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

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially recorded at fair value and are subsequently measured at amortised cost using the effective interest rate method.

#### Bank overdraft and borrowings

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

### 1.8 Leases

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

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

#### Finance leases - lessee

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

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

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

#### Operating leases - lessee

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

### 1.9 Inventories

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

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

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

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

## Accounting Policies

---

### 1.9 Inventories (continued)

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

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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

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

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

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

### 1.10 Impairment of cash-generating assets

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

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

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

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

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### Identification

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

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

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.10 Impairment of cash-generating assets (continued)

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

### 1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.12 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

#### Defined contribution plans

The Municipality and its employees contribute to the Natal Joint Municipal Pension Fund, KwaZulu-Natal Joint Municipal Provident Fund (NJMPF) and the Government Employees Pension Fund (GEPF) which provides retirement benefits to such employees. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pension Fund Act, 1956. Current contributions are charged against operating income on the basis of current service costs. Full actuarial valuations are performed every three years.

Whilst employees are employed by the municipality, the municipality contributes to their pension funds and medical aids. On termination, resignation or retirement of employees the municipality no longer contributes on their behalf and thus there are no post employment benefits.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.12 Employee benefits (continued)

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

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

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

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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

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

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

### 1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised.

The municipality has a landfill site, although this has been since been discontinued to function due to environmental concerns.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.13 Provisions and contingencies (continued)

- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.14 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Rendering of services

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

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

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

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

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

### 1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.15 Revenue from non-exchange transactions (continued)

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

#### Measurement

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

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. The revenue from summonses is recognised when the offender is issued with the fine.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.16 Interest and rental income

Interest is recognised using the effective interest rate method. Rentals are recognised on a time proportion basis.

## Accounting Policies

---

### 1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Comparative figures

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

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure is also any expenditure incurred in contravention of the municipality's supply chain management policy.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item to be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Accounting Policies

---

### 1.21 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.22 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.23 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2015 to 6/30/2016.

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

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

### 1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

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

### 1.25 Commitments

The municipality at the end of the reporting period will have commitments in relation to the transactions in progress that will be finished after reporting date.

These will be disclosed in the commitments indicating if they are contracted or not. The property, plant and equipment note will also detail those projects that are under construction as at reporting date.

The commitment will arise either if the transaction was concluded at year-end or not in relation to the signing of the contract. If the bidding process is still under way the commitment will also be raised.

# **Nquthu Local Municipality**

Financial Statements for the year ended June 30, 2016

## **Accounting Policies**

---

### **1.26 Going concern assumption**

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

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
-----------------	------	------

### 2. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

### 3. New standards and interpretations

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

In the current year, the municipality has not adopted any new standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
---------------------------	--	------------------

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

The municipality has not applied any standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2016 or later periods:

#### 3.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2016 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP32: Service Concession Arrangements: Grantor	July 1, 2015	Unable to reliably estimate the impact
• GRAP108: Statutory Receivables	July 1, 2015	Unable to reliably estimate the impact
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	July 1, 2015	Unable to reliably estimate the impact
• DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP	July 1, 2015	Unable to reliably estimate the impact

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements cannot be reliably estimated.

### 4. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1,999,640	(1,046,640)	953,000	1,999,640	(977,800)	1,021,840

#### Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	1,021,840	(68,840)	953,000

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand 2016 2015

### 4. Investment property (continued)

#### Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	1,090,493	(68,653)	1,021,840

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality applies the cost model in respect of Investment Properties.

Investment Properties are depreciated on the straight-line method over the applicable useful lives as disclosed in the accounting policy note for Investment Properties.

The Investment Properties disclosed above with a carrying value of R 953 000 at 30 June 2016 (2015: 1,021,840).

In respect of these Investment Properties, rental revenue to the amount of R 254 232 (2015: R 268 474) was recognised in surplus or deficit during the current financial year.

Direct operating expenses (repairs and maintenance) recognised in surplus or deficit, arising from the Investment Properties amounts to R 0., of which R 0 is derived from Investment Properties that generated rental revenue and R 0 is derived from Investment Properties that did not generate rental revenue.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal, as well as no contractual obligations to purchase, construct or develop Investment Property or for repairs, maintenance or enhancements.:

### 5. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13,270,852	-	13,270,852	13,270,852	-	13,270,852
Buildings	58,748,249	(10,982,539)	47,765,710	45,000,308	(8,718,864)	36,281,444
Plant and machinery	5,789,823	(2,238,661)	3,551,162	4,818,961	(1,859,590)	2,959,371
Furniture and fixtures	3,926,439	(2,291,919)	1,634,520	3,889,407	(1,897,667)	1,991,740
Motor vehicles	27,710,725	(6,783,722)	20,927,003	16,800,856	(4,287,251)	12,513,605
IT equipment	2,975,125	(1,660,254)	1,314,871	3,084,958	(1,416,634)	1,668,324
Infrastructure Roads & Stormwater	109,010,843	(21,548,790)	87,462,053	90,003,625	(17,802,913)	72,200,712
Community	3,092,494	(1,480,732)	1,611,762	3,092,494	(1,339,846)	1,752,648
Infrastructure Electricity	12,512,429	(6,298,988)	6,213,441	12,476,162	(5,781,651)	6,694,511
Capital work in progress - Roads	30,530,801	-	30,530,801	21,554,759	-	21,554,759
Capital works in progress - community halls	79,605,562	-	79,605,562	29,706,254	-	29,706,254
Capital work in progress - Disaster	-	-	-	1,229,446	-	1,229,446
<b>Total</b>	<b>347,173,342</b>	<b>(53,285,605)</b>	<b>293,887,737</b>	<b>244,928,082</b>	<b>(43,104,416)</b>	<b>201,823,666</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand			2016	2015			
<b>5. Property, plant and equipment (continued)</b>							
<b>Reconciliation of property, plant and equipment - 2016</b>							
	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	13,270,852	-	-	-	-	-	13,270,852
Buildings	36,281,444	572,103	-	13,175,838	(2,263,675)	-	47,765,710
Plant and machinery	2,959,371	790,647	(6,015)	195,391	(386,950)	(1,282)	3,551,162
Furniture and fixtures	1,991,740	326,539	(28,778)	(195,388)	(455,495)	(4,098)	1,634,520
Motor vehicles	12,513,605	9,680,423	-	1,229,446	(2,496,471)	-	20,927,003
IT equipment	1,668,324	168,307	(33,532)	-	(487,333)	(895)	1,314,871
Infrastructure Roads & Stormwater	72,200,712	-	(119,347)	19,562,650	(4,181,962)	-	87,462,053
Community	1,752,648	-	-	-	(140,886)	-	1,611,762
Infrastructure Electricity	6,694,511	-	-	36,268	(501,739)	(15,599)	6,213,441
Capital work in progress - Roads	21,554,759	28,112,319	-	(19,136,277)	-	-	30,530,801
Capital works in progress - community halls	29,706,254	63,537,791	-	(13,638,483)	-	-	79,605,562
Capital work in progress - Disaster	1,229,446	-	-	(1,229,446)	-	-	-
	<b>201,823,666</b>	<b>103,188,129</b>	<b>(187,672)</b>	<b>(1)</b>	<b>(10,914,511)</b>	<b>(21,874)</b>	<b>293,887,737</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	13,270,852	-	-	-	-	13,270,852
Buildings	30,571,519	12,130	-	7,426,293	(1,728,498)	36,281,444
Plant and machinery	3,178,112	279,124	(203,396)	-	(294,469)	2,959,371
Furniture and fixtures	2,168,729	789,519	(526,518)	-	(439,990)	1,991,740
Motor vehicles	11,173,661	3,097,230	-	-	(1,757,286)	12,513,605
IT equipment	1,533,231	644,079	(4,062)	-	(504,924)	1,668,324
Infrastructure Roads & Stormwater	53,397,194	-	-	21,991,293	(3,187,775)	72,200,712
Community	1,147,018	673,568	-	-	(67,938)	1,752,648
Infrastructure Electricity	2,160,104	701,905	-	4,036,074	(203,572)	6,694,511
Capital work in progress - Roads	24,007,439	19,538,612	-	(21,991,292)	-	21,554,759
Capital works in progress - community halls	21,274,312	42,241,992	(2,347,684)	(11,462,366)	-	29,706,254
Capital work in progress - Disaster	-	1,229,446	-	-	-	1,229,446
	<b>163,882,171</b>	<b>69,207,605</b>	<b>(3,081,660)</b>	<b>2</b>	<b>(8,184,452)</b>	<b>201,823,666</b>

A comprehensive Fixes Assets Register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.  
For a detailed breakdown of PPE refer to Appendix B and C.

### 6. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	623,878	(317,121)	306,757	623,878	(163,683)	460,195

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
-----------------	------	------

### 6. Intangible assets (continued)

#### Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	460,195	(153,438)	306,757

#### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software, other	61,833	488,569	(90,207)	460,195

#### Other information

A comprehensive Fixed Assets Register containing information required by the MFMA section 63 is available for inspection at the registered office of the municipality.

### 7. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral Chain	78,888	-	78,888	78,888	-	78,888

### 8. Employee benefit obligations

#### Defined benefit plan

##### Long Service Award (LSA)

The Municipality offers employees Long Service Award (LSA) for every five years of service completed, from ten years of service to 45 years of service, inclusive.

The full actuarial report is available for inspection at municipal offices.

#### The amounts recognised in the statement of financial position are as follows:

##### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(1,246,247)	(1,349,930)
Fair value of plan assets	(138,150)	103,683
	<b>(1,384,397)</b>	<b>(1,246,247)</b>

#### Changes in the present value of the defined benefit obligation are as follows:

Opening balance	1,467,869	1,349,930
Net expense recognised in the statement of financial performance	286,126	117,939
	<b>1,753,995</b>	<b>1,467,869</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>8. Employee benefit obligations (continued)</b>		
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	172,468	148,949
Interest cost	106,111	93,611
Actuarial (gains) losses	111,230	(8,397)
Expected Benefit Vestings	(103,683)	-
Expected return on plan assets	-	(116,224)
	<b>286,126</b>	<b>117,939</b>

### Key assumptions used

#### Financial Assumptions

It is difficult to predict future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

**Discount Rate:** stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 8.65% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 8.65% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 1.74%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2016.

The liability-weighted average term of the total liability is 8.11 years.

**Salary Inflation Rate:** This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

**General Salary Inflation:** This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.30% was obtained from the differential between market yields on index-linked bonds (1.74%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.65%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.65\%-0.50\%)/(1+1.74\%))-1$ .

Thus, a general salary inflation rate of 7.30% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.26%.

It has been assumed that the next salary increase will take place on 1 July 2017.

### 9. Inventories

Consumable stores	1,114,778	868,797
-------------------	-----------	---------

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>10. Receivables from exchange transactions</b>		
Market stalls rental	754,468	660,657
Refuse	17,596,082	16,647,785
Electricity	1,327,648	1,035,296
Sundry debtors	155,061	155,061
Debt impairment	(8,602,116)	(9,276,190)
	<b>11,231,143</b>	<b>9,222,609</b>
<b>11. Receivables from non-exchange transactions</b>		
Fines	1,328,490	815,300
Government grants and subsidies	6,784,938	-
Property rates	14,584,979	9,607,971
Provision for impairment	(3,086,831)	(1,288,385)
	<b>19,611,576</b>	<b>9,134,886</b>
<p>The cause of high debt on the rates is due to the state owned properties that are in the process of being donated to the municipality. Although the donation has been signed by the two parties, the actual transfers have not materialised and as such the rates and refuse charges are still being raised to the relevant department. The donation agreement and the list of all affected properties are available for inspection at municipal offices.</p>		
<b>12. VAT receivable</b>		
Value Added Tax (VAT)	11,945,446	5,580,550
<b>13. Trade and other receivables</b>		
<b>Less: Allowance for impairment</b>		
Rates	(3,086,831)	(2,713,977)
Electricity	(527,490)	(440,741)
Refuse	(8,072,357)	(7,407,588)
Market stalls rental	(2,268)	(2,268)
	<b>(11,688,946)</b>	<b>(10,564,574)</b>
<b>Rates</b>		
Current (0 -30 days)	355,680	247,710
31 - 60 days	257,818	74,329
61 - 90 days	520,636	463,443
91 - 120 days	807,945	409,706
121 - 365 days	754,869	403,852
> 365 days	9,418,053	6,808,619
	<b>12,115,001</b>	<b>8,407,659</b>
<b>Electricity</b>		
Current (0 -30 days)	906,132	633,120
31 - 60 days	96,954	141,896
61 - 90 days	17,009	21,702
91 - 120 days	13,539	6,057
121 - 365 days	13,784	3,056
> 365 days	280,211	230,128
	<b>1,327,629</b>	<b>1,035,959</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>13. Trade and other receivables (continued)</b>		
<b>Refuse</b>		
Current (0 -30 days)	230,278	263,428
31 - 60 days	158,686	185,329
61 - 90 days	143,625	171,317
91 - 120 days	136,696	166,287
121 - 365 days	134,072	169,614
> 365 days	11,118,732	10,192,042
	<b>11,922,089</b>	<b>11,148,017</b>
<b>Housing rental</b>		
Current (0 -30 days)	86,704	29,177
31 - 60 days	78,551	26,674
61 - 90 days	61,658	24,639
91 - 120 days	68,365	21,820
121 - 365 days	55,454	20,576
> 365 days	854,275	538,727
	<b>1,205,007</b>	<b>661,613</b>
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	473,185	195,571
31 - 60 days	254,231	167,849
61 - 90 days	288,860	238,148
91 - 120 days	249,722	223,090
121 - 365 days	247,687	215,592
> 365 days	13,271,299	12,464,758
	<b>14,784,984</b>	<b>13,505,008</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	918,693	134,927
31 - 60 days	247,691	105,856
61 - 90 days	314,693	313,582
91 - 120 days	628,389	241,543
121 - 365 days	573,317	230,546
> 365 days	5,805,010	4,789,304
	<b>8,487,793</b>	<b>5,815,758</b>
<b>National and provincial government</b>		
Current (0 -30 days)	166,005	28,133
31 - 60 days	72,446	27,483
61 - 90 days	122,121	72,981
91 - 120 days	131,878	43,252
121 - 365 days	121,483	44,610
> 365 days	2,043,591	525,060
	<b>2,657,524</b>	<b>741,519</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(10,564,574)	(9,202,983)
Contributions to allowance	(1,124,372)	(1,361,591)
	<b>(11,688,946)</b>	<b>(10,564,574)</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>14. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Bank balances	257,091	14,283,662
Short-term deposits	118,512,071	100,269,706
Bank overdraft	(17,684)	-
	<b>118,751,478</b>	<b>114,553,368</b>
Current assets	118,769,162	114,553,368
Current liabilities	(17,684)	-
	<b>118,751,478</b>	<b>114,553,368</b>
<b>Investments</b>		
FNB Call Account	6,667,365	323,207
FNB Short-term Investment	20,911,239	21,640,099
Absa Short-term Investment	19,310,744	14,282,660
Nedbank Short-term Investment	28,312,648	20,370,678
Investec Short-term Investment	23,743,378	21,585,535
Absa Call A/C Small Town	-	289,314
Absa Call A/C Incubator	381,392	361,389
Absa Call A/C Housing	100,206	94,951
Absa Call A/C Electrification	3,709,796	14,169,486
Standard Bank Short-term Investment	15,375,304	7,113,875
Absa Call A/C Mpcc	-	38,511
	<b>118,512,072</b>	<b>100,269,705</b>

Funds not immediately available are invested with commercial banks in terms of the Cash and Investment policy and Municipal Investment Regulations.

Some other conditional grants agreements require that a separate investment (call account) be opened for them so that interest can be easily identified and accrued to the grant. These being the individual investments mentioned above and the remainder of investments is made up of own cash reserves and those grants not requiring separate investments account.

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

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2016	June 30, 2015	June 30, 2014
ABSA BANK - Cheque Account - 405-3562-762	34,982	14,040,054	3,873,569	(17,684)	14,040,054	3,843,095
ABSA BANK - Savings Account - 914-2845-014	256,091	243,608	233,047	257,091	243,608	233,047
<b>Total</b>	<b>291,073</b>	<b>14,283,662</b>	<b>4,106,616</b>	<b>239,407</b>	<b>14,283,662</b>	<b>4,076,142</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Government Grant	23,974	23,974
Capacity Building	40,882	40,882
MPCC	-	500,000
MFMA	2,602	2,602
Cybercadet	33,254	26,997
Intergrated Development Plan Grant	172,531	172,531
Municipal Infrastructure Grant	-	(2,210,221)
Municipal Systems Improvement Grant	127,338	248,375
FMG	-	75,512
COGTA Electrification grant	803,296	13,970,000
Bornem grant	173,275	660,690
Library Volunteer	49,630	48,005
Small business incubator grant	17,986	17,986
Sportsfield grant (Isilonjane)	20,331	20,331
DOE Electrification Grant	-	698,559
Extended Public Works Grant	-	191,664
Sportsfield Maintenance Grant	38,012	38,012
	<b>1,503,111</b>	<b>14,525,899</b>

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note Appendix F for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised. Other grants require that a separate investment account be opened and this has been complied with.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand 2016 2015

### 16. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	193,766	-	-	193,766
Leave pay provision	2,781,366	1,227,144	(199,037)	3,809,473
	<b>2,975,132</b>	<b>1,227,144</b>	<b>(199,037)</b>	<b>4,003,239</b>

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	193,766	-	-	193,766
Leave pay provision	1,895,395	1,190,619	(304,648)	2,781,366
	<b>2,089,161</b>	<b>1,190,619</b>	<b>(304,648)</b>	<b>2,975,132</b>

#### Environmental rehabilitation provision

The municipality is required to provide for the rehabilitation of the landfill site after the end of its useful life. The cost to rehabilitate the landfill site has been estimated by the engineers to be R 500 000 and the remaining life is 10-12 years.

However in November 2012 the landfill site was permanently closed and no future use was permitted due to environmental Regulations. The process to rehabilitate the land is underway. No new provisions are raised since this site is not utilised anymore.

#### Leave provision

The leave pay provision is based on the number of days each employee has accrued at year-end in terms of the South African Local Government Bargaining Agreement.

### 17. Long-term loan

Refer to Appendix A for the reconciliation of external loans and further details.

Installments are paid half-yearly on equal installments on each loan, the loans are unsecured.

This loan was for the construction on municipal administration buildings and contracts are available for inspection.

DBSA Loan - account number 100524/3	125,643	367,785
Less - Current Portion of DBSA Loans	(125,643)	(242,142)
	<b>-</b>	<b>125,643</b>

### 18. Payables from exchange transactions

Trade payables	9,297,348	17,983,990
Accrued bonus	1,593,478	1,338,308
Other payables	94,387	84,608
	<b>10,985,213</b>	<b>19,406,906</b>

### 19. Consumer deposits

Electricity	466,687	488,494
Refuse	48,000	-
	<b>514,687</b>	<b>488,494</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>20. Revenue</b>		
Service charges	13,631,465	12,230,108
Rental of facilities and equipment	509,986	485,304
Licences and permits	676,412	84,526
Miscellaneous other revenue	1,027,642	541,981
Commissions received	122,019	106,635
Interest received - investment	10,368,197	7,540,262
Property rates	20,493,450	17,837,519
Property rates - penalties imposed	1,513,460	1,264,854
Government grants & subsidies	209,230,188	132,859,284
Fines, Penalties and Forfeits	762,644	629,383
	<b>258,335,463</b>	<b>173,579,856</b>

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Service charges	13,631,465	12,230,108
Rental of facilities and equipment	509,986	485,304
Licences and permits	676,412	84,526
Miscellaneous other revenue	1,027,642	541,981
Commissions received	122,019	106,635
Interest received - investment	10,368,197	7,540,262
	<b>26,335,721</b>	<b>20,988,816</b>

**The amount included in revenue arising from non-exchange transactions is as follows:**

**Taxation revenue**

Property rates	20,493,450	17,837,519
Property rates - penalties imposed	1,513,460	1,264,854

**Transfer revenue**

Government grants & subsidies	209,230,188	132,859,284
Fines, Penalties and Forfeits	762,644	629,383
	<b>231,999,742</b>	<b>152,591,040</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>21. Property rates</b>		
<b>Rates received</b>		
Residential	22,630,699	19,353,349
Less: Income forgone	(2,137,249)	(1,515,830)
	<u>20,493,450</u>	<u>17,837,519</u>
Property rates - penalties imposed	1,513,460	1,264,854
	<u><b>22,006,910</b></u>	<u><b>19,102,373</b></u>
<b>Valuations</b>		
Residential	406,111,000	401,021,000
Commercial	597,588,500	563,348,500
State	401,398,000	399,792,000
Municipal	29,838,000	29,838,000
	<u><b>1,434,935,500</b></u>	<u><b>1,393,999,500</b></u>

Valuations on land and buildings are performed every 3 years but the valuation roll is valid for four years. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.015 (2015:R 0.015) is applied to property valuations to determine assessment rates.

Rates are levied on an annual basis with the final date for payment being Thursday, June 30, 2016 (Tuesday, June 30, 2015). Interest at prime plus 2% per annum (2015: 2%) and ), is levied on rates outstanding two months after due date.

Different rate randage are charged for different categories of rate payers. Primary statutory rebates is on first R 15 000 of property value, additional rebates were granted to all residential category of ratepayers as contained in the Council's approved Property Rates Policy for R 85 000 through reduction in value.

## 22. Service charges

Sale of electricity	11,728,412	9,797,702
Refuse removal	1,903,053	2,432,406
	<u><b>13,631,465</b></u>	<u><b>12,230,108</b></u>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	115,965,000	92,161,000
Cybercadet Grant	333,743	305,174
Municipal Finance Management Grant	1,799,512	1,721,398
Municipal Systems Improvement Grant	657,036	534,348
Synergistic Partnership	-	245,906
Library Support	1,145,198	917,583
Grant - Library Volunteer	40,375	38,760
Bornem Grant	812,878	530,157
DOE Infrastructure Electricity	20,000,000	7,826,441
Expanded Public Works Programme	1,540,320	1,062,336
Multi-purpose Center Grant	-	174,157
Sportfield maintenance grant	-	166,467
	<b>142,294,062</b>	<b>105,683,727</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	39,769,422	26,230,224
Sportfield Grant	-	812,333
CBD Road Rehabilitation	-	133,000
Massification (Ward 10)	27,166,704	-
	<b>66,936,126</b>	<b>27,175,557</b>
	<b>209,230,188</b>	<b>132,859,284</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	93,330,253	132,485,685
Unconditional grants received	115,965,000	92,161,000
	<b>209,295,253</b>	<b>224,646,685</b>

### Equitable Share

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

All the residents with electricity get a Free Basic Electricity monthly allowance of 50kWh (2015: 50kWh), which is funded from the Equitable Share.

### Municipal Government Grant

Balance unspent at beginning of year	23,974	23,974
--------------------------------------	--------	--------

Conditions still to be met - remain liabilities (see note 15). Provincial Local Government grants are used to implement administrative and financial framework and to improve governance. The grants are spent in accordance with a business plan approved by the Provincial Government.

### Capacity Building

Balance unspent at beginning of year	40,882	40,882
--------------------------------------	--------	--------

Conditions still to be met - remain liabilities (see note 15). Provincial Local Government grants are used to implement administrative and financial framework and to provide a municipal infrastructure framework. The grants are spent in accordance with a business plan approved by the Provincial Government

### MPCC

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>23. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	500,000	500,000
Other	(500,000)	-
	<u>-</u>	<u>500,000</u>

Conditions still to be met - remain liabilities (see note 15).

This grant was repaid to KZN COGTA due to its non-spending as there were problems on the functioning of MPCC which KZNCOGTA had not finalised.

### MFMA

Balance unspent at beginning of year	<u>2,602</u>	<u>2,602</u>
--------------------------------------	--------------	--------------

Conditions still to be met - remain liabilities (see note 15).

### Cybercadet

Balance unspent at beginning of year	26,997	(159,829)
Current-year receipts	(340,000)	-
Conditions met - transferred to revenue	346,257	186,826
	<u>33,254</u>	<u>26,997</u>

Conditions still to be met - remain liabilities (see note 15).

Library assistants are appointed and their salaries paid monthly.

Provincial Library Grants were allocated to subsidise the purchase of equipment for municipal libraries as well as contribution towards library staff salaries. Further funding was received for the installation of computer hardware and software for public internet access, the cost of the internet connectivity, furniture to house these computers and salaries for the employment of "cybercadets". The subsidies are spent in accordance with a business plan approved by the Provincial Government. No funds have been withheld.

### Intergrated Development Plan Grant

Balance unspent at beginning of year	<u>172,531</u>	<u>172,531</u>
--------------------------------------	----------------	----------------

Conditions still to be met - remain liabilities (see note 15).

Improvement in the IDP processes will be undertaken in the ensuing financial year..

### Municipal Infrastructure Grant

Balance unspent at beginning of year	(2,210,221)	4,832,095
Current-year receipts	35,246,000	22,220,000
Conditions met - transferred to revenue	(33,035,779)	(29,262,316)
	<u>-</u>	<u>(2,210,221)</u>

Conditions still to be met - remain liabilities (see note 15). National Conditional Grant are allocated in terms of the Division of Revenue Act. This grant is used to construct roads infrastructure as part of the uplifting the community, 15% of the funds should be spent on the sports facilities. No funds have been withheld.

There was over-expenditure on this grant which was approved by the council to be funded from own funding and will be recovered in the next financial year.

### Municipal Systems Improvement Grant

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>23. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	248,375	(147,277)
Current-year receipts	930,000	930,000
Conditions met - transferred to revenue	(657,037)	(534,348)
Unspent grant withheld	(394,000)	-
	<b>127,338</b>	<b>248,375</b>

Conditions still to be met - remain liabilities (see note 15). National Conditional Grant are allocated in terms of the Division of Revenue Act. The Municipal Systems Improvement Grant is used to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation. Additional text

An amount unspent in previous years amounting to R 394 000 was withheld from the current year Equitable share.

### Finance Management Grant

Balance unspent at beginning of year	75,512	(3,090)
Current-year receipts	1,616,844	1,800,000
Conditions met - transferred to revenue	(1,616,356)	(1,721,398)
Unspent grant withheld	(76,000)	-
	<b>-</b>	<b>75,512</b>

Conditions still to be met - remain liabilities (see note 15).

.National Conditional Grants are allocated in terms of the Division of Revenue Act. The Financial Management Grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

An amount unspent in previous years amounting to R 76 000 was withheld from the current year Equitable share.

### COGTA Massification (Electrification) grant

Balance unspent at beginning of year	13,970,000	-
Current-year receipts	14,000,000	13,970,000
Conditions met - transferred to revenue	(27,166,704)	-
	<b>803,296</b>	<b>13,970,000</b>

Conditions still to be met - remain liabilities (see note 15).

This is the the Provincial Government grants from the Co-operative Government and Traditional Affairs department to fund the electrification of households in wards 3, 10 and 13. The contractor is on site. This project is under the distribution licence area of Eskom and on commissioning it will be handed over to Eskom for operating.

### Bornem grant

Balance unspent at beginning of year	660,690	148,662
Current-year receipts	325,463	1,042,185
Conditions met - transferred to revenue	(812,878)	(530,157)
	<b>173,275</b>	<b>660,690</b>

Conditions still to be met - remain liabilities (see note 15).

This grants is from the Bornem municipality in Belgium which the municipality has the city to city co-operation and they give us funding to implement projects of mutual interest like youth, children, education. Projects under the MOA are still outstanding and under SCM processes

### Library Volunteer

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>23. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	48,005	8,765
Current-year receipts	42,000	78,000
Conditions met - transferred to revenue	(40,375)	(38,760)
	<b>49,630</b>	<b>48,005</b>

Conditions still to be met - remain liabilities (see note 15).

The volunteers are appointed but they are getting their stipends monthly.

### Small business incubator grant

Balance unspent at beginning of year	17,986	17,986
--------------------------------------	--------	--------

Conditions still to be met - remain liabilities (see note 15).

This is the the Provincial Government grants from the Co-operative Government and Traditional Affairs department to fund the construction of the business incubator. The contractor is on site and finishing off the building for phase I.

### Sportsfield grant (Isilonjane)

Balance unspent at beginning of year	20,331	20,331
--------------------------------------	--------	--------

Conditions still to be met - remain liabilities (see note 15).

This is the the Provincial Government grants from the Sports and Recreation department to fund the refurbishment of Isilonjane Stadium. The stadium has been completed and these funds will be returned to the department should there be no further usage approved.

### DOE Electrification Grant

Balance unspent at beginning of year	698,559	25,000
Current-year receipts	20,000,000	8,500,000
Conditions met - transferred to revenue	(20,000,000)	(7,826,441)
Unspent grant withheld	(698,559)	-
	<b>-</b>	<b>698,559</b>

Conditions still to be met - remain liabilities (see note 15).

The contractor is on-site and the electrification is underway. Department of Minerals and Energy provided a grant in support of Electrification Projects. The grants are spent in accordance with an approved business plan. This project is under the distribution licence area of Eskom and on commissioning it will be handed over to Eskom for operating.

An amount unspent in previous years amounting to R 699 000 was withheld from the current year Equitable share.

### Extended Public Works Grant

Balance unspent at beginning of year	191,664	-
Current-year receipts	1,529,000	1,254,000
Conditions met - transferred to revenue	(1,720,664)	(1,062,336)
	<b>-</b>	<b>191,664</b>

Conditions still to be met - remain liabilities (see note 15). National Conditional Grants are allocated in terms of the Division of Revenue Act. The grant is to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in compliance with EPWP Guidelines. Additional text

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

---

Figures in Rand	2016	2015
-----------------	------	------

---

### 23. Government grants and subsidies (continued)

#### Sportsfield Maintenance Grant

Balance unspent at beginning of year	38,012	164,479
Current-year receipts	-	40,000
Conditions met - transferred to revenue	-	(166,467)
	<u>38,012</u>	<u>38,012</u>

Conditions still to be met - remain liabilities (see note 15).

This is the the Provincial Government grants from the Sports and Recreation department to fund the operation and maintenance of the sportsfield. The caretaker is appointed and salary paid monthly.

#### Nquthu Stadium Grant

Current-year receipts	-	812,333
Conditions met - transferred to revenue	-	(812,333)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 15).

This is the the Provincial Government grants from the Sports and Recreation department to fund the refurbishment of Nquthu Stadium, this has been finished.

#### Library Support

Balance unspent at beginning of year	-	165,583
Current-year receipts	1,106,000	-
Conditions met - transferred to revenue	(1,106,000)	(165,583)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 15).

Library support staff is appointed and their salaries paid monthly.

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

### 24. Commissions received

Commissions received	<u>122,019</u>	<u>106,635</u>
----------------------	----------------	----------------

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>25. General expenses</b>		
Advertising	287,132	107,615
Audit Committee	69,796	74,036
Auditors remuneration	1,936,742	2,547,914
Bank charges	159,477	145,753
Cleaning	521,062	409,757
Commission paid	82,195	77,488
Community Development Projects	2,540,420	1,338,842
Computer expenses	352,050	-
Consulting and professional fees	2,019,141	2,210,991
Consumables	1,373,476	1,142,681
Delivery expenses	3,368,383	3,370,996
Disaster management	1,012,780	722,836
Electricity	422,852	315,250
Entertainment	108,978	120,945
Rural Electrification Subsidies	-	22,347,684
Food for waste program	849,235	971,720
Fuel and oil	1,565,364	2,018,640
Hire	248,000	202,025
IT expenses	280,888	249,055
Indigent Support( FBE)	3,139,342	3,234,786
Insurance	710,071	673,899
Magazines, books and periodicals	-	27,083
Medical expenses	15,500	-
Motor vehicle expenses	216,365	178,112
Printing and stationery	370,403	261,943
Promotions and sponsorships	458,131	447,591
Publicity	1,478,426	1,663,769
Software expenses	1,808,167	802,109
Subscriptions and membership fees	506,525	505,320
Telephone and fax	315,220	301,554
Tourism development	170,429	74,154
Training	917,297	1,527,776
Travel - local	4,248,462	4,231,598
Uniforms	598,271	391,083
Ward Committees Stipends	2,305,136	1,318,623
Youth development and training	8,159,481	5,600,301
	<b>42,615,197</b>	<b>59,613,929</b>

The details on the Grants Operating Expenditure is disclosed in note 23 in terms of its nature of expenditure.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>26. Employee related costs</b>		
Basic	27,857,497	23,524,657
Bonus	1,990,578	1,627,092
Medical aid - company contributions	1,032,083	899,179
UIF	236,615	201,674
WCA	1,152,590	-
SDL	310,413	267,685
Leave pay provision charge	1,227,143	1,182,337
Group Life Insurance	5,474	5,018
Defined contribution plans	2,977,975	2,487,957
Overtime payments	1,020,290	573,964
Long-service awards	362,776	267,018
Housing benefits and allowances	25,200	15,667
Telephone and Cellphone Allowance	6,600	46,800
SALGBC Levies	13,394	12,227
	<b>38,218,628</b>	<b>31,111,275</b>

The salaries of the Senior Management detailed below are included in the overall salary cost above.

### Remuneration of municipal manager

Annual Remuneration	1,054,301	956,214
Contributions to UIF & SDL	12,030	11,610
Other	12,000	12,000
	<b>1,078,331</b>	<b>979,824</b>

### Remuneration of chief finance officer

Annual Remuneration	928,539	842,152
Contributions to UIF & SDL	10,698	10,337
Other	6,000	6,000
	<b>945,237</b>	<b>858,489</b>

### Corporate and human resources (corporate services)

Annual Remuneration	905,097	758,615
Contributions to UIF & SDL	9,959	9,642
Other	6,000	6,000
	<b>921,056</b>	<b>774,257</b>

### Development planning and Housing

Annual Remuneration	905,097	758,615
Contributions to UIF & SDL	10,070	9,753
Other	6,000	6,000
	<b>921,167</b>	<b>774,368</b>

### Technical Services

Annual Remuneration	905,097	758,615
Contributions to UIF & SDL	9,969	9,652
Other	6,000	6,000
	<b>921,066</b>	<b>774,267</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>27. Remuneration of councillors</b>		
Mayor	782,480	655,846
Deputy Mayor	630,878	529,571
Executive Committee Members	1,354,544	1,291,388
Speaker	369,597	312,222
Councillors	6,818,323	6,541,503
Contributions to UIF and SDL	60,081	58,207
	<b>10,015,903</b>	<b>9,388,737</b>

### In-kind benefits

The Mayor, Deputy Mayor were designated by MEC to be full-time from October 2014, Speaker is part-time. Each is provided with an office and the Mayor is provided with secretarial support at the cost of the Council.

The Mayor have the use of Council owned vehicle for official duties, the Mayor has one full-time driver.

The Councillor allowances are as per the Government Notice No. R 1271 dated 21 December 2015 and approved by the MEC for CoGTA at 100% of upper-limits as applicable to grade 3 for full-time and part-time councillors.

### 28. Debt impairment

Contributions to debt impairment provision	1,124,372	1,361,591
--	-----------	-----------

### 29. Investment revenue

#### Interest revenue

Bank	10,368,197	7,540,262
------	------------	-----------

### 30. Depreciation and amortisation

Property, plant and equipment	11,158,660	8,343,312
-------------------------------	------------	-----------

### 31. Finance costs

Non-current borrowings	15,442	28,540
------------------------	--------	--------

### 32. Auditors' remuneration

External Audit Fees	867,010	1,020,893
Internal Audit Fees	1,069,732	1,527,021
	<b>1,936,742</b>	<b>2,547,914</b>

### 33. Operating lease

The municipality is leasing photocopying machines on a 36 months operating starting on 01 March 2014 and ending on 28 February 2017, with an annual escalation on rentals of 10%, the other contract will end 30 September 2017. There is no contingent rent payable.

#### Minimum lease payment

- within one year	128,395	168,240
- later than one year and not later than five years	7,749	136,144
- later than later five years	-	1
	<b>136,144</b>	<b>304,385</b>

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>34. Contracted services</b>		
Security	3,099,618	2,663,637
<b>35. Bulk purchases</b>		
Electricity	16,138,484	17,314,896
<b>36. Cash generated from operations</b>		
Surplus	133,815,519	38,209,561
<b>Adjustments for:</b>		
Depreciation and amortisation	11,158,660	8,343,312
Profit/Loss on sale of assets and liabilities	187,672	20,127
Movements in retirement benefit assets and liabilities	138,150	14,256
Movements in provisions	1,028,107	885,971
Prior-year adjustments	271,331	2,628,662
<b>Changes in working capital:</b>		
Inventories	(245,981)	(11,143)
Receivables from exchange transactions	(2,008,534)	284,732
Other receivables from non-exchange transactions	(10,476,690)	(2,724,857)
Prepayments	1,390,095	(1,329,395)
Payables from exchange transactions	(8,421,693)	15,056,912
VAT	(6,364,896)	(2,947,172)
Unspent conditional grants and receipts	(13,022,788)	8,005,813
Consumer deposits	26,193	113,349
Employee benefit obligation -current portion	147,976	103,683
Housing Development fund	5,260	94,959
	<b>107,628,381</b>	<b>66,748,770</b>
<b>37. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted</b>		
• Property, plant and equipment (Work in progress)	17,808,709	36,148,683
<b>Not yet contracted for and authorised by accounting officer</b>		
• Property, plant and equipment	22,355,282	27,321,724
<b>Total capital commitments</b>		
Already contracted for	17,808,709	36,148,683
Not yet contracted for and authorised by accounting officer	22,355,282	27,321,724
	<b>40,163,991</b>	<b>63,470,407</b>

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

### Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. Additional information on leases is disclosed on note 33

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

---

Figures in Rand

2016

2015

---

### 38. Contingencies

The Municipality has the following contingent liabilities:

A middle-income housing developer contracted by the municipality is suing the municipality for an alleged breach of the contract and the municipality is defending the matter and is awaiting legal advice of the Senior Counsel (there are also various cases linked to this case, which maybe treated as one which were lodged by prospective buyers), exact amounts cannot be determined because the developer has been refusing to handover all the information to the municipality.

There are invoices - R 2 792 516 - from Umzinyathi District for water that the municipality is disputing because issues relating to them and the matter is being currently resolved through Intergovernmental Relations (IGR)

### 39. Related parties

The salaries of members of key management and councilors are disclosed under the employee costs note 26. The municipality does not have any other related parties except for the management and councilors we also do not have a municipal entity.

#### Related party transactions

The municipality did not have any related party transactions.

### 40. Change in estimate

There were no changes in estimates this year.

### 41. Prior period errors

There were no prior period errors identified.

### 42. Comparative figures

No comparative figures have been reclassified.

### 43. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: the current global economic crisis may have effect whereby businesses closes and fail to pay their debts due, also the unemployment levels will increase and more debts maybe written-off.

#### Interest rate risk

As the municipality does have significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates. But the municipality is only investing on banks as per Cash and Investment regulations which limits the exposure.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. .

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>44. Going concern</b>		
The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.		
<b>45. Events after the reporting date</b>		
There were no material non-adjusting events after the reporting date.		
<b>46. Unauthorised expenditure</b>		
There were no unauthorised expenditure recorded in the financial year.		
<b>47. Fruitless and wasteful expenditure</b>		
Opening balance	78,452	73,712
Fruitless and wasteful expenditure	477,646	4,740
	<b>556,098</b>	<b>78,452</b>
The matter is being investigated by the office of the Accounting Officer for possible disciplinary action against the officials who caused the municipality to suffer loss. These relate to interest charged on late payment of accounts (Eskom, Telkom & Motor Vehicle licences)		
<b>48. Irregular expenditure</b>		
The municipality incurred the irregular expenditure as disclosed in note 52		
Add: Irregular Expenditure - current year	-	2,299,043
Less: Amounts condoned and written-off	-	(2,299,043)
	-	-
<b>49. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Amount paid - current year	475,000	475,000
<b>Audit fees</b>		
Current year subscription / fee	867,010	1,020,893
Amount paid - current year	(867,010)	(1,020,893)
	-	-
<b>PAYE and UIF</b>		
Current year subscription / fee	6,234,951	5,290,690
Amount paid - current year	(6,234,951)	(5,290,690)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	5,465,733	3,563,384
Amount paid - current year	(5,465,733)	(3,563,384)
	-	-

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

Figures in Rand	2016	2015
<b>49. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>VAT</b>		
VAT receivable	11,945,446	5,580,550

All VAT returns have been submitted by the due date throughout the year. The refunds for December 2015, January, March, April, May, June 2016 were only made by SARS during the month of July 2016 that is why the VAT debtor is high. Several enquiries were made with SARS in respect of this amount. SARS paid the interest for late refunds when they made refunds.

### Councillors' arrear consumer accounts

There were no Councillors who had arrear accounts outstanding for more than 90 days at June 30, 2016 or who had accounts outstanding for more than 90 days during a financial year.

### Supply chain management regulations disclosure

#### 50. Actual operating expenditure versus budgeted operating expenditure

Explanations for the variances on comparison of actual operating expenditure versus budgeted expenditure are stated below. Only variances of above 10% are provided with explanations.

##### 51.1 Statement of financial performance

###### 51.1.1 REVENUE

**Service charges** - Consumption of electricity is based on demand by residents which fluctuates and losses as disclosed in the material electricity losses

**Rental of facilities and equipment** - Rental income is usage dependant which cannot be controlled

**Government grants and subsidies** - Additional grants received (MIG, Massification), increased in spending on grants.

**Miscellaneous other revenue** - Income is ad hoc and municipality has no control over

**Interest received - investment** - Investing of funds not required immediately to earn high interest

###### 5.1.2 EXPENDITURE

**Depreciation** - Major infrastructure projects completed earlier than expected

**Finance costs** -

**Repairs and maintenance** - Repairs and planned maintenance are done as required, expenditure is based on those

**Bulk purchases** - Based on electricity consumption patterns by the consumerst

**Contracted Services** - Reduction of the outsourced activities

**General Expenses** - Cost containment strategies to reduce costs and unnecessary spending in line with priorities set like publicity, accomodation, printing and stationery etc.

#### 51. Actual capital expenditure versus budgeted capital expenditure

The explanations for variances above 10% on the comparison of actual capital expenditure versus budgeted expenditure are provided below.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

---

Figures in Rand	2016	2015
-----------------	------	------

---

### 52. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the municipal council and includes a note to the financial statements.

### 53. Assets subject to restrictions

There are no assets that are subject to any restrictions.

### 54. Budget differences

#### Material differences between budget and actual amounts

There were no material differences between the final budget and the actual amounts.

#### Changes from the approved budget to the final budget

There were no changes from the approved budget to the final budget.

### 55. Material Losses - Electricity

#### kWh value

Total purchased (kWh)	22,345,972	18,799,200
Total sold (kWh)	(8,544,978)	(6,691,652)
Own consumption (kWh)	(122,137)	(110,625)
Free Basic Electricity (kWh)	(463,100)	(579,322)
<b>Electricity loss (kWh)</b>	<b>13,215,757</b>	<b>11,417,601</b>

#### Monetary value

Average selling price per kWh	1.105	1.222
Electricity loss (R)	14,601,480	13,956,173

The municipality is licensed by the National Electricity Regulator of South Africa to distribute electricity within the proclaimed area of Nquthu Town.

The municipality has investigated the causes of the losses and the major contributing factors are illegal connections, tampering, accounting for streetlight usage and technical/distribution losses due to ageing infrastructure.

The percentage of losses is 59.14% (2015:63.80%) in kWh values.

### 56. Indigent support

Indigent Support( FBE)	3,139,342	3,234,786
------------------------	-----------	-----------

All Eskom customers qualify for Free Basic Electricity (FBE) which is 50kWh per month

Households amounting to 1 180 are subsidized for alternative energy per month on the solar panels - 1 713 households - projects for those areas without electricity as yet, installations to other households is proceeding.

Electricity customers serviced by our licence also get a 50kWh every month. The management has been tasked to develop a policy where only deserving households benefits in all these rather than the current blanket approach.

# Nquthu Local Municipality

Financial Statements for the year ended June 30, 2016

## Notes to the Financial Statements

---

Figures in Rand	2016	2015
-----------------	------	------

---

### 57. Awards to persons in service of state

There were no awards made to people who are in employ of the state. The MBD 4 forms are used as a control measure for this.

**Unaudited Schedule of external loans as at 30 June 2016**

<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at Tuesday, June 30, 2015</b>	<b>Received during the period</b>	<b>Redeemed written off during the period</b>	<b>Balance at Thursday, June 30, 2016</b>	<b>Carrying Value of Property, Plant &amp; Equip Rand</b>	<b>Other Costs in accordance with the MFMA Rand</b>
		<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>
<b>Development Bank of South Africa</b>							
DBSA Loan @ 5%	100524/3 January 2016	367,785	-	242,142	125,643	1,604,137	-
		<b>367,785</b>	<b>-</b>	<b>242,142</b>	<b>125,643</b>	<b>1,604,137</b>	<b>-</b>
Total external loans		<b>367,785</b>	<b>-</b>	<b>242,142</b>	<b>125,643</b>	<b>1,604,137</b>	<b>-</b>

**Nquthu Local Municipality**  
**Nquthu Local Municipality**  
**Unaudited Appendix B**

June 2016

**Analysis of property, plant and equipment as at 30 June 2016**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land (Separate for AFS purposes)	13,270,852	-	-	-	-	-	<b>13,270,852</b>	-	-	-	-	-	-	13,270,852
Dwellings	2,284,926	519,600	-	-	-	-	<b>2,804,526</b>	(462,900)	-	-	(149,265)	-	<b>(612,165)</b>	2,192,361
Buildings - non residential (Separate for AFS purposes)	42,715,382	13,028,991	-	-	-	-	<b>55,744,373</b>	(8,255,963)	-	-	(2,114,410)	-	<b>(10,370,373)</b>	45,374,000
Buildings - Assets under construction (Separate for AFS purposes)	29,706,254	63,537,790	-	(13,212,109)	-	-	<b>80,031,935</b>	-	-	-	-	-	-	80,031,935
	<b>87,977,414</b>	<b>77,086,381</b>	-	<b>(13,212,109)</b>	-	-	<b>151,851,686</b>	<b>(8,718,863)</b>	-	-	<b>(2,263,675)</b>	-	<b>(10,982,538)</b>	<b>140,869,148</b>
<b>Infrastructure</b>														
Roads, Pavements & Bridges	90,003,623	19,564,232	(555,432)	-	-	-	<b>109,012,423</b>	(17,802,914)	436,085	-	(4,181,962)	-	<b>(21,548,791)</b>	87,463,632
Electricity	12,476,162	36,268	-	-	-	-	<b>12,512,430</b>	(5,781,652)	-	-	(501,737)	(15,599)	<b>(6,298,988)</b>	6,213,442
Roads Under Construction	21,554,759	28,112,319	-	(19,562,650)	-	-	<b>30,104,428</b>	-	-	-	-	-	-	30,104,428
	<b>124,034,544</b>	<b>47,712,819</b>	<b>(555,432)</b>	<b>(19,562,650)</b>	-	-	<b>151,629,281</b>	<b>(23,584,566)</b>	<b>436,085</b>	-	<b>(4,683,699)</b>	<b>(15,599)</b>	<b>(27,847,779)</b>	<b>123,781,502</b>
<b>Community Assets</b>														
Refuse sites	2,269,459	-	-	-	-	-	<b>2,269,459</b>	(1,280,944)	-	-	(58,736)	-	<b>(1,339,680)</b>	929,779
Cemeteries	823,034	-	-	-	-	-	<b>823,034</b>	(58,902)	-	-	(82,149)	-	<b>(141,051)</b>	681,983
	<b>3,092,493</b>	-	-	-	-	-	<b>3,092,493</b>	<b>(1,339,846)</b>	-	-	<b>(140,885)</b>	-	<b>(1,480,731)</b>	<b>1,611,762</b>

**Nquthu Local Municipality**  
**Nquthu Local Municipality**  
**Unaudited Appendix B**

June 2016

**Analysis of property, plant and equipment as at 30 June 2016**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Heritage assets</b>														
Jewellery	78,888	-	-	-	-	-	78,888	-	-	-	-	-	-	78,888
	<b>78,888</b>	-	-	-	-	-	<b>78,888</b>	-	-	-	-	-	-	<b>78,888</b>
<b>Other assets</b>														
Motor Vehicles	16,800,856	10,909,869	-	-	-	-	27,710,725	(4,287,251)	-	-	(2,496,471)	-	(6,783,722)	20,927,003
Plant & equipment	4,818,962	988,416	(15,176)	-	-	-	5,792,202	(1,859,590)	9,160	-	(386,950)	(1,282)	(2,238,662)	3,553,540
Computer Equipment	3,084,958	168,307	(278,140)	-	-	-	2,975,125	(1,416,634)	244,608	-	(487,333)	(896)	(1,660,255)	1,314,870
Office Equipment	3,889,418	326,539	(94,118)	-	-	-	4,121,839	(1,897,667)	65,341	-	(455,495)	(4,099)	(2,291,920)	1,829,919
Work in progress - Vehicles	1,229,446	-	(1,229,446)	-	-	-	-	-	-	-	-	-	-	-
	<b>29,823,640</b>	<b>12,393,131</b>	<b>(1,616,880)</b>	-	-	-	<b>40,599,891</b>	<b>(9,461,142)</b>	<b>319,109</b>	-	<b>(3,826,249)</b>	<b>(6,277)</b>	<b>(12,974,559)</b>	<b>27,625,332</b>
<b>Total property plant and equipment</b>														
Land and buildings	87,977,414	77,086,381	-	(13,212,109)	-	-	151,851,686	(8,718,863)	-	-	(2,263,675)	-	(10,982,538)	140,869,148
Infrastructure	124,034,544	47,712,819	(555,432)	(19,562,650)	-	-	151,629,281	(23,584,566)	436,085	-	(4,683,699)	(15,599)	(27,847,779)	123,781,502
Community Assets	3,092,493	-	-	-	-	-	3,092,493	(1,339,846)	-	-	(140,885)	-	(1,480,731)	1,611,762
Heritage assets	78,888	-	-	-	-	-	78,888	-	-	-	-	-	-	78,888
Other assets	29,823,640	12,393,131	(1,616,880)	-	-	-	40,599,891	(9,461,142)	319,109	-	(3,826,249)	(6,277)	(12,974,559)	27,625,332
	<b>245,006,979</b>	<b>137,192,331</b>	<b>(2,172,312)</b>	<b>(32,774,759)</b>	-	-	<b>347,252,239</b>	<b>(43,104,417)</b>	<b>755,194</b>	-	<b>(10,914,508)</b>	<b>(21,876)</b>	<b>(53,285,607)</b>	<b>293,966,632</b>
<b>Intangible assets</b>														
Computers - software & programming	623,878	-	-	-	-	-	623,878	(163,684)	-	-	(153,438)	-	(317,122)	306,756
	<b>623,878</b>	-	-	-	-	-	<b>623,878</b>	<b>(163,684)</b>	-	-	<b>(153,438)</b>	-	<b>(317,122)</b>	<b>306,756</b>
<b>Investment properties</b>														
Investment property	1,999,640	-	-	-	-	-	1,999,640	(977,800)	-	-	(68,840)	-	(1,046,640)	953,000
	<b>1,999,640</b>	-	-	-	-	-	<b>1,999,640</b>	<b>(977,800)</b>	-	-	<b>(68,840)</b>	-	<b>(1,046,640)</b>	<b>953,000</b>
<b>Total</b>														
Land and buildings	87,977,414	77,086,381	-	(13,212,109)	-	-	151,851,686	(8,718,863)	-	-	(2,263,675)	-	(10,982,538)	140,869,148
Infrastructure	124,034,544	47,712,819	(555,432)	(19,562,650)	-	-	151,629,281	(23,584,566)	436,085	-	(4,683,699)	(15,599)	(27,847,779)	123,781,502
Community Assets	3,092,493	-	-	-	-	-	3,092,493	(1,339,846)	-	-	(140,885)	-	(1,480,731)	1,611,762
Heritage assets	78,888	-	-	-	-	-	78,888	-	-	-	-	-	-	78,888
Other assets	29,823,640	12,393,131	(1,616,880)	-	-	-	40,599,891	(9,461,142)	319,109	-	(3,826,249)	(6,277)	(12,974,559)	27,625,332
Intangible assets	623,878	-	-	-	-	-	623,878	(163,684)	-	-	(153,438)	-	(317,122)	306,756
Investment properties	1,999,640	-	-	-	-	-	1,999,640	(977,800)	-	-	(68,840)	-	(1,046,640)	953,000
	<b>247,630,497</b>	<b>137,192,331</b>	<b>(2,172,312)</b>	<b>(32,774,759)</b>	-	-	<b>349,875,757</b>	<b>(44,245,901)</b>	<b>755,194</b>	-	<b>(11,136,786)</b>	<b>(21,876)</b>	<b>(54,649,369)</b>	<b>295,226,388</b>



**Nquthu Local Municipality**  
**Unaudited Appendix E(1)**

June 2016

**Unaudited Actual versus Budget(Revenue and Expenditure) for the year ended  
30 June 2016**

	<b>Current year 2016 Act. Bal.</b>	<b>Current year 2016 Adjusted budget Rand</b>	<b>Variance Rand</b>	<b>Var</b>	<b>Explanation of Significant Variances greater than 10% versus Budget</b>
<b>Revenue</b>					
Property rates	20,493,450	20,804,862	(311,412)	(1.5)	Changes in property values during the year
Service charges	13,631,465	18,188,081	(4,556,616)	(25.1)	Consumption of electricity is based on demand by residents which fluctuates and losses as disclosed in the material electricity losses
Rental of facilities and equipment	509,986	422,159	87,827	20.8	Rental income is usage dependant which cannot be controlled
Government grants and subsidies	209,230,188	185,958,000	23,272,188	12.5	Additional grants received (MIG, Massification)
Miscellaneous other revenue	4,102,177	3,585,539	516,638	14.4	Income is ad hoc and municipality has no control over
Interest received - investment	10,368,197	8,588,338	1,779,859	20.7	Investing of funds not required immediately to earn high interest
	<b>258,335,463</b>	<b>237,546,979</b>	<b>20,788,484</b>	<b>8.8</b>	
<b>Expenses</b>					
Personnel	(38,218,628)	(38,966,433)	747,805	(1.9)	Some employees not using housing, medical benefits as budgeted. Overtime restriction
Remuneration of councillors	(10,015,903)	(10,101,559)	85,656	(0.8)	Approved upper-limits more than budgeted for and new items added on approval
Depreciation	(11,136,785)	(9,177,644)	(1,959,141)	21.3	Major infrastructure projects completed earlier than expected
Finance costs	(15,442)	(155,407)	139,965	(90.1)	
Bad debts provision	(1,124,372)	(1,185,000)	60,628	(5.1)	Decrease in debt collection due to increase in poverty levels
Repairs and maintenance - General	(1,788,473)	(12,562,020)	10,773,547	(85.8)	Repairs and planned maintenance are done as required, expenditure is based on those
Bulk purchases	(16,138,484)	(18,800,000)	2,661,516	(14.2)	Based on electricity consumptions patterns by the consumers
Contracted Services	(3,257,113)	(7,831,000)	4,573,887	(58.4)	Reduction of the outsourced activities
Transfers and Subsidies	(5,751,332)	(6,129,000)	377,668	(6.2)	
General Expenses	(35,935,432)	(52,519,972)	16,584,540	(31.6)	Cost containment strategies to reduce costs and unnecessary spending
	<b>(123,381,964)</b>	<b>(157,428,035)</b>	<b>34,046,071</b>	<b>(21.6)</b>	
Other revenue and costs					
Net surplus/ (deficit) for the year	134,953,499	80,118,944	54,834,555	68.4	

**Nquthu Local Municipality**  
**Unaudited Appendix E(2)**

June 2016

**Budget Analysis of Capital Expenditure as at 30 June**  
**2016**

	Yearly		Yearly		Explanation of significant variances from budget
	Additions	Revised Budget	Variance	Variance	
	Rand	Rand	Rand	%	
<b>Municipality</b>					
Mayor and Council	86,612	-	(86,612)	-	
Municipal Manager	15,126,884	1,305,000	(13,821,884)	(1,059)	
Planning and Development/Economic Development/Plan	630,435	38,673,000	38,042,565	98	
Finance & Admin/Finance	860,255	-	(860,255)	-	
Corporate service	1,571,425	59,993,000	58,421,575	97	
Road Transport/Roads	32,777,081	-	(32,777,081)	-	
Electricity /Electricity Distribution	50,638	5,200,000	5,149,362	99	
	<b>51,103,330</b>	<b>105,171,000</b>	<b>54,067,670</b>	<b>51</b>	

Nquthu Local Municipality  
Appendix F  
Unaudited Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003  
June 2016

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld				Reason for delay/withholding of funds	Did municipality comply with the conditions of the grant framework in relation to Divisions of Revenue Act
Library support	KZN-Arts & Culture (Libraries)	1,106,000	-	-	-	285,270	297,000	252,716	310,212	-	-	-	-		Y
Eletrification		20,000,000	-	-	-	16,880,316	-	699,000	3,119,684	-	-	-	-		Y
Cybercadet		340,000	-	-	-	86,234	91,724	75,191	80,593	-	-	-	-		Y
MPCC1	KZN COGTA	-	-	-	-	-	500,000	-	-	-	-	-	-		Y
MIG	National COGTA	5,000,000	10,000,000	20,246,000	-	10,505,077	10,815,449	7,621,798	10,827,097	-	-	-	-		Y
Sportfield Nquthu	KZN Sports	-	-	-	-	-	-	-	-	-	-	-	-		Y
Sportfield Maintance	KZN Sports	-	-	-	-	-	-	-	-	-	-	-	-		Y
MSIG	COGTANational	930,000	-	-	-	9,029	796,508	-	245,500	-	-	-	-		Y
Bornem Grant	Bornem Municipality	-	30,730	294,733	-	40,984	258,397	351,058	162,439	-	-	-	-		Y
Financial Management Grant	National Treasury	1,800,000	-	-	-	299,991	610,136	560,332	470,118	-	-	-	-		Y
Synergistic		-	-	-	-	-	-	-	-	-	-	-	-		Y
Massification Electricity EPW	KZN - COGTA	-	14,000,000	-	-	-	5,471,060	18,101,784	3,593,854	-	-	-	-		Y
Road Reh.	KZN COGTA	612,000	459,000	458,000	-	420,220	1,312,100	-	-	-	-	-	-		Y
Library Volunteer		-	-	-	-	-	-	-	-	-	-	-	-		Y
		42,000	-	-	-	9,690	9,690	9,690	11,305	-	-	-	-		Y
		29,830,000	24,489,730	20,998,733	-	28,536,811	20,162,064	27,671,569	18,820,802	-	-	-	-		

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.

**Nquthu Local Municipality**  
**Unaudited Appendix G3**  
**Unaudited Budgeted Financial Performance (revenue and expenditure)**  
**for the year ended June 30, 2016**

	2015/2016								2014/2015						
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
<b>Revenue By Source</b>															
Property rates	17,400,000	-	17,400,000	-		17,400,000	12,675,884		(4,724,116)	73 %	73 %				17,837,520
Property rates - penalties & collection charges	702,600	-	702,600	-		702,600	1,513,460		810,860	215 %	215 %				1,264,854
Service charges - electricity revenue	15,964,000	-	15,964,000	-		15,964,000	11,728,412		(4,235,588)	73 %	73 %				9,797,702
Service charges - water revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - sanitation revenue	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Service charges - refuse revenue	1,347,000	-	1,347,000	-		1,347,000	1,903,053		556,053	141 %	141 %				2,432,406
Service charges - other	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Rental of facilities and equipment	608,714	61,974	670,688	-		670,688	509,986		(160,702)	76 %	84 %				485,304
Interest earned - external investments	2,900,000	1,700,000	4,600,000	-		4,600,000	10,368,197		5,768,197	225 %	358 %				7,540,262
Interest earned - outstanding debtors	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Dividends received	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Fines	250,000	-	250,000	-		250,000	762,644		512,644	305 %	305 %				629,383
Licences and permits	-	-	-	-		-	676,412		676,412	DIV/0 %	DIV/0 %				84,526
Agency services	-	-	-	-		-	-		-	DIV/0 %	DIV/0 %				-
Transfers recognised - operational	97,485,000	-	97,485,000	-		97,485,000	115,965,000		18,480,000	119 %	119 %				92,161,000
Other revenue	(1,015,904)	-	(1,015,904)	-		(1,015,904)	1,149,660		2,165,564	(113)%	(113)%				(1,980,047)
Gains on disposal of PPE	-	-	-	-		-	(187,672)		(187,672)	DIV/0 %	DIV/0 %				(20,127)
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>135,641,410</b>	<b>1,761,974</b>	<b>137,403,384</b>	<b>-</b>		<b>137,403,384</b>	<b>157,065,036</b>		<b>19,661,652</b>	<b>114 %</b>	<b>116 %</b>				<b>130,232,783</b>

**Nquthu Local Municipality**  
**Unaudited Appendix G3**  
**Unaudited Budgeted Financial Performance (revenue and expenditure)**  
**for the year ended June 30, 2016**

	2015/2016								2014/2015						
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget (i.t.o. s28 and s31 of the MFMA)	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Budget Rand	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
<b>Expenditure By Type</b>															
Employee related costs	43,644,405	751,000	44,395,405	-	90,948	44,486,353	38,218,628	-	(6,267,725)	86 %	88 %	-	-	-	31,111,269
Remuneration of councillors	18,179,507	34,000	18,213,507	-	-	18,213,507	10,015,902	-	(8,197,605)	55 %	55 %	-	-	-	9,388,738
Debt impairment	1,200,000	-	1,200,000	-	-	1,200,000	1,124,372	-	(75,628)	94 %	94 %	-	-	-	1,361,591
Depreciation & asset impairment	6,500,000	-	6,500,000	-	-	6,500,000	11,158,660	-	4,658,660	172 %	172 %	-	-	-	8,343,312
Finance charges	148,000	(130,000)	18,000	-	12,000	30,000	15,442	-	(14,558)	51 %	10 %	-	-	-	28,540
Bulk purchases	18,800,000	-	18,800,000	-	1,173,000	19,973,000	16,138,484	-	(3,834,516)	81 %	86 %	-	-	-	17,314,896
Other materials	808,000	149,000	957,000	-	-	957,000	-	-	(957,000)	- %	- %	-	-	-	-
Contracted services	3,284,601	146,000	3,430,601	-	-	3,430,601	3,099,618	-	(330,983)	90 %	94 %	-	-	-	2,663,637
Transfers and grants	9,868,000	(660,000)	9,208,000	-	207,719	9,415,719	15,209,263	-	5,793,544	162 %	154 %	-	-	-	-
Other expenditure	30,394,282	2,888,000	33,282,282	-	-	33,282,282	10,904,293	-	(22,377,989)	33 %	36 %	-	-	-	47,928,465
Loss on disposal of PPE	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
<b>Total Expenditure</b>	<b>132,826,795</b>	<b>3,178,000</b>	<b>136,004,795</b>	<b>-</b>	<b>1,483,667</b>	<b>137,488,462</b>	<b>105,884,662</b>	<b>-</b>	<b>(31,603,800)</b>	<b>77 %</b>	<b>80 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>118,140,448</b>
<b>Surplus/(Deficit)</b>	<b>2,814,615</b>	<b>(1,416,026)</b>	<b>1,398,589</b>	<b>-</b>	<b>(1,483,667)</b>	<b>(85,078)</b>	<b>51,180,374</b>	<b>-</b>	<b>51,265,452</b>	<b>(60,157)%</b>	<b>1,818 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,092,335</b>
Transfers recognised - capital	80,259,000	(40,069,000)	40,190,000	-	-	40,190,000	-	-	(40,190,000)	- %	- %	-	-	-	-
Contributions recognised - capital	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
Contributed assets	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>83,073,615</b>	<b>(41,485,026)</b>	<b>41,588,589</b>	<b>-</b>	<b>-</b>	<b>41,588,589</b>	<b>51,180,374</b>	<b>-</b>	<b>9,591,785</b>	<b>123 %</b>	<b>62 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,092,335</b>
Taxation	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
<b>Surplus/(Deficit) after taxation</b>	<b>83,073,615</b>	<b>(41,485,026)</b>	<b>41,588,589</b>	<b>-</b>	<b>-</b>	<b>41,588,589</b>	<b>51,180,374</b>	<b>-</b>	<b>9,591,785</b>	<b>123 %</b>	<b>62 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,092,335</b>
Attributable to minorities	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
<b>Surplus/(Deficit) attributable to municipality</b>	<b>83,073,615</b>	<b>(41,485,026)</b>	<b>41,588,589</b>	<b>-</b>	<b>-</b>	<b>41,588,589</b>	<b>51,180,374</b>	<b>-</b>	<b>9,591,785</b>	<b>123 %</b>	<b>62 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,092,335</b>
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	<b>83,073,615</b>	<b>(41,485,026)</b>	<b>41,588,589</b>	<b>-</b>	<b>-</b>	<b>41,588,589</b>	<b>51,180,374</b>	<b>-</b>	<b>9,591,785</b>	<b>123 %</b>	<b>62 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,092,335</b>

**Nquthu Local Municipality**  
**Unaudited Appendix G5**  
**Budgeted Cash Flows**  
**for the year ended June 30, 2016**

	2015/2016					2015			
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Final Budget	Actual Outcome	Variance of Actual Outcome against Adjustments Budget Rand	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
<b>Cash flow from operating activities</b>									
<b>Receipts</b>									
Ratepayers and other	153,531,410	-	153,531,410	153,531,410	302,123,256	148,591,846	197 %	197 %	233,683,436
Government - operating	-	-	-	-	115,965,000	115,965,000	DIV/0 %	DIV/0 %	92,161,000
Government - capital	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
Interest	-	-	-	-	10,368,197	10,368,197	DIV/0 %	DIV/0 %	7,540,262
Dividends	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
<b>Payments</b>									
Suppliers and employees	134,429,161	-	134,429,161	134,429,161	75,483,837	(58,945,324)	56 %	56 %	147,363,727
Finance charges	-	-	-	-	15,442	15,442	DIV/0 %	DIV/0 %	28,540
Transfers and Grants	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
<b>Net cash flow from/used operating activities</b>	<b>287,960,571</b>	<b>-</b>	<b>287,960,571</b>	<b>287,960,571</b>	<b>503,955,732</b>	<b>215,995,161</b>	<b>175 %</b>	<b>175 %</b>	<b>480,776,965</b>
<b>Cash flow from investing activities</b>									
<b>Receipts</b>									
Proceeds on disposal of PPE	-	-	-	-	(187,672)	(187,672)	DIV/0 %	DIV/0 %	(20,127)
Decrease (Increase) in non-current debtors	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
Decrease (increase) other non-current receivables	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
Decrease (increase) in non-current investments	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
<b>Payments</b>									
Capital assets	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
<b>Net cash flow from/used investing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(187,672)</b>	<b>(187,672)</b>	<b>DIV/0 %</b>	<b>DIV/0 %</b>	<b>(20,127)</b>
<b>Cash flow from financing activities</b>									
<b>Receipts</b>									
Short term loans	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
Borrowing long term/refinancing	-	-	-	-	(125,643)	(125,643)	DIV/0 %	DIV/0 %	(241,440)
Increase (decrease) in consumer deposits	-	-	-	-	26,193	26,193	DIV/0 %	DIV/0 %	113,347
<b>Payments</b>									
Repayment of borrowing	-	-	-	-	-	-	DIV/0 %	DIV/0 %	-
<b>Net cash flow from/used financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(99,450)</b>	<b>(99,450)</b>	<b>DIV/0 %</b>	<b>DIV/0 %</b>	<b>(128,093)</b>
<b>Net increase/(decrease) in cash held</b>	<b>287,960,571</b>	<b>-</b>	<b>287,960,571</b>	<b>287,960,571</b>	<b>503,668,610</b>	<b>215,708,039</b>	<b>175 %</b>	<b>175 %</b>	<b>480,628,745</b>
Cash/cash equivalents at the year begin:					114,553,368				94,959,862
<b>Cash/cash equivalents at the year end:</b>	<b>287,960,571</b>	<b>-</b>	<b>287,960,571</b>	<b>287,960,571</b>	<b>618,221,978</b>	<b>215,708,039</b>	<b>215 %</b>	<b>215 %</b>	