

# ANNUAL FINANCIAL STATEMENTS

for

INGQUZA HILL LOCAL MUNICIPALITY

For the period ended 30 June

2017

Province:

Eastern Cape

## Contact Information:

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**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2017

**General information**

**Municipal demarcation code: EC 153**

**Members of the Executive Council and Leadership**

Councillor J P Mdingi	Mayor
Councillor N Capa	Speaker
Councillor M Tenyane	Chief Whip
Councillor S H Mtshazo	MPAC Chair
Councillor P Dutshwa	Members Interest Chair
Councillor Z Mhlongo	Public Participation & Petitions Committee Chair
Councillor B J Nkani	Women's Caucus Chair
Councillor M R Ziphathe	Member of the Executive Committee
Councillor V Gwegwe	Member of the Executive Committee
Councillor B B Goya	Member of the Executive Committee
Councillor T Jotile	Member of the Executive Committee
Councillor V Somani	Member of the Executive Committee
Councillor B Mvulani	Member of the Executive Committee
Councillor M M Mkumla	Member of the Executive Committee
Councillor N A Gagai	Member of the Executive Committee
Councillor S B Vatsha	Member of the Executive Committee

**Municipal Manager**

M Fihlani

**Acting Chief Financial Officer**

Z Sodladla

**Grading of Local Authority**

Grade 3 : Low Capacity

**Auditors**

Auditor-General(South Africa)

**Bankers**

First National Bank  
Flagstaff Branch  
6224175712 - Primary bank account

**Lawyers**

FT Tayi Incorporated  
Ximbi Ncolo and Associates

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2017

General information (continued)

Registered Office:	135 Main Street, Flagstaff
Physical addresses:	
Flagstaff Office	135 Main Street FLAGSTAFF 4810
Lusikisiki Office	66 Main Street LUSIKISIKI 4820
Postal addresses:	
Flagstaff Office	PO Box 14 FLAGSTAFF 4810
Lusikisiki Office	PO Box 7 LUSIKISIKI 4820
Telephone numbers:	
Flagstaff	039 252 0131
Lusikisiki	039 253 1568
Fax numbers:	
Flagstaff	039 252 0699
Lusikisiki	039 253 1096
E-mail address:	<a href="mailto:mfhlani@ihlm.gov.za">mfhlani@ihlm.gov.za</a>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2017

**Foreword**

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

As a responsible local government sphere, we have worked hard during the period under review to execute the mandate given to us by the communities, we serve to advance their basic social needs and reduce the infrastructure development backlog that is faced by the our This is our main business as the local sphere of South African Government in terms of Section 216 of the Constitution of the Republic of South Africa and other pieces of legislation governing local government.

As a developing local government institution, we place very high emphasis on total compliance with the legislation governing our

We will continue to place great focus on empowering our public representatives to ensure a vigorous oversight and leadership role in the management of public funds.

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

Thank you

\_\_\_\_\_  
Councillor J P Mdingi  
**Mayor**

\_\_\_\_\_  
Date

INGQUZA HILL LOCAL MUNICIPALITY



ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2017

Accounting Officer's Statement

I, Mluleki Fihlani, am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 60, in terms of Section 126(1) of the Municipal Finance Management Act No 56 of 2003(MFMA) and which I have signed on behalf of the Municipality.

I also certify that the salaries, allowances and benefits of Councillors as disclosed in notes 19 and 36 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution Act No 108 of 1996 of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act No 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

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

\_\_\_\_\_  
Flagstaff  
at (place of signing)

\_\_\_\_\_  
Date

INGQUZA HILL LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS  
For the year ended 30 June 2017

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INGQUZA HILL LOCAL MUNICIPALITY  
STATEMENT OF FINANCIAL PERFORMANCE  
For the year ended 30 June 2017

	Notes	2017 R	2016 R
<b>REVENUE</b>			
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>			
<b>TAXES</b>			
Property rates	13	21 367 983	19 666 779
<b>TRANSFERS AND FINES</b>			
Government grants and subsidies	15	262 043 361	273 941 148
Fines		1 314 500	1 111 150
Interest earned - outstanding receivables	43	1 216 193	752 905
<b>REVENUE FROM EXCHANGE TRANSACTIONS</b>			
Service charges - refuse	14	1 119 231	922 246
Rental of facilities		11 661	18 229
Interest earned - external investments	43.2	7 952 902	6 404 636
Interest earned - outstanding receivables	43	681 555	699 009
Lease rentals		769 891	791 294
Other income	16	3 682 192	4 514 388
<b>Total Revenue</b>		<b>300 159 469</b>	<b>308 821 785</b>
<b>EXPENDITURE</b>			
Employee related costs	18	91 910 835	83 579 362
Remuneration of Councillors	19	18 984 403	17 824 651
Repairs and maintenance	31	17 644 111	15 165 502
Impairment of debtors	35	5 580 825	5 471 932
Impairment expense	41	4 632 032	1 015 145
Interest paid	20	387 912	578 056
General expenses	23	73 939 452	48 149 288
Depreciation	8	35 700 974	35 120 590
<b>Total Expenditure</b>		<b>248 780 544</b>	<b>206 904 526</b>
Gain on fair value adjustment	21	-	-313 675
Loss on sale of assets	42	-	-
<b>SURPLUS FOR THE YEAR</b>		<b>51 378 925</b>	<b>101 603 584</b>

INGQUZA HILL LOCAL MUNICIPALITY  
STATEMENT OF FINANCIAL POSITION  
As at 30 June 2017

	Notes	2017 R	Restated balances 2016 R
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net assets</b>		<b>1 072 957 866</b>	<b>1 020 477 877</b>
Accumulated surplus	1	1 072 957 866	1 020 477 877
<b>Non-current liabilities</b>		<b>11 443 618</b>	<b>11 293 181</b>
Long term loan - DBSA	2	6 825 840	6 825 840
Finance lease liability	39	-	195 297
Long service awards	2	4 617 778	4 272 044
<b>Current liabilities</b>		<b>39 641 213</b>	<b>41 861 323</b>
Provisions	3	8 824 360	6 823 069
Current portion of finance lease liability	39	195 320	291 574
Current portion of long service awards	9.1	1 302 694	1 245 638
Trade and other payables from exchange transactions	4	25 671 044	26 282 136
Unspent conditional grants and receipts	5	3 647 794	6 644 420
Trade and other payables from non exchange transactions	17	-	459 463
Sundry payables	4	-	115 023
<b>Total Net Assets and Liabilities</b>		<b>1 124 042 695</b>	<b>1 073 632 380</b>
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>994 204 863</b>	<b>958 389 428</b>
Property, plant and equipment	8	548 399 340	512 883 067
Investment property	10	439 816 630	439 966 630
Investment held as a colateral	6	5 988 893	5 539 732
<b>Current assets</b>		<b>129 837 832</b>	<b>115 242 952</b>
Consumer receivables from non-exchange transactions	11	12 747 725	7 630 025
Sundry receivables from exchange transactions	11	16 752 337	11 669 308
VAT receivable	12	25 689 786	7 333 560
Inventory	26	23 088 938	15 456 338
Cash and cash equivalents	7	51 559 046	73 153 721
<b>Total Assets</b>		<b>1 124 042 695</b>	<b>1 073 632 381</b>



**INGQUZA HILL LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
For the year ended 30 June 2017

	Notes	Accumulated Surplus/(Deficit)	Total
<b><u>2016</u></b>		<b>R</b>	<b>R</b>
Balance at 01 July 2015		930 422 566	930 422 566
Revaluation surplus		-	-
Change in accounting policy		-	-
Balance at 01 July 2015		<b>930 422 566</b>	<b>930 422 566</b>
Correction of errors	32	745 240	745 240
Surplus for the year		89 759 562	89 759 562
Current adjustments		224 054	224 054
Revaluation increase		-	-
<b>Balance at 30 June 2016</b>		<b>1 021 151 422</b>	<b>1 021 151 422</b>
<b><u>2017</u></b>			
Balance at 01 July 2016		1 021 151 422	1 021 151 422
Revaluation surplus		-	-
Change in accounting policy		-	-
<b>Opening balance as previously reported</b>		1 021 151 422	1 021 151 422
Correction of errors	32	427 518	427 518
<b>Opening balance restated</b>		<b>1 021 578 940</b>	<b>1 021 578 940</b>
Surplus for the year		51 378 925	51 378 925
Current adjustments		-	-
Revaluation increase		-	-
<b>Balance at 30 June 2017</b>		<b>1 072 957 866</b>	<b>1 072 957 866</b>

# INGOUZA HILL LOCAL MUNICIPALITY

## CASH FLOW STATEMENT

For the year ended 30 June 2017

	Notes	2017 R	2016 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		<b>300 159 469</b>	<b>315 501 967</b>
Property rates		21 367 983	19 666 779
Sales of goods and services		5 113 030	3 981 158
Grants	15	262 043 361	273 941 148
Interest received		7 952 903	6 404 636
Other receipts		3 682 192	11 508 246
Payments		<b>252 182 054</b>	<b>221 128 012</b>
Employee costs		109 794 175	102 575 767
Suppliers		141 999 966	111 487 112
Interest paid		387 912	578 056
Other payments/movements		-	6 487 077
<b>Net cash flows from operating activities</b>	<b>29</b>	<b><u>47 977 416</u></b>	<b><u>94 373 955</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets (PPE)	8.2	(68 831 378)	(40 099 887)
Investment held as a collateral	6	(449 161)	(416 548)
<b>Net cash flows from investing activities</b>		<b><u>(69 280 538)</u></b>	<b><u>(40 516 435)</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Finance lease (payments)/receipts	39	(291 552)	(291 574)
<b>Net cash flows from financing activities</b>		<b><u>(291 552)</u></b>	<b><u>(291 574)</u></b>
<b>Net increase /(decrease) in net cash and cash equivalents</b>		<b>(21 594 675)</b>	<b>53 565 946</b>
<b>Net cash and cash equivalents at beginning of period</b>		<b>73 153 721</b>	<b>19 587 775</b>
<b>Net cash and cash equivalents at end of period</b>	<b>7</b>	<b><u><u>51 559 046</u></u></b>	<b><u><u>73 153 721</u></u></b>

INGQUZA HILL LOCAL MUNICIPALITY  
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
As at 30 June 2017

Description	Actual 2017	Approved Budget 2017	Adjustments	Final Budget 2017	Variance	Management comments
	R	R	R	R	R	
<b>Revenue</b>						
Rates and taxes	21 367 983	15 000 000	-	15 000 000	-42%	N/A
Fees, fines, penalties & licences	4 283 741	6 434 080	(2 702 908)	3 731 172	-15%	Most of the line items here are demand driven from the clients and the negative of the current market
Revenue from exchange transactions	11 248 191	35 518 417	(34 993)	35 483 424	68%	Most of the line items here are demand driven from the clients and the negative of the current market
Transfers from other governments	261 047 916	257 893 000	-	257 893 000	-1%	N/A
Other operating income	2 211 638	14 948 256	29 632 901	44 581 157	95%	Most of the line items here are demand driven from the clients and the negative of the current market
<b>Total revenue</b>	<b>300 159 469</b>	<b>329 793 753</b>	<b>26 895 000</b>	<b>356 688 753</b>	<b>16%</b>	
<b>Expenses</b>						
Personnel	110 895 238	125 983 924	5 137 735	131 121 659	15%	Some budgeted benefits are not yet realised by the employees and these are some vacant positions
General expenditure	73 939 452	65 664 901	2 685 329	68 350 230	-8%	N/A
Capital expenditure	18 652 750	115 977 000	20 293 355	136 270 355	86%	Expenditure is transferred to assets capitalised, refer to Note 8.2 on additions to PPE
Repairs and maintenance	17 644 111	21 699 989	(1 221 421)	20 478 568	14%	Repairs and maintenance per clusters started late because of the rainy season
Finance costs	387 912	467 940	-	467 940	17%	N/A
<b>Total expenditure</b>	<b>221 519 463</b>	<b>329 793 754</b>	<b>26 894 999</b>	<b>356 688 753</b>	<b>38%</b>	
<b>Un-adjustment surplus for the year</b>	<b>78 640 007</b>					

Surplus for the year 51 378 925

	27 261 081
Depreciation	35 700 974
Gain of fair value adjustment	-
Impairment expense	4 632 032
Impairment of debtors	5 580 825
Other current year movement	(18 809 106)
Finance costs	(387 912)
HR provisions	544 268
	<b>78 640 007</b>

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

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

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2017**

**1. BASIS OF ACCOUNTING**

**1.1 Basis of presentation**

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

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

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statement
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated and separate financial statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment reporting
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 21	Impairment of non cash generating assets
GRAP 23	Revenue from non exchange transactions
GRAP 24	Presentation of budget information in financial statements
GRAP 25	Employee benefits
GRAP 26	Impairment of cash generating assets
GRAP 27	Agriculture
GRAP 31	Intangible assets
GRAP 100	Discontinued operations
GRAP 103	Heritage assets
GRAP 104	Financial instruments
GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

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

GRAP 20	Related party disclosures
GRAP 32	Service concession arrangements:Grantor
GRAP 34	Separate Financial Statements
GRAP 35	Consolidated Financial Statements
GRAP 36	Investments in associates and joint ventures
GRAP 37	Joint arrangements
GRAP 32	Service concession arrangements:Grantor
GRAP 38	Disclosure of interest in other entities
GRAP 108	Statutory receivables
GRAP 109	Accounting by principals and agents
GRAP 110	Living and non-living resources

**The effective date for the below standard is 1 April 2019**

IGRAP 18	Recognition and decognition of land
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The impact of the above standards: the Municipality already has the accounting policy for the above standards and is already complying with the requirements of these accounting standards.

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

**INGQUZA HILL LOCAL MUNICIPALITY  
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS  
For the year ended 30 June 2017**

**1. BASIS OF ACCOUNTING(continued)**

**1.2 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the Municipality. All figures have been rounded off to the nearest one Rand.

**1.3 Going concern assumption**

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

**1.4 Comparative information**

**Budget Information**

Budget information prepared in accordance with GRAP 1 and GRAP 24 has been provided to these financial statements and forms part of the Annual Financial Statements. The budget information is prepared on the same basis as the Annual Financial Statements for the year ended 30 June 2017.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy or adoption of accounting standard in the current year, the adjustment is made retrospectively as far practicable and the prior year comparatives are restated accordingly.

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

The Municipality is fully complying with all the relevant GRAP standards.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2017**

**2. RESERVES**

**2.1 Government Grants Reserve**

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

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

**2.2 Revaluation Reserve**

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

**3. PROPERTY, PLANT AND EQUIPMENT**

**3.1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used for more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price or construction costs and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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

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

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

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2017**

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

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

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

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

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

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

**3.3 Depreciation and impairment**

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

**Infrastructure**

Access roads 20 years

**Community assets**

Graveyard 50 years

**Other**

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

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

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

**3.4 Derecognition**

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

**4. INVESTMENT PROPERTY**

**4.1 Initial recognition**

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

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

Where an investment property is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at the provisional amount.

**4.2 Subsequent measurement - fair value model**

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

**INGQUZA HILL LOCAL MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
**For the year ended 30 June 2017**

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

**4.3 Derecognition**

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

**5. TRADE AND OTHER RECEIVABLES**

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

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

**6. TRADE PAYABLES AND BORROWINGS**

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

**7. CASH AND CASH EQUIVALENTS**

**7.1 Cash and cash equivalents**

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets at amortised cost and are initially recognised at the fair value, plus transaction costs and subsequently carried at amortised cost using the effective interest rate method.

Bank overdrafts are recorded based on the facility utilised. Finance charges on the bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities at amortised cost, are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method.

**7.2 Investments**

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

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

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



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**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)**  
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**8. INVENTORIES**

**8.1 Initial recognition**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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

**8.2 Subsequent Measurement**

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

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

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

**9. FINANCIAL INSTRUMENTS ( continued)**

The Municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

**9 Financial Assets - Classification and Measurement**

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

- a) Investment in fixed deposits (Banking Institutions, etc)
- b) Investment held as a collateral
- c) Consumer receivables from non-exchange transactions
- d) Sundry receivables from exchange transactions
- e) Cash and cash equivalents

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**9. FINANCIAL INSTRUMENTS (continued)**

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

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

Financial assets at fair value are financial assets that meet either of the following conditions:

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

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

Financial assets at amortised costs are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition, financial assets are subject to impairment. Financial assets at amortised cost are initially recognised at fair value plus transaction cost and subsequently carried at amortised cost, less provision for impairment.

**9.2 Financial liabilities - Classification and Measurement**

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

- Long term liabilities
- Trade and payables from exchange and non-exchange transactions
- Bank overdraft
- Short term loans
- Current portion of long term liabilities
- Finance lease liability

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

- At fair value or
- Financial liabilities at amortised costs

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**For the year ended 30 June 2017**

**9. FINANCIAL INSTRUMENTS**

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

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

Any other financial liabilities are classified as financial liabilities at amortised cost and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

**9.3 Initial and Subsequent Measurement**

**9.3. Financial Assets**

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

Financial assets at fair value and available for sale are initially and subsequently, at the end of each financial year, measured at fair value with the surplus or deficit being recognised in the Statement of Financial Performance.

**9.3. Financial liabilities**

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

**9.3. Impairment of Financial Assets**

Financial assets at amortised cost other than those at fair value are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence of impairment of financial assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence, the recoverable amount is estimated and an impairment loss is recognised.

Initially trade receivables are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debts based on past default experience of all outstanding amounts at year end. Bad debts are written off the year in which they are identified as irrecoverable.

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

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

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**9. FINANCIAL INSTRUMENTS (continued)**

**9.3. Impairment of Financial Assets (continued)**

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

In respect of financial assets at cost, impairment losses previously recognised through surplus or deficit are not reversed through the Statement of Financial Performance. Any increase in fair value subsequent to an impairment loss is recognised directly in net assets.

Consumer and sundry receivables are stated at cost less a provision for impairment. The provision is made in accordance with GRAP 104 whereby the recoverability of consumer and sundry receivables is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. Government accounts are not provided because such accounts are regarded as receivable.

**9.3. Derecognition of Financial Assets**

The Municipality derecognises financial assets only when the contractual rights to the cash flows from the assets expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when the Council approves the write-off of financial assets due to non-recoverability.

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

**9.3. Derecognition of Financial Liabilities**

The Municipality derecognises financial liabilities when the Municipality's obligations are discharged, cancelled or they expire.

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**10. RISK MANAGEMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

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

Risks and exposure are disclosed as follows:

**10.1 Credit Risk**

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

**10.2 Liquidity Risk**

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

**11. PROVISIONS**

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (this for example applies in the case of obligations for the rehabilitation of the landfill site).

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

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

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**12. LEASES**

**12.1 Municipality as lessee**

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

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

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

**12.1 Municipality as lessor**

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

**13. CONDITIONAL GRANTS AND RECEIPTS**

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

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**14. REVENUE**

**14.1 Revenue from exchange transactions**

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

Interest revenue is recognised on a time proportion basis.

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

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

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

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

**14.2 Revenue from non-exchange transactions**

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

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

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

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

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**14. Revenue from non-exchange transactions(continued)**

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

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

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

**15. GRANTS, TRANSFERS AND DONATIONS**

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

**16. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, Municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance.

**17. IRREGULAR EXPENDITURE**

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

**18. FRUITLESS AND WASTEFUL EXPENDITURE**

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

**19. RELATED PARTIES**

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

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



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**20 BORROWING COSTS**

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

**21 EMPLOYEE BENEFITS**

**21.1 Post Employment Benefits**

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

**21.2 Short Term Employee Benefits**

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

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

**21.3 Long term employee benefits**

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

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

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

current service cost,  
interest cost,  
the expected return on any plan assets and on any reimbursement right recognised as an asset,  
actuarial gains and losses, which is recognised immediately,

**22 EVENTS AFTER THE REPORTING DATE**

The Municipality considers events that occur after the reporting date for inclusion in the annual financial statements. Events that occur after the reporting date (30 June 2017) and the date on which the audit of the financial statements is completed (30 November 2017) are considered for inclusion in the annual financial statements.

**23 IMPAIRMENT OF ASSETS**

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

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

**23.1 Impairment of cash generating assets**

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

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

**23.2 Impairment of non cash generating assets**

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

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

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

**24 INTANGIBLE ASSETS**

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

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

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

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

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

**Subsequent Measurement, Amortisation and Impairment**

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

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

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

Intangible asset useful lives:

- Software 3
- Website 5

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

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		2017 R	2016 R
<b>1 ACCUMMULATED SURPLUS</b>			
Opening balance		1 015 045 106	930 422 566
Movements :		57 028 957	102 402 687
Council		(22 915 110)	(10 421 493)
Municipal Manager		(28 186 232)	(18 769 907)
Budget and Treasury Office		196 765 438	192 581 720
Administration		(29 657 978)	(31 117 991)
Community and Social Services		(39 824 251)	(30 116 138)
Infrastructure		(1 977 643)	9 739 643
Planning and Development		(17 175 267)	(9 493 148)
Prior year adjustments	32	-	(5 821 100)
Other retained income movements		-	(11 640 682)
Revaluation Increase/fair value adjustment	10	-	(318 365)
Closing balance		<u><u>1 072 074 063</u></u>	<u><u>1 015 045 106</u></u>

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	2017 R	2016 R
<b>2 LONG TERM LIABILITY</b>		
Loan - Development Bank of Southern Africa(DBSA)	6 825 840	6 825 840
Interest accrued - DBSA- included in sundry creditors (note 4)	-	114 870
Total amount owed to DBSA as at 30 June 2017	<u>6 825 840</u>	<u>6 940 711</u>
Long Service Awards (LSA) (Short term portion Note 9.1)	4 617 778	4 272 044
	<u>11 443 618</u>	<u>11 212 755</u>
<p>The DBSA external loan is repayable in 2019. The fixed interest rate is 6.75% per annum. One bullet payment at the end of term from proceedings of zero coupon bonds. The payment shall commence on the last day of half year during which the first disbursement was advanced to the Municipality. The loan is secured by the investment held with FNB-RMB (Rand Merchant Bank) which was ceded to the DBSA which is an investment on zero coupon bond and has the following details:</p> <ul style="list-style-type: none"> <li>- Account number - 128331</li> <li>- Type of account – RMB</li> <li>- Value – R 5 988 893</li> </ul> <p>The loan was used to acquire property, plant and equipment.</p>		
<b>3 PROVISIONS</b>		
<b>3.1 Bonus provision</b>		
Opening balance	1 652 703	1 540 839
Addition to unpaid bonuses	336 672	111 864
The uncertainty is the timing of the bonus payments. The accrual calculation is based on the thirteen cheque payable that falls due within the current year. The municipality has an obligation to pay a service bonus in terms of its condition of employment.	<u>1 989 375</u>	<u>1 652 703</u>
<b>3.2 Performance bonus</b>		
Opening balance	4 817 313	3 002 926
Addition to unpaid performance bonuses	1 653 230	1 814 387
This is a provision for performance bonuses due to all Section 57 managers. Its based on 14% of annual all inclusive salary as at 30 June 2017. The uncertainty is on the assessment by Evaluation Committee and approval by Council.	<u>6 470 543</u>	<u>4 817 313</u>
<b>3.3 Landfill sites</b>		
Opening balance	353 053	141 777
Addition of Flagstaff site to the provision and expenditure increase	11 389	211 275
Provision for the restoration of the landfill site. The Municipality received an approval by the Office of The Environmental Affairs. The municipality has a landfill site where it will need to rehabilitate the land at the end of its useful life. The estimated cost at this time is per above. The assessment was done by a	<u>364 442</u>	<u>353 053</u>
Total current provisions(Notes 3.1 + 3.2 + 3.3)	<u>8 824 360</u>	<u>6 823 069</u>

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

	2017 R	2016 R
<b>4 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Retentions with-held from contractors	11 276 413	10 622 092
Trade payables	2 837 748	6 050 556
Accrual for leave pay	7 383 786	7 578 979
Net salaries clearance	-	-
Credit card	55	152
Prepaid income	3 451 337	833 556
Other accruals	721 705	1 196 954
<b>Balance at the end of the year</b>	<b><u>25 671 044</u></b>	<b><u>26 282 289</u></b>
<b>Sundry payables</b>		
Interest on DBSA Loan (refer to note 2)	-	114 870
Petrol card	-	152
	<b><u>-</u></b>	<b><u>115 022</u></b>

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

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

**5 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

Department of Energy (DOE) - Electrification	468 378	3 243 559
Local Economic Development (LED)	3 179 415	3 400 861
	<b><u>3 647 794</u></b>	<b><u>6 644 420</u></b>

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

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

	2017 R	2016 R
<b>6 INVESTMENT HELD AS A COLATERAL</b>		
Investment held as a colateral - FNB: RMB	5 988 893	5 539 732
<b>NB:</b> this is a financial asset - (see Note 2)		
<b>7 CASH AND CASH EQUIVALENTS</b>		
The Municipality has the following bank accounts:		
<b>7.1 <u>First National Bank - 6224175712 - Type of account: Current Account (Primary Bank Account)</u></b>		
Bank statement balance at the beginning of the year	1 234 570	1 134 499
Bank statement balance at the end of the year	3 241 721	1 234 570
<b>7.2 <u>Current and call accounts</u></b>		
FNB - 6224175712 - primary account	3 241 721	1 234 570
FNB - 12813351 - RMB call	-	-
FNB - 62003235307 - call account	19 476 981	7 487 682
FNB - 62219877836 - call account	198 673	191 257
FNB - 74233699310 - call account	22 826 100	21 332 143
FNB - 62231474537 - call account	129 049	2 452 214
FNB - 62231473761 - call account	5 686 487	40 455 820
<b>Bank balances at the end of the year</b>	<b>51 559 011</b>	<b>73 153 686</b>
<b>Bank statement balance at the end of the year</b>	<b>51 559 011</b>	<b>73 153 686</b>
<b>7.3 Petty cash balance</b>	<b>35</b>	<b>35</b>
<b>Bank and cash balance(7.2 + 7.3)</b>	<b>51 559 046</b>	<b>73 153 721</b>
<b>Cash and cash equivalents</b>	<b>51 559 046</b>	<b>73 153 721</b>

INGOUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

8.2 Analysis of property plant and equipment as at

30 June 2017	Cost					Accumulated Depreciation						Carrying Value
	Opening Balance	Additions	Impairment	Transfer to Completed	Revaluation	Closing Balance	Opening Balance	Additions	Impairment	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	R	
<b>Land and Buildings</b>												
Land and buildings	68 073 159	2 258 820	-	-17 384 525	-	52 947 454	1 008 381	442 545	-	-	1 450 925	51 496 529
	<b>68 073 159</b>	<b>2 258 820</b>	<b>-</b>	<b>-17 384 525</b>	<b>-</b>	<b>52 947 454</b>	<b>1 008 381</b>	<b>442 545</b>	<b>-</b>	<b>-</b>	<b>1 450 925</b>	<b>51 496 529</b>
<b>Infrastructure</b>												
Infrastructure - Work in Progress	89 384 484	-		(11 519 281)		77 865 203	-	-	-			77 865 203
Street lights	632 031	-				632 031	115 134	106 078	-		221 212	410 819
High Masts	425 208	8 212 553.12				8 637 761	239 825	5 253	-		245 078	8 392 683
Access Roads	434 286 651	35 234 198				470 186 845	140 271 642	29 564 020	-		169 835 662	300 351 184
	<b>524 728 374</b>	<b>43 446 751</b>	<b>-</b>	<b>-11 519 281</b>	<b>-</b>	<b>557 321 840</b>	<b>140 626 601</b>	<b>29 675 350</b>	<b>-</b>		<b>170 301 951</b>	<b>387 019 888</b>
<b>Community assets</b>												
Graveyard	62 049					62 049	39 760	3 686	-		43 446	18 603
Sport field	7 311 400	5 661 713				12 973 112	800 416	732 691			1 533 107	11 440 005
Community Halls	37 335 539	1 849 801				39 185 340	2 501 652	1 583 530	-		4 085 182	35 100 158
Wetlands	-	308 222				308 222		25 544			25 544	282 678
Pound fencing	-	542 039				542 039		38 657			38 657	503 382
Drivers licence Testing Centre	-	33 226 370				33 226 370		84 991			84 991	33 141 379
	<b>44 708 988</b>	<b>41 588 145</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>86 297 133</b>	<b>3 341 828</b>	<b>2 469 099</b>	<b>-</b>		<b>5 810 927</b>	<b>80 486 206</b>
<b>Leased assets</b>												
Printing Machine	1 161 943	-	-	-	-	1 161 943	617 279	308 494			925 727	236 216
<b>Other assets</b>												
Landfill site	336 212					336 212	241 292	40 179			281 471	54 742
Fire arms	102 905	-				102 905	9 312	18 015			27 327	75 578
Furniture and fittings	2 103 773	654 136		-		2 757 910	993 937	301 143			1 295 081	1 462 829
Plant and equipment	17 006 870	11 026 298				28 033 168	3 576 401	1 696 822			5 273 224	22 759 944
Motor vehicles	5 590 057	-	0			5 590 057	3 246 500	626 167			3 872 667	1 717 391
Mobile office	453 000	-	0			453 000	122 720	30 200			152 920	300 080
Tools, arms & mobile office	1 993 637	485 922				2 479 558	539 962	227 071			767 033	1 712 525
Computer equipment	2 004 875	227 965	-7 523			2 225 318	1 056 773	96 077	-4 942		1 147 908	1 077 410
	<b>29 591 330</b>	<b>12 394 321</b>	<b>-7 523</b>	<b>-</b>	<b>-</b>	<b>41 978 129</b>	<b>9 786 896</b>	<b>3 035 675</b>	<b>-4 942</b>	<b>0</b>	<b>12 817 629</b>	<b>29 160 500</b>
	<b>668 263 793</b>	<b>99 688 038</b>	<b>-7 523</b>	<b>(28 903 806)</b>	<b>-</b>	<b>739 706 499</b>	<b>155 380 986</b>	<b>35 931 163</b>	<b>-4 942</b>	<b>0</b>	<b>191 307 159</b>	<b>548 399 340</b>

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

30 June 2016												Carrying Value	
		Cost	Revaluation					Accumulated Depreciation					
	Opening Balance	Additions /		Transfer / Completed	Prior year Correction	Closing Balance	Opening Balance	Additions	Disposals	Correction	Closing Balance		R
R	R	R	R	R	R	R	R	R	R	R	R	R	
<b>Land and Buildings</b>													
Land and buildings	56 402 054	11 671 105	-	-	-	68 073 159	566 840	441 540	-	-	1 008 380	67 064 778	
	<b>56 402 054</b>	<b>11 671 105</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>68 073 159</b>	<b>566 840</b>	<b>441 540</b>	<b>-</b>	<b>-</b>	<b>1 008 380</b>	<b>67 064 778</b>	
Infrastructure													
<b>Infrastructure - Work in Progress</b>	94 498 267	-		-5 951 745	837 962	89 384 484	-	-	-		-	89 384 484	
Street lights	-	632 031				632 031	-	115 134	-		115 134	516 897	
High Masts	-	425 208				425 208	-	239 825	-		239 825	185 383	
Access Roads	371 404 622	63 548 025			-665 996	434 286 651	110 500 307	29 771 335	-		140 271 642	294 015 009	
	<b>465 902 889</b>	<b>64 605 263</b>	<b>-</b>	<b>-5 951 745</b>	<b>171 966</b>	<b>524 728 373</b>	<b>110 500 307</b>	<b>30 126 294</b>	<b>-</b>	<b>-</b>	<b>140 626 601</b>	<b>384 101 772</b>	
<b>Community assets</b>													
Graveyard	62 049					62 049	32 705	2 692	-		35 397	26 652	
Sport field	4 138 472	3 172 928				7 311 400	75 966	724 450			800 416	6 510 984	
Community Halls	28 628 520	8 707 019				37 335 539	1 065 095	1 440 918	-		2 506 013	34 829 526	
	<b>32 829 041</b>	<b>11 879 946</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44 708 988</b>	<b>1 173 766</b>	<b>2 168 060</b>	<b>-</b>	<b>-</b>	<b>3 341 825</b>	<b>41 367 162</b>	
<b>Leased assets</b>													
Painting Machine	1 161 943	-	-	-	-	1 161 943	285 043	332 236			617 279	544 664	
<b>Other assets</b>													
Landfill site	401 107		64 894			336 212	257 113	48 864			241 292	94 920	
Fire arms	25 231	-			77 674	102 905	6 782	2 530			9 312	93 594	
Furniture and fittings	1 655 150	518 835	70 212	-		2 103 773	794 080	260 182	60 325		993 937	1 109 836	
Plant and equipment	6 492 270	11 288 500.00	773 900			17 006 870	3 347 892	759 981			3 576 401	13 430 469	
Motor vehicles	6 476 847	-	886 790			5 590 057	2 506 495	876 063	136 058		3 246 500	2 343 558	
Mobile office	453 000	-				453 000	92 437	30 283			122 720	330 280	
Tools, arms & mobile office	1 169 728	826 713	2 804			1 993 637	242 438	298 887		-	539 962	1 453 675	
Computer equipment	1 861 071	308 755	164 951			2 004 875	817 719	391 936			1 056 515	948 359	
	<b>18 534 404</b>	<b>12 942 803</b>	<b>1 963 552</b>	<b>-</b>	<b>77 674</b>	<b>29 591 330</b>	<b>8 064 956</b>	<b>2 668 726</b>	<b>196 383</b>	<b>-</b>	<b>9 786 638</b>	<b>19 804 690</b>	
	<b>574 830 331</b>	<b>101 099 118</b>	<b>1 963 552</b>	<b>-5 951 745</b>	<b>249 640</b>	<b>668 263 792</b>	<b>120 590 912</b>	<b>35 736 855</b>	<b>196 383</b>	<b>-</b>	<b>155 380 724</b>	<b>512 883 067</b>	



INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

8 PROPERTY, PLANT AND EQUIPMENT

As at 30 June 2017

(480 737)

8.1 Reconciliation of Carrying Value

Description	Land and Buildings	Infrastructure	Community Assets	Capitalised Leased Assets - Machinery	Furniture and Fittings	Plant and Equipment	Motor Vehicles	Computer Equipment	Other Assets	Total
	R	R	R	R	R	R	R	R	R	R
Carrying values at 1 July 2016	67 064 779	384 101 772	41 367 162	544 664	1 109 836	13 431 832	2 343 557	948 359	1 971 106	512 883 067
Cost	68 073 159	524 728 373	44 708 988	1 161 943	2 173 986	17 780 770	6 476 847	2 169 825	2 953 453	670 227 343
Disposals	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation and Impairment:	(1 008 380)	(140 626 601)	(3 341 825)	(617 279)	(1 064 150)	(4 348 938)	(4 133 290)	(1 221 467)	(982 347)	(157 344 276)
- Cost	(1 008 380)	(140 626 601)	(3 341 825)	(617 279)	(1 064 150)	(4 348 938)	(4 133 290)	(1 221 467)	(982 347)	(157 344 276)
- Correction of error	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	2 258 820	43 446 751	41 588 145	-	654 136	11 026 298	-	227 965	485 922	99 688 038
Transfers	(17 384 525)	-	-	-	-	-	-	-	-	(17 384 525)
Net movement	-	(11 519 281)	-	-	-	-	-	7 523	-	(11 511 758)
Depreciation:	(442 545)	(29 675 350)	(2 469 099)	(308 494)	(301 143)	(1 696 822)	(626 167)	(96 077)	(315 465)	(35 931 162)
- based on cost	(442 545)	(29 675 350)	(2 469 099)	(308 494)	(301 143)	(1 696 822)	(626 167)	(96 077)	(315 465)	(35 931 162)
- based on impairment	-	-	-	-	-	-	-	-	-	-
Carrying value of disposals:	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-	-	-	-
Carrying values at 30 June 2017	51 496 528	387 019 889	80 486 206	236 170	1 462 829	22 759 944	1 717 390	1 077 457	2 142 925	548 399 339
Cost	52 947 454	557 321 840	86 297 133	1 161 943	2 757 910	28 033 168	5 590 057	2 225 318	3 371 676	739 706 498
Transfer to completed	-	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(1 450 926)	(170 301 951)	(5 810 927)	(925 773)	(1 295 081)	(5 273 224)	(3 872 667)	(1 147 861)	(1 228 751)	(191 307 160)
- Current	(442 545)	(29 675 350)	(2 469 099)	(308 494)	(301 143)	(1 696 822)	(626 167)	(96 077)	(315 465)	(35 931 162)
- Disposal	-	-	-	-	-	-	-	4 942	-	4 942
- Opening	(1 008 381)	(140 626 601)	(3 341 828)	(617 279)	(993 937)	(3 576 401)	(3 246 500)	(1 056 726)	(913 286)	(155 380 939)

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

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

8 PROPERTY, PLANT AND EQUIPMENT, CONTINUED

As at 30 June 2016

8.1 Reconciliation of Carrying Value

Description	Land and Buildings	Infrastructure	Community Assets	Capitalised Leased assets - Printers	Furniture and Fittings	Plant and Equipment	Motor Vehicles	Computer Equipment	Other Assets	Total
	R	R	R	R	R	R	R	R	R	R
<b>Carrying values at 1 July 2015</b>	<b>55 835 214</b>	<b>355 402 582</b>	<b>31 655 276</b>	<b>876 900</b>	<b>861 071</b>	<b>3 144 378</b>	<b>3 970 352</b>	<b>1 043 351</b>	<b>1 450 296</b>	<b>454 239 419</b>
Cost	56 402 054	465 902 889	32 829 041	1 161 943	1 655 150	6 492 270	6 476 847	1 861 070	2 049 066	574 830 331
Correction of error	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	(566 840)	(110 500 307)	(1 173 766)	(285 043)	(794 080)	(3 347 892)	(2 506 495)	(817 719)	(598 770)	(120 590 912)
- Cost	(566 840)	(110 500 307)	(1 173 766)	(285 043)	(794 080)	(3 347 892)	(2 506 495)	(817 719)	(598 770)	(120 590 912)
- Transfers	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	11 671 105	64 605 263	11 879 946	-	518 835	11 288 500	-	308 755	826 713	101 099 118
Revaluation	-	(5 951 745)	-	-	-	-	-	-	-	(5 951 745)
Disposals	-	-	-	-	(70 212)	(773 900)	(886 790)	(164 951)	(67 698)	(1 963 551)
Depreciation:	(441 540)	(30 126 294)	(2 168 060)	(332 236)	(199 858)	(759 981)	(740 005)	(238 797)	(380 602)	(35 387 372)
- based on cost	(441 540)	(30 126 294)	(2 168 060)	(332 236)	(260 182)	(759 981)	(876 063)	(391 936)	(380 602)	(35 736 894)
- disposal	-	-	-	-	60 325	-	136 058	153 139	-	349 522
										-
<b>Carrying values at 30 June 2016</b>	<b>67 064 779</b>	<b>384 101 772</b>	<b>41 367 162</b>	<b>544 664</b>	<b>1 109 836</b>	<b>13 431 832</b>	<b>2 343 558</b>	<b>948 359</b>	<b>1 971 106</b>	<b>512 883 067</b>
Cost	68 073 159	524 556 408	44 708 988	1 161 943	2 173 986	17 780 770	6 476 847	2 169 825	2 875 779	669 977 704
Prior year correction	-	171 966	-	-	-	-	-	-	77 674	249 640
Disposals	-	-	-	-	(70 212)	(773 900)	(886 790)	(164 951)	(69 023)	(1 964 877)
Accumulated depreciation:	(1 008 380)	(140 626 601)	(3 341 825)	(617 279)	(993 937)	(3 575 038)	(3 246 500)	(1 056 516)	(913 323)	(155 379 399)
- Cost	(441 540)	(30 126 294)	(2 168 060)	(332 236)	(199 858)	(227 146)	(740 005)	(238 797)	(314 554)	(34 788 488)
- Opening balance	(566 840)	(110 500 307)	(1 173 766)	(285 043)	(794 080)	(3 347 892)	(2 506 495)	(817 719)	(598 770)	(120 590 912)

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

For the year ended 30 June 2017

**9 LONG SERVICE AWARDS**

**9.1 Current portion of long service award**

2017  
R

2016  
R

Short term portion

1 302 694

1 245 638

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

Current portion of long service awards

1 302 694

1 245 638

Long service awards

4 617 778

4 272 044

5 920 472

5 517 682

**9.2 Reconciliation of long service award**

Opening balance

5 517 682

5 022 538

Total annual expense

773 799

379 657

Actuarial (gain) / loss

-371 009

115 487

Unfunded liability

5 920 472

5 517 682

**9.3 Assumptions used at the reporting date**

Discount rates used

8.39%

7.98%

Number of eligible employees

295

246

Expected remaining working lifetime

22.0 years

21.8 years

Average retirement age

65

65

Salary weighted annual average

7%

7%

General salary inflation

6.21

7.08

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

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2017

**10 INVESTMENT PROPERTY CARRIED AT FAIR VALUE**

10.1 Reconciliation of fair value	Investment property R	Total R
2017		
as at 1 July 2016	439 966 630	439 966 630
Transferred to PPE	(150 000)	(150 000)
as at 30 June 2017	<u>439 816 630</u>	<u>439 816 630</u>
2016		
as at 1 July 2015	459 341 100	459 341 100
Transferred to PPE	(19 301 105)	(19 301 105)
Transferred to inventory	(3 185 000)	(3 185 000)
Gain on fair value adjustment	-318 365	(318 365)
Add new lease	3 430 000	3 430 000
as at 30 June 2016	<u>439 966 630</u>	<u>439 966 630</u>

10.2 Investment property pledged as security	-	-
None and no contractual obligations		

10.3 Details of investment property	2017 R	2016 R
Land held for an undetermined use	423 880 530	423 880 530
Land under operating lease	16 086 100	16 086 100
	<u>439 816 630</u>	<u>439 966 630</u>

**10.4 Details of valuation**

The effective date of the fair value adjustment was 1 July 2015. Revaluations were performed by an independent valuer, Mr Clyde, of Geospatial. Geospatial is not connected to the Municipality and have recent experience in location and category of the investment property being valued.

Methods used are detailed in the attached Valuers methodology  
The valuation was based on open market value for existing use.

10.5 Amounts recognised in surplus or deficit for the year.	2017 R	2016 R
Fair value adjustments	-	(318 365)

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

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

11 RECEIVABLES

11.1 Consumer receivables from non-exchange transactions

	Gross balance R	Provision for bad debts R	Net balances R
For the year ended 30 June 2017			
Business	27 946 489	(27 387 559)	558 930
Domestic	17 739 408	(17 384 619)	354 788
Government	14 178 431	-	14 178 431
Debtor's credit balances			-
	<u>59 864 327</u>	<u>(44 772 178)</u>	<u>15 092 149</u>
Discounting effect			
		Refuse	Rates
Consumer receivables	59 864 327		
Finance income	-	representing	representing
Unearned finance charges	(928 010)		
Provision for bad debts	<u>(44 772 178)</u>		
Receivables at fair value	<u>14 164 138</u>	1 416 414	12 747 725
As at 30 June 2016			
Receivables	50 664 209	(39 224 603)	11 439 606
	50 664 209	(39 224 603)	<u>11 439 606</u>
Un-earned interest 2016			-
Adjusted balance			<u>11 439 606</u>
		2017 R	2016 R
<u>Refuse and Rates: Ageing</u>			
0 - 30 days (current)		15 201	3 407 499
31 - 60 days		63 456	54 968
61 - 90 days		73 978	59 765
91 -120 days		58 393	76 323
121 - 150days		204 815	71 200
151 - 180 days		91 880	72 749
181 - 210 days		83 431	72 045
211 - 360 days		13 405 077	9 255 489
+361 days		<u>45 868 096</u>	<u>37 594 171</u>
Total		<u>59 864 327</u>	<u>50 664 209</u>

Summary of Receivables by Customer Classification

In terms of the financial instruments classification (Note 33), management has classified consumer and sundry receivables as financial assets at amortised cost for the purposes of assessing credit risk (Notes 11.1 and 11.2). The concentration of credit risk has been on business and domestic consumers. Provision for impairment of consumer receivables has been more aggressive in the year under review, and has been made for all residential consumer balances outstanding for 98% of outstanding debt bases on collection. In management's professional judgement, no further credit provision is required in excess of the provision for impairment.

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

11.2 Sundry receivables from exchange transactions

Refuse	1 416 414	1 040 458
Advance payments	597 869	-
Sundry receivables from exchange transactions	<u>14 738 054</u>	<u>10 628 850</u>
	<u>16 752 337</u>	<u>11 669 308</u>
12 VALUE ADDED TAX	<u>25 689 786</u>	<u>7 333 560</u>

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

	Note	2017 R	2016 R
<b>13 PROPERTY RATES</b>			
<u>Actual</u>			
Rates assessment		22 584 176	20 419 684.45
Finance charges		(1 216 193)	(752 905)
<b>Total property rates</b>		<u>21 367 983</u>	<u>19 666 779</u>
<u>Property valuations</u>			
Rates		2 065 474 150	2 065 474 150
<b>Total property valuations</b>		<u>2 065 474 150</u>	<u>2 065 474 150</u>
<p>Valuations on land and buildings are performed every four years.                      The last valuation came into effect on 01 July 2015. A factor of 0.02 for government and businesses and 0.015 for residential is applied to property valuations to determine the assessment rates. Rates are levied on an annual basis on property owners. There is an annual maintenance which is done when need arises.</p>			
<b>14 SERVICE CHARGES</b>			
Refuse charges		1 175 866	957 246
Finance charges		(56 635)	(34 999)
		<u>1 119 231</u>	<u>922 247</u>
<b>15 GOVERNMENT GRANTS AND SUBSIDIES</b>			
<b>National Transfers</b>			
Equitable share	15.1	195 945 000	200 197 000
Department of Energy (DOE) - Electrification	15.2	9 807 180	14 756 441
Municipal Systems Improvement Grant	15.3	-	930 000
Municipal Finance Management Grant	15.4	1 625 000	1 600 000
Municipal Infrastructure Grant	15.5	52 025 000	53 460 145
Expanded Public Works Programme Grant	15.8	1 266 000	1 036 000
<b>Provincial Transfers</b>			
Library services	15.6	774 000	724 000
Local Economic Development Projects	15.7	221 445	237 562
Independent Electoral Commission Grant	15.9	-	1 000 000.00
LG SETA	15.10	379 736	269 757
<b>Total government grants and subsidies</b>		<u>262 043 361</u>	<u>274 210 905</u>

**15.10.** There are no transfers (grants) that are made out by the Ingquza Hill Local Municipality to other organs of state. The equitable share gazetted amount differs with the received amount due to funds that were withheld by National Treasury to an amount of R 758 000.

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

INGQUZA HILL LOCAL MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 30 June 2017

	2017 R	2016 R
<b>15 GOVERNMENT GRANTS AND SUBSIDIES (Continued)</b>		
<b>15.1 Equitable share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. As part of this service, the municipality provides free basic electricity through a formalised mechanism through Eskom.		
	<u>195 945 000</u>	<u>200 197 000</u>
<b>15.2 Department of Energy (DOE) - Electrification</b>		
Balance unspent at the beginning of the year	3 243 559	-
Current year receipts	7 032 000	18 000 000
Conditions met - transferred to revenue	<u>(9 807 180)</u>	<u>(14 756 441)</u>
<b>Conditions not met - transferred to liability</b>	<u>468 379</u>	<u>3 243 559</u>
This is an electrification support grant. Conditions yet to be met are that the municipality must still utilise this funding for electrification expenditure purposes. This expenditure is only for wards electrification		
<b>15.3 Municipal Systems Improvement Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	-	930 000
Conditions met - transferred to revenue	<u>-</u>	<u>(930 000)</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>-</u>
This grant is meant to help with the improvement and upgrading of municipal systems and is only spent on that		
<b>15.4 Municipal Finance Management Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	1 625 000	1 600 000
Conditions met - transferred to revenue	<u>(1 625 000)</u>	<u>(1 600 000)</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>-</u>
This grant is spent on capacity building on BTO officials and S57 managers and Internship		
<b>15.5 Municipal Infrastructure Grant</b>		
Balance unspent at the beginning of the year	-	756 145
Current year receipts	52 025 000	52 704 000
Conditions met - transferred to revenue	<u>(52 025 000)</u>	<u>(53 460 145)</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>-</u>
This is an infrastructure support grant. Conditions yet to be met are that the municipality must still utilise this funding for Capital expenditure purposes, this grant is only spent on road construction and community halls		
<b>15.6 Library Services</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	774 000	724 000
Conditions met - transferred to revenue	<u>(774 000)</u>	<u>(724 000)</u>
<b>Conditions not met - transferred to liability</b>	<u>-</u>	<u>-</u>
This was spent on libraries and running of the libraries in this period		
<b>15.7 Local Economic Development Projects</b>		
Balance unspent at the beginning of the year	3 400 861	138 423
Current year receipts	-	3 500 000.00
Conditions met - transferred to revenue	<u>(221 445)</u>	<u>(237 562)</u>
<b>Conditions not met - transferred to liability</b>	<u>3 179 415</u>	<u>3 400 861</u>
Conditions to be met by building hawkker stalls		
<b>15.8 Expanded Public Works Programme Grant</b>		
Balance spent at the beginning of the year	-	-
Current year receipts	1 266 000	1 036 000
Conditions met - transferred to revenue	<u>(1 266 000)</u>	<u>-1 036 000</u>
<b>Conditions met - transferred to revenue</b>	<u>-</u>	<u>-</u>
The amount recognised as revenue is limited to the funding as per DoRA R 1 036 000 and not the whole expenditure incurred		
<b>15.9 Independent Electoral Commission Grant</b>		
Balance spent at the beginning of the year	1 000 000	-
Current year receipts	-	1 000 000
Conditions met - transferred to revenue	<u>(1 000 000)</u>	<u>-</u>
<b>Conditions met - transferred to revenue</b>	<u>-</u>	<u>1 000 000</u>
This was spent on August 2016 Local Government Elections		
<b>15.10 LG SETA Subsidy</b>		
Balance spent at the beginning of the year	-	-
Current year receipts	379 736	269 757
Conditions met - transferred to revenue	<u>(379 736)</u>	<u>-269 757</u>
<b>Conditions met - transferred to revenue</b>	<u>-</u>	<u>-</u>
This was spent for Trainees		

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2017

16 OTHER INCOME	2017 R	2016 R
Advertising fees rental	161 090	234 519
Commission	34 079	37 687
Funeral fees	19 331	27 137
Insurance refund	124 918	647 712
Natis agency fees	2 969 241	2 918 311
Plan fees	106 742	206 946
Plant hire	-	-
Pound fees	27 917	4 021
Rezoning and sub-division	20 623	11 432
Sale of sites	-	21 491
Sundry income	-	18 670
Tender document	176 413	116 705
Auction income	41 838	
	<u>3 682 192</u>	<u>4 244 631</u>

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

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



INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

	2017 R	2016 R
<b>17 TRADE AND OTHER PAYABLES FROM NON EXCHANGE TRANSACTIONS</b>		
Workmen's Compensation Fund	-	459 463
	<u>-</u>	<u>459 463</u>
<b>18 EMPLOYEE RELATED COSTS</b>		
Salaries and wages	62 526 463	56 175 274
Contributions for UIF, provident, medical aid, etc	14 403 150	14 393 030
Travel, motor car, accommodation, subsistence	3 969 498	5 853 718
Overtime payments	5 100 871	3 783 319
Housing benefits and allowances	5 366 584	1 765 105
Employee provisions	544 268	1 608 916
<b>Total employee related costs</b>	<u>91 910 835</u>	<u>83 579 362</u>
<b>Remuneration of the Municipal Manager</b>		
Annual remuneration	1 126 073	1 057 226
Car allowance	197 752	191 065
Contribution to UIF and other payments	26 367	25 475
	<u>1 350 192</u>	<u>1 273 766</u>
<b>Remuneration of the Chief Finance Officer</b>		
Annual remuneration	934 100	920 296
Car allowance	116 715	151 578
Acting Allowance	43 037	-
Contribution to UIF and other payments	8 337	10 827
	<u>1 102 189</u>	<u>1 082 701</u>
<b>Remuneration of the Corporate Services Director</b>		
Annual remuneration	-	691 263
Car allowance	-	138 044
Contribution to UIF and other payments	-	147 678
	<u>-</u>	<u>976 985</u>
<b>Corporate Services Director resigned and has not been replaced.</b>		
<b>Remuneration of the Technical Services Director</b>		
Annual remuneration	1 049 069	812 024
Car allowance	150 062	194 886
Contribution to UIF and other payments	58 357	75 788
	<u>1 257 488</u>	<u>1 082 699</u>
<b>Remuneration of the Community Services Director</b>		
Annual remuneration	210 918	338 357
Car allowance	17 010	-
Acting Allowance	13 534	-
Contribution to UIF and other payments	7 802	115 987
	<u>249 263</u>	<u>454 344</u>
<b>Remuneration of the Strategic Planning Director</b>		
Annual remuneration	890 220	833 964
Car allowance	168 089	162 405
Contribution to UIF and other payments	89 354	86 332
	<u>1 147 663</u>	<u>1 082 701</u>

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

	Note	2017 R	2016 R
<b>19 REMUNERATION OF COUNCILLORS</b>			
<b>Mayor</b>			
Annual remuneration		493 510	553 509
Allowances, contribution to UIF and related items		279 935	225 371
		<u>773 445</u>	<u>778 880</u>
<b>Speaker</b>			
Annual remuneration		420 768	454 808
Allowances, contribution to UIF and related items		161 084	172 471
		<u>581 852</u>	<u>627 278</u>
<b>Chief Whip</b>			
Annual remuneration		402 157	426 383
Allowances, contribution to UIF and related items		155 193	162 996
		<u>557 350</u>	<u>589 378</u>
<b>Exco members</b>			
Annual remuneration		3 001 956	2 120 634
Allowances, contribution to UIF and related items		1 247 207	894 690
		<u>4 249 163</u>	<u>3 015 324</u>
<b>Other Councillors</b>			
Annual remuneration		8 657 810	9 181 314
Allowances, contribution to UIF and related items		3 740 719	3 353 476
		<u>12 398 529</u>	<u>12 534 790</u>
<b>Traditional leaders</b>		424 064.52	279 000
<b>Total remuneration for councillors</b>	36	<u>18 984 403</u>	<u>17 824 651</u>
<div style="border: 1px solid black; padding: 5px;"> <p><b>NB:</b> full list of related party transactions as per GRAP standard is disclosed on <b>Note 36</b>. The remuneration of councillors and political office-bearers are within the upper limits of the framework envisaged in section 219 of the Constitution.</p> </div>			
<b>20 INTEREST PAID</b>			
Long term liabilities - DBSA	37	319 943	462 187
Finance lease	39	67 969	115 869
<b>Total interest on external borrowings</b>		<u>387 912</u>	<u>578 056</u>
<b>21 REVALUATION AND FAIR VALUE SURPLUS</b>			
Fair value adjustment on investment	10.1	-	(313 675)
Revaluation on land	8.2	-	-
		<u>-</u>	<u>-313 675</u>
<b>22 COUNCILLORS WITH ACCOUNTS IN ARREARS</b>			
1. C N Yako		-	202 105
2. K Mviko		-	54 444
<b>TOTAL</b>		<u>-</u>	<u>256 549</u>
<div style="border: 1px solid black; padding: 5px;"> <p><b>NB:</b> These are the Councillors with accounts in arrears for more than 90 days.</p> </div>			

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

23	GENERAL EXPENDITURE	2017 R	2016 R
	Accounting and audit fees	6 174 823	6 418 066
	Advertising fees	714 246	265 988
	Allowance ward admin	3 866 530	3 739 484
	Arts and culture	74 200	158 491
	Audit committee costs	366 436	229 040
	Bank charges	84 049	51 182
	Beach management	-	226 981
	Buildings	-	14 900
	Catering- meetings	304 395	93 384
	Cleaning and greening	48 335	16 773
	Cleaning material	140 124	157 932
	Communication strategy	301 078	270 040
	Community halls	18 020	4 800
	Computer hardware	160 732	16 951
	Consultation & professional fees	141 977	52 016
	Corporative development	1 000 000	-
	Council functions	5 026 862	2 846 266
	Crime prevention	172 850	65 725
	Data lines	22 105	22 105
	Disaster management	466 446	-
	Early childhood development	92 850	69 906
	Electricity and water purchase	720 182	79 297
	Electricity infrastructure	8 930 316	893 472
	Employee assistance programme	107 060	48 208
	Environmental management	18 700	-
	Equitable share	4 110 075	1 083 661
	Expanded Public Works Programme	2 673 279	2 617 020
	Experiential trainees	237 531	251 000
	Farmer's production	607 489	-
	Finance management grant expenditure - Capacity building	1 319 341	1 699 762
	Flagstaff paving	-	112 372
	Furniture	-	0
	Furniture halls	-	373 223
	Hall Hire refund	794	-
	Hawker stalls	2 016 106	6 960
	Health services	79 413	144 907
	HIV & Aids	-	64 800
	Hotel accomodation	615 540	663 300
	IDP development	613 951	661 247
	Insurance: external	1 133 848	831 867
	Inter-governmental relations	-	11 290
	Internal audit	731 194	203 545
	Labour relations	6 792	35 011
	Land summit	20 530	-
	Landfill sites	11 390	211 275
	Legal fees	2 764 197	1 185 727
	Library services	76 105	82 454
	Licence fees	171 743	83 759
	Local economic development	5 040 421	1 556 210
	Mobile office	-	99 850
	Munsoit and payday	1 156 303	658 620
	Parks, pound and cemeteries	50 080	15 827
	Plant unit	-258 327	1 618 475
	Postage	719	1 016
	Printing and stationery	544 975	437 706
	Property valuation	359 117	401 609
	Protective clothing	1 014 790	128 886
	Public participation	458 226	107 097
	Re-allocation costs	18 041	66 623
	Records management	-	15 700
	Recruitment	112 360	-
	Refuse bags	853 424	657 584
	Registering authority	222 380	191 810
	Rent- office equipment	221 577	220 054
	Road construction	1 484 825	935 039
	SMME Capacity	3 600	-
	SMME production	184 565	-
	Spatial development	209 542	-
	Special programmes	2 911 612	1 437 591
	Spluma awareness	148 469	-
	Sport and recreation	15 050	179 958
	Subsistence and travelling	1 351 957	1 453 046
	Sundry expense	-	955
	Support to traditional leaders	99 807	33 550
	Survey and planning	137 521	588 768
	Team buidling	377 267	427 862
	Telephone	3 601 972	3 087 640
	Tourism	852 934	437 331
	Towing services	44 800	26 310
	Traffic law enforcement	67 251	33 381
	Training	1 271 225	1 029 080
	Training- accomodation	989 330	1 121 174
	Vehicle hire	2 121 905	1 791 466
	Vehicle testing centre	198 886	-
	Vehicle- fuel & oil	1 840 234	3 250 809
	Vodacom	25 534	6 023
	Waste management	-	9 000
	Whippery expense	65 448	59 048
		<u>73 939 452</u>	<u>48 149 288</u>

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

		2017 R	2016 R
<b>24 CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:			
Bank balances and cash	7.3	51 559 046	73 153 721
Petrol card	4	-	(152)
<b>Total cash and cash equivalents</b>		<u>51 559 046</u>	<u>73 153 569</u>

**NB:** The Municipality did not have any overdraft or any accounts that were overdrawn as at 30 June 2017. Only the petrol card and is disclosed under payables in note 4.

**25 DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS**

Regulation 36 of the MFMA on Supply Chain Management (SCM) Regulations and clause 36 of the SCM Policy of 2012 states that a SCM Policy must provide for the procurement of goods and services by way of a competitive bidding process.

Regulation 36 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 report them to the next meeting of the Council and includes a note to the audited separate annual financial statements.

During the financial year under review goods/services totalling R863 861 (2016: RNil) were procured and the process followed in procuring those goods/services deviated from the provisions of the regulations as stated above. The accounting officer approved the deviations from the normal SCM regulations.

Nature of deviation	No of Contracts		
Emergency	1	863 861	-
		<u>863 861</u>	<u>-</u>

**NB:** The deviation was for a delivery of temporary shelters awarded to Mabozela Trading which did not follow the bidding process due to court order issued to the municipality which needed to be acted up on within seven days.

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

	2017 R	2016 R
UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFULL		
25 EXPENDITURE (Continued)		
<b>25.2 Fruitless and wasteful expenditure</b>		
Reconciliation of fruitless and wasteful expenditure:		
Opening balance	-	-
Fruitless and wasteful expenditure current year	-	-
Condoned or written off by Council	-	-
Transfer to receivables for recovery	-	-
Fruitless and wasteful expenditure awaiting condonement	<u>-</u>	<u>-</u>

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

**26 INVENTORY**

Stationery and land held for sale		
Stationery	389 903.00	388 227
Land held for sale	22 699 035	15 068 112
Closing balance	<u>23 088 938</u>	<u>15 456 339</u>
Land held for sale	15 068 112	16 255 756
Movements	7 630 923	(1 187 644)
Closing balance	<u>22 699 035</u>	<u>15 068 112</u>
Opening balance - stationery	388 227	370 810
Purchases during the year	429 646	429 646
Consumed during the year	(427 970)	(412 229)
Closing balance	<u>389 903</u>	<u>388 227</u>

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

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

		2017 R	2016 R
<b>27</b>	<b>ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>		
<b>27.1</b>	<b>Audit fees</b>		
	Current year audit fee	6 174 823	3 293 268
	Amount paid - current year	-6 174 823	(3 293 268)
	<b>Balance unpaid (included in payables)</b>	<u>-</u>	<u>-</u>
<b>27.2</b>	<b>PAYE, UIF &amp; SDL</b>		
	Current year taxes	16 979 883	15 571 460
	Amount paid - current year	-16 979 883	(15 571 460)
	<b>Balance unpaid (included in payables)</b>	<u>-</u>	<u>-</u>
<b>27.3</b>	<b>Medical aid</b>		
	Current year taxes	8 325 180	3 298 977
	Amount paid - current year	(8 325 180)	(3 298 977)
	<b>Balance unpaid (included in payables)</b>	<u>-</u>	<u>-</u>
<b>27.4</b>	<b>Provident and pension funds</b>		
	Current year taxes	9 915 035	8 932 207
	Amount paid - current year	(9 915 035)	(8 932 207)
	<b>Balance unpaid (included in payables)</b>	<u>-</u>	<u>-</u>
<b>28</b>	<b>CONTINGENT LIABILITIES</b>		
		<b>Amount claimed</b>	<b>Amount claimed</b>
	<u>Sub Note</u>		
	Litigations that are still pending	(a) 2 007 049	2 702 034
	All cases against the Municipality	(b) 6 404 006	4 211 796
		<u>8 411 055</u>	<u>6 913 830</u>

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

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

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

	2017 R	2016 R
<b>29 CASH GENERATED BY OPERATIONS</b>		
Un-adjusted surplus for the year	51 378 925	65 932 899.23
Adjustment for:		
-Depreciation	35 700 974	35 804 601
-Impairments	10 212 857	6 487 077
-Interest earned	-	(6 404 636)
-Gain on fair value adjustment	-	(313 675)
-Interest paid	-	578 056
<b>Surplus per Statement of Financial Performance</b>	<b>97 292 757</b>	<b>102 084 322</b>
Correction of errors	427 518	745 240
Current year movement	-	(11 640 682)
Inventories	(14 500 501)	1 170 227
Consumer receivables from exchange transactions	(13 397 945)	(2 799 742)
Sundry receivables from exchange transactions	-	(7 923 899)
Provisions	2 001 291	(2 137 526)
Trade and other payables from exchange transactions	(3 134 451)	12 316 012
Trade and other payables from non exchange transactions	(459 463)	-
Long service awards		403 685
VAT receivables	(18 356 227)	(3 593 533)
Unspent conditional grants and receipts	(2 996 626)	5 749 851
<b>Cash generated by operations</b>	<b>46 876 353</b>	<b>94 373 955</b>

**30 ASSUMPTIONS**

**30.1 Going concern**

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

- Liquidity - in terms of section 214 of the Constitution of Republic of South Africa (Act 108 of 1996) the parliament is instructed to provide for an Act (Division of Revenue Act) that will enable the National Government to raise and collect revenue from all sources and distribute it equitable to both Provincial and Local Government (Municipalities). Allocation for 2016/17 is R 195 945 000 and R 208 426 000 for 2017/18
- Debtors collection - to fully comply with the credit control and debt collection policy the Municipality procured the services of the skilled debt collector to collect the outstanding debts from business and residents. The Municipality is embarking on a revenue enhancement programme.
- Statutory payments - The Municipality has settled all the major debts that were long outstanding including AGSA and SARS. The most significant of these is that the Accounting Officer continues to procure funding for the on-going operations of the Municipality. However the Municipality is positively recovering from severe financial constraints. This is evident by the fact that none of the Municipality's

**30.2 Events after reporting date**

Full details of all known events, if any, after the reporting date will be disclose.

<b>31 REPAIRS AND MAINTENANCE</b>	2017 R	2016 R
Repairs and maintenance - Property, plant and equipment	17 187 790	14 331 687
Repairs and maintenance - Computer installation	456 321	833 815
	<b>17 644 111</b>	<b>15 165 502</b>

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

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2017

				2017
				R
32	CORRECTION OF PRIOR PERIOD ERROR	Sub-notes	Period	
32.1	Correction of errors			
The following restatements have been effected to prior period account balances and classes of transactions due to prior year errors/ommissions which have been identified				
	Prior year correction Trade payables from exchange transactions - Creditors		2015/16	-6 410 931
	Creditors	a)		690 810
	Creditors	h)		-330 435
	Restated balance			<u>(6 050 556)</u>
	Trade payables from exchange transactions - Accruals		2015/16	-2 820 260
	Accruals	b)		693 884
	Accruals	e)		537 470
	Accruals			391 952
	Restated balance			<u>-1 196 954</u>
	Property, plant and equipment - Firearms		2015/16	25 231
	Firearms	c)		77 674
	Restated balance			<u>102 905</u>
	Property, plant and equipment - WIP		2015/16	89 027 259
	Wetland - WIP	d)		112 373
	Electrification - WIP	f)		540 330
	Other income			-3 114 534
	Other income			3 299 793
	Restated balance			<u>89 865 221</u>
	Sundry receivables from exchange transactions		2015/16	12 915 390
	Debtors	l)		-2 236 500
	Debtors	g)		-50 040
	Restated balance			<u>10 628 850</u>
	Revenue from exchange transaction		2015/16	
	Other income			(11 509 246)
	WIP			3 114 534
	Access road			3 879 324
	Restated balance			<u>-4 515 388</u>
	Property, plant and equipment - Access road		2015/16	434 952 647
	Other income - plant	c)		-3 879 324
	Other income - plant			3 213 328
	Restated balance			<u>434 286 651</u>
	Total expenditure		2015/16	213 417 646
	Plant expense			(4 657 356)
	Employee cost			(1 171 754)
	Depreciation			(684 011)
				<u>206 904 526</u>
				<u>427 518</u>

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

- a) Creditors raised and cancelled and they were never paid
- b) Creditors accruals and cancelled and they were never paid
- c) Fire arms were not in the FAR
- d) Wetland project expenditure not on WIP
- e) Incorrectly raised in accruals
- f) Electrification expenditure raised in accruals but not on Wip
- g) Electrification expenditure raised in accruals but not on Wip
- h) Creditors opening balances systems error
- i) Vacant land sold in prior year
- j) Electrification - Retention
- k) Professional fees - Access road
- l) Sundry receivable from exchange transactions - Sale of sites



**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2017

**33 FINANCIAL INSTRUMENTS**

**33.1 Financial assets**

30 June 2017	Consumer receivables	Sundry receivables	Investment held as collateral	cash and cash equivalents	Total
	R	R	R	R	R
Opening balance	7 630 025	11 669 308	5 539 732	73 153 721	97 992 786
Net gains or losses recognised directly in net assets					-
Interest income	-	-	449 161	-	449 161
Impairments					-
Net other movements	5 117 700	5 083 029	-	(21 594 675)	(11 393 946)
<b>Closing balance</b>	<b>12 747 725</b>	<b>16 752 337</b>	<b>5 988 893</b>	<b>51 559 046</b>	<b>87 048 001</b>

Maximum credit exposure

-

Interest income includes:

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

-

Subsequent interest on impaired financial assets

30 June 2016	Consumer receivables	Sundry receivables	Investment held as collateral	cash and cash equivalents	Total
	R	R	R	R	R
Opening balance	4 830 283	3 894 424	5 123 184	19 587 775	33 435 666
Net gains or losses recognised directly in net assets					-
Interest income	-	-	416 548	-	416 548
Impairments					-
Net other movements	2 799 742	10 061 424	-	53 565 946	66 427 112
<b>Closing balance</b>	<b>7 630 025</b>	<b>11 669 308</b>	<b>5 539 732</b>	<b>73 153 721</b>	<b>97 992 786</b>

Interest income include:

Interest on financial assets that are carried at amortised cost

-

-

Subsequent interest on impaired financial assets

**Disclosed in the Statement of Financial Performance**

2017

2016

R

R

Fee income

-

787 905

On financial assets/liabilities carried at amortised cost

-

787 905

Trust and/or other fiduciary activities

-

-

Other fee income

-

-

**Disclosed in the Statement of Financial Position**

**87 048 001**

**97 992 786**

Consumer receivables from non-exchange transactions

12 747 725

7 630 025

Sundry receivables from exchange transactions

16 752 337

11 669 308

Investment held as a collateral

5 988 893

5 539 732

Cash and cash equivalents

51 559 046

73 153 721

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2017

33.2 Financial liabilities

	Finance lease at Cost	Financial instruments at cost	Financial instruments at cost	Financial liabilities at cost	Total
30 June 2017	R	R	R	R	R
Opening balance	486 871	6 644 420	28 265 817	7 055 581	42 452 689
Interest expense	-	-	-	-	-
Net other movements	(291 552)	(2 996 626)	(2 594 773)	(229 740)	(6 112 692)
<b>Closing balance</b>	<b>195 319</b>	<b>3 647 794</b>	<b>25 671 044</b>	<b>6 825 840</b>	<b>36 339 997</b>

Interest expense include:

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

-

	Finance lease at Cost	Financial instruments at cost	Financial instruments at cost	Financial liabilities at cost	Total
30 June 2016	R	R	R	R	R
Opening balance	797 323	894 568	18 605 412	6 940 710	27 238 014
Interest expense	-	-	-	114 870	114 870
Net other movements	(310 452)	5 749 851	9 660 405	-	
<b>Closing balance</b>	<b>486 871</b>	<b>6 644 420</b>	<b>28 265 817</b>	<b>7 055 581</b>	<b>27 352 884</b>

Interest expense includes: Interest on financial liabilities that are carried at amortised cost

	2017 R	2016 R
<b>Disclosed in the Statement of Financial Performance</b>		
Fee expenses	319 943	462 187
On financial assets/liabilities carried at amortised cost	-	-
Trust and/or other fiduciary activities	-	-
Other fee expenses	319 943	462 187
<b>Disclosed in the Statement of Financial Position</b>		
Categories of financial liabilities		
Unspent conditional grants and receipts	3 647 794	6 759 290
Finance lease liability	195 320	486 871
Trade and other payables from exchange transactions	25 671 044	26 282 136
Long term loan - DBSA	6 825 840	6 825 840
	<b>36 339 998</b>	<b>40 354 138</b>

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2017

33.3 Qualitative disclosure

Key assumptions

*Credit risk*

Ingquza Hill Local Municipality has a very serious credit risk exposure because of the debtors that are not paying for rates, taxes and services. The Municipality has since engaged the use of a Debt Collector to collect monies owed by the debtors and the Council has also resolved to write off the opening balances of the debtors. For ageing refer to Note 11

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

*Liquidity risk*

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

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

The table below analyses the Municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position as at 30 June 2017 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

2017	Not later than one month	Later than one month and not later than three months
	R	R
Loan - DBSA	-	231 003
Finance lease liability	-	102 470
exchange transactions	3 559 508	-
Sundry payables	-	-
 2016	 Not later than one month	 Later than one month and not later than three months
	R	R
Loan - DBSA	-	231 000
Finance lease liability	-	177 416
exchange transactions	8 540 528	-
Sundry payables	115 023	-

*Market risk*

*Interest rate risk*

Not applicable to the Municipality, The loan with DBSA has a fixed interest rate of 6.75% per annum payable 6 monthly twice a year. Maturity is detailed in Note 2.

*Foreign currency risk*

Not applicable to the Municipality because the Municipality does not deal with foreign currency, and only banks with the approved financial institutions in the country.

*Price risk*

Not applicable to the Municipality.

**INGQUZA HILL LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
For the year ended 30 June 2017

**34 RELATED PARTY TRANSACTIONS**

**34.1 Interest of related parties**

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

Name	Designation	Description of Related Party Relationship
None	None	None

**34.2 Services rendered to related parties**

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

**34.3 Loans granted to related parties**

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

**34.4 Purchases from related parties**

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

**34.5 Remuneration**

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

34.6 Audit committee fees		2017	2016
		R	R
PM Mancotywa	Chairperson	61 495	40 745
VM Songelwa	Member	19 500	30 000
NB Kekana	Member	13 000	24 000
EBD Makhosi	Member	72 244	44 241
		<u>166 239</u>	<u>138 986</u>

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

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

For the year ended 30 June 2017

35 PROVISION FOR IMPAIRMENT

Reconciliation of the provision

2017  
R

2016  
R

Consumer debtor account

59 864 327

50 664 209

Provision balance @ 98%

44 772 178

39 224 603

Opening balance

39 224 603

34 556 021

Current increase

5 547 575

4 668 582

Discounted debtors account

15 092 149

11 439 606

CALCULATIONS @ 98%

Businesses

27 387 559

23 734 926

Domestic

17 384 619

15 489 677

TOTAL

44 772 178

39 224 603

Debtors

15 092 149

11 439 606

Provision

(5 547 575)

(4 668 582)

Traffic fines impaired

(33 250)

(803 350)

Government debtor - equitable share

-

(756 000)

Total impairment

(5 580 825)

(5 471 932)

INGOUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

36 RELATED PARTY LISTING

EMPLOYEE NAME		2017 R	2016 R
MDINGI JP	MAYOR	773 445	778 880
CAPA YN	SPEAKER	581 852	249 349
TENYANE M	CHIEF WHIP	557 350	335 036
ZIPHATHE MR	EXECUTIVE COMMITTEE MEMBER	299 120	-
GWEGWE V	EXECUTIVE COMMITTEE MEMBER	328 480	249 349
JOTILE T	EXECUTIVE COMMITTEE MEMBER	327 209	249 349
GOYA BB	EXECUTIVE COMMITTEE MEMBER	356 925	335 036
SOMANI V	EXECUTIVE COMMITTEE MEMBER	327 209	249 349
MVULANI B	EXECUTIVE COMMITTEE MEMBER	334 629	314 085
MKUMLA CM	EXECUTIVE COMMITTEE MEMBER	327 209	249 349
GAGAI NA	EXECUTIVE COMMITTEE MEMBER	335 730	335 036
VATSHA SB	EXECUTIVE COMMITTEE MEMBER	335 730	335 036
CXABHU T	EXECUTIVE COMMITTEE MEMBER	38 426	335 036
MTSHAZO SH	MUNICIPAL PUBLIC ACCOUNTS COMMITTEE	339 632	249 349
MHLONGO Z	PUBLIC PARTICIPATION & PETITIONS COMM	290 638	-
NKANI BJ	WOMEN CAUCUS COMMITTEE	290 969	-
DUTSHWA P	ETHICS & MEMBERS INTEREST	355 680	589 378
MJOJELI NE	ORDINARY COUNCILLOR	38 426	335 036
BESI TT	ORDINARY COUNCILLOR	38 426	335 036
MAXHAYI M	ORDINARY COUNCILLOR	38 426	335 036
KANGO PS	ORDINARY COUNCILLOR	38 426	335 036
MTSOTSO NF	ORDINARY COUNCILLOR	37 410	314 085
JKI N	ORDINARY COUNCILLOR	37 410	314 085
NGXAMILE PN	ORDINARY COUNCILLOR	260 420	249 349
NTSHOBO P	ORDINARY COUNCILLOR	37 410	314 085
MJOKOVANA D	ORDINARY COUNCILLOR	301 229	627 278
JOYI B	ORDINARY COUNCILLOR	29 989	249 349
JIBA Z	ORDINARY COUNCILLOR	260 420	249 349
QWESHA M	ORDINARY COUNCILLOR	260 420	249 349
MGWILI NH	ORDINARY COUNCILLOR	260 420	249 349
MNGQINELWA NCB	ORDINARY COUNCILLOR	260 420	249 349
NDZUMO T	ORDINARY COUNCILLOR	260 420	249 349
THIMLE L	ORDINARY COUNCILLOR	260 420	249 349
NKAYITSHANA N	ORDINARY COUNCILLOR	29 989	249 349
MALULWANA SE	ORDINARY COUNCILLOR	-	244 759
TAMBODALA ZJM	ORDINARY COUNCILLOR	29 989	249 349
ZATHI N	ORDINARY COUNCILLOR	29 989	249 349
DANISO N	ORDINARY COUNCILLOR	260 420	249 349
THWATSHUKA D	ORDINARY COUNCILLOR	260 420	249 349
DALIWE NA	ORDINARY COUNCILLOR	29 989	249 349
NKUNGU MI	ORDINARY COUNCILLOR	260 420	249 349
SIKHOSANA MN	ORDINARY COUNCILLOR	29 989	249 349
MAGAYA FA	ORDINARY COUNCILLOR	29 989	249 349
RULENI S	ORDINARY COUNCILLOR	29 989	249 349
MKIZWANE AM	ORDINARY COUNCILLOR	29 989	249 349
MFAISE VD	ORDINARY COUNCILLOR	29 989	249 349
IL SOQASHI	ORDINARY COUNCILLOR	-	62 337
KEWANA D	ORDINARY COUNCILLOR	29 989	249 349
MWIKO K	ORDINARY COUNCILLOR	29 989	249 349
GOGO M	ORDINARY COUNCILLOR	29 989	249 349
MOTHUSI ZH	ORDINARY COUNCILLOR	29 989	249 349
YAKO N	ORDINARY COUNCILLOR	29 989	249 349
MHLAKUVANA N	ORDINARY COUNCILLOR	260 420	249 349
NKANI N	ORDINARY COUNCILLOR	260 420	249 349
NONKUBA N	ORDINARY COUNCILLOR	260 420	249 349
GXUMISA-CINGO FJ	ORDINARY COUNCILLOR	29 989	249 349
CWECWE N	ORDINARY COUNCILLOR	260 420	249 349
NOTYESI N	ORDINARY COUNCILLOR	260 420	249 349
NKWAKHWA S	ORDINARY COUNCILLOR	29 989	249 349
SIGCAU NE	ORDINARY COUNCILLOR	29 989	249 349
SIBUNGE T	ORDINARY COUNCILLOR	260 420	249 349
DUMISA T	ORDINARY COUNCILLOR	260 420	249 349
DINGI X	ORDINARY COUNCILLOR	29 989	249 349
MHLANGA ZE	ORDINARY COUNCILLOR	29 989	249 349
CELE KD	ORDINARY COUNCILLOR	260 420	249 349
WF RANAI	ORDINARY COUNCILLOR	232 331	-
N MATANDABUZO	ORDINARY COUNCILLOR	232 331	-
TP MGDUDU	ORDINARY COUNCILLOR	232 331	-
B SIVELA	ORDINARY COUNCILLOR	232 331	-
MV PHANDELA	ORDINARY COUNCILLOR	232 331	-
Z JABAVU	ORDINARY COUNCILLOR	232 331	-
S N MAPOLOBA	ORDINARY COUNCILLOR	232 331	-
NP NOETHO	ORDINARY COUNCILLOR	232 331	-
B NTUNGO	ORDINARY COUNCILLOR	232 331	-
LI NDZIBA	ORDINARY COUNCILLOR	232 331	-
S NDARANE	ORDINARY COUNCILLOR	232 331	-
ST HLONGWANE	ORDINARY COUNCILLOR	232 331	-
ZP BAMBUSIBA	ORDINARY COUNCILLOR	232 970	-
MP DLELANGA	ORDINARY COUNCILLOR	232 019	-
N MZOTHWA	ORDINARY COUNCILLOR	232 331	-
N MBANGATHA	ORDINARY COUNCILLOR	232 331	-
ONA NOMCHANE	ORDINARY COUNCILLOR	232 331	-
SN MABASA	ORDINARY COUNCILLOR	232 331	-
NP JAMJAM	ORDINARY COUNCILLOR	232 331	-
MC DIDIZA	ORDINARY COUNCILLOR	232 331	-
F NOMGCA	ORDINARY COUNCILLOR	232 331	-
NB NDABANKULU	ORDINARY COUNCILLOR	232 331	-
Z NONCOKWANA	ORDINARY COUNCILLOR	232 331	-
MA GULENI	ORDINARY COUNCILLOR	232 331	-
B MABHEDUMANA	ORDINARY COUNCILLOR	232 331	-
N GANDELA	ORDINARY COUNCILLOR	232 331	-
M NONGCIKI	ORDINARY COUNCILLOR	232 331	-
G MBIKO	ORDINARY COUNCILLOR	232 331	-
TRADITIONAL LEADERS	TRADITIONAL LEADERS	424 065	279 000
		<u>18 984 403</u>	<u>17 824 651</u>

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

37 SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2017

EXTERNAL LOANS	Loan Number	Redeemable	Balance at 01/07/2016	Paid during the year	Interest for the year	Balance at 30/06/2017	Carrying Value of Property, Plant and Equipment	Other costs in accordance with the MFMA
			R	R	R	R	R	R
			6 823 139	(317 242)	319 943	6 825 840	22 759 944	-
			6 823 139	(317 242)	319 943	6 825 840	22 759 944	-

NB: This is a financial liability

38 UNAUTHORISED EXPENDITURE

Actual expenditure in excess of approved budget votes

	2017 R	2016 R
Opening balance	-	-
Non cash items	-	-
Condoned by council	-	-
Total deviations made in the current year	<u>-</u>	<u>-</u>

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

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

39 LEASES  
 39.1 Finance lease liability

30 June 2017	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	195 320	-	195 320
Within two to five years		-	-
	<u>195 320</u>	<u>-</u>	<u>195 320</u>
Less: Amount due for settlement within 12 months (current portion)			<u>(195 320)</u>
			<u>-</u>

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

30 June 2016	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
Amounts payable under finance leases			
Within one year	295 988	-	295 988
Within two to five years	295 097	-	295 097
	<u>591 085</u>	<u>74 946</u>	<u>591 085</u>
Less: Amount due for settlement within 12 months (current portion)			<u>(295 988)</u>
			<u>295 097</u>

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



INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

39 LEASES (CONTINUED)  
 39.2 Operating lease

30 June 2017	Minimum lease receipts R	Future finance charges R	Present value of minimum lease receipts R
<b>Amounts receivable under operating leases</b>			
Within one year	195 320		195 320
Within two to five years		-	-
	<u>195 320</u>	<u>-</u>	<u>195 320</u>
Less: Amount due for settlement within 12 months (current portion)			<u>(195 320)</u>
			<u>-</u>

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

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

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

INGQUZA HILL LOCAL MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
For the year ended 30 June 2017

40 WORK IN PROGRESS

	2017 R	2016 R
Access Roads	23 042 470	20 806 432
Electrification	21 628 629	21 270 180
Driver's Licence Testing Centre	-	11 395 988
Municipal Offices	28 151 286	15 340 199
Community Halls	7 857 852	2 428 252
Street Lights	72 963	2 406 107
VTC - structure	-	12 655 699
Development of business sites over portion ERF 49 Lusikisiki	-	2 343 118
Sport Fields	-	566 544
Landfill sites	319 298	-
Facelifts (Town)	1 439 847	-
	<u>82 512 345</u>	<u>89 212 518</u>

RECONCILIATION

<b>Opening Balances</b>	<b>89 027 259</b>	<b>94 498 268</b>
Adjustments	652 722	(185 259)
<b>Restated Opening Balance</b>	<b>89 679 981</b>	<b>94 498 268</b>
Less: Completed Projects transferred FAR	(87 323 253)	(76 093 967)
Less: Completed Projects transferred to Expenditure	(8 930 316)	(12 960 120)
Plus: Additional Expenditure	89 085 933	83 583 079
<b>Closing Balance</b>	<b><u>82 512 345</u></b>	<b><u>89 027 259</u></b>

185 259

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

INGQUZA HILL LOCAL MUNICIPALITY  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 For the year ended 30 June 2017

41 IMPAIRMENT

IMPAIRMENT OF PROPERTY PLANT AND EQUIPEMENT

	2017 R	2016 R
Landfill site	-	208
Furniture and fittings	-	9 888
Plant and equipment	-	241 064
Motor vehicles	-	750 732
Tools, arms & mobile office	-	1 441
Computer equipment	2 580	11 812
Sale of Sites	4 629 452	-
	<u>4 632 032</u>	<u>1 015 145</u>

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

42 LOSS ON DISPOSAL OF ASSETS

	2017 R	2016 R
Pinting Machine	-	-
Safes	-	-
Furniture and fittings	-	-
Plant and equipment	-	-
Motor vehicles	-	-
Tools, arms & mobile office	-	-
Computer equipment	-	-
	<u>-</u>	<u>-</u>

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

INGOUZA HILL LOCAL MUNICIPALITY  
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43 INTERESTS EARNED

43.1 INTEREST EARNED ON OUTSTANDING DEBTORS

	2017 R	2016 R
Discounting of debtors	1 027 328	787 905
Unearned interest movement	870 421	664 010
	<u>1 897 748</u>	<u>1 451 915</u>

43.2 INTEREST EARNED ON EXTERNAL INVESTMENTS

	2017 R	2016 R
FNB - 6224175712 - primary account	975 583	1 334 034
FNB - 62003235307 - call account	564 954	205 482
FNB - 62219877836 - call account	7 416	6 008
FNB - 74233699310 - call account	1 493 956	813 154
FNB - 62231474537 - call account	440 962	382 297
FNB - 62231473761 - call account	4 020 870	3 247 113
RMB account	449 161	416 548
	<u>7 952 902</u>	<u>6 404 636</u>

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

Commitments in respect of assets still under construction

Approved and contractec for	2017 R	2016 R
Infrastructure	27 775 782	5 569 068
Community	9 122 911	10 646 933
Offices	20 646 498	33 457 585
Plant	3 145 203	-
Computer equipment	527 014	-
Office Furniture	93 791	-
Bins	331 562	-
Truck	590 000	-
	<u>62 232 761</u>	<u>49 673 586</u>

These assets will be funded from

Grants and subsidies	57 545 191	4 651 459
Own revenue	4 687 570	45 022 127

**NB:** these commitments represent the reminder of the contracts signed by the Municipality for the development of some projects that took longer than expected to complete as a result at year end they were still pending.

The completed portions of these project are reported as work in progress