

Ingwe Municipality
Annual Financial Statements
for the year ended 30 June 2016

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Abbreviations

GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
FMG	Finance Management Grant
MSIG	Municipal Systems Improvement Grant

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General Information

Members of Council

Deputy Mayor	SV Zulu
EXCO Member	HA Ngcobo
EXCO Member	TA Zikode
Councillors	SE Dlamini
	ST Dlamini
	AN Dlamini
	NG Mbatha
	MW Mtolo
	SW Mtolo
	FM Makhanya
	SS Ngubo
	SJ Bhengu
	RSK Mlotshwa
	MV Phoswa
	PP Shange
	B Thabethe
	BC Mncwabe
	Z Mkhize
	CB Kunene
	WM Khumalo

Grading of local authority	3
Chief Financial Officer	KMB Mzimela
Municipal Manager	Mr NC Vezi
Registered Office	Ingwe Municipality
Physical address	Main Street Creighton 3263
Postal address	P O Box 62 Creighton 3263
Bankers	First National Bank
Auditors	Auditor General of South Africa (AGSA)

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

In accordance with resolution DEM 4150, after the reporting date Ingwe Municipality merged with the Kwa-Sani Municipality to form the Dr Nkosazana Dlamini-Zuma Municipality. The operations of Ingwe Municipality will continue only as an integral part of the new Municipality.

I certify that salaries , allowances and benefits of councilors , loans to councilors , if any , and payments made to councilors for the loss of office, if any, as disclosed in the notes of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution , read in conjunction with the Remuneration of Office Bearers Act and the Minister of Local Government's determination in accordance with this Act.

The annual financial statements as set out on pages 3 to 62 have been prepared on the basis that the operations of this Municipality will continue only as a part of the new Municipality, the Dr Nkosazana Dlamini-Zuma Municipality.

Mr NC Vezi
Municipal Manager

Ingwe Municipality

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Statement of Financial Position as at 30 June 2016

	Note	2016 R	2015 R
ASSETS			
Current Assets			
		82 593 202	61 958 309
Receivables from non exchange transactoins	2	1 003 656	930 067
VAT receivable	3	7 098 413	2 859 365
Receivables from exchange and non-exchange transactions	4	5 360 996	1 168 668
Cash and cash equivalents	5	69 130 137	57 000 209
Non-Current Assets			
		219 128 413	177 854 145
Investment property	6	2 885 000	2 885 000
Property, plant and equipment	7	216 189 895	174 882 933
Intangible assets	8	53 518	86 212
Total Assets		301 721 615	239 812 454
LIABILITIES			
Current Liabilities			
		34 997 670	20 335 285
Finance lease obligation	9	295 461	66 504
Payables from exchange transactions	10	18 696 011	14 674 799
Unspent conditional grants and receipts	11	16 006 199	5 593 982
Non Current Liabilities			
		6 576 438	3 576 962
Finance lease obligation	9	364 438	420 462
Provision for landfill site rehabilitation	12	3 900 000	584 500
Long service awards obligation	12	302 000	257 000
Post retirement health care benefits	12	2 010 000	2 315 000
Total Liabilities		41 574 108	23 912 247
Net Assets		260 147 507	215 900 207
TOTAL NET ASSETS			
Reserves			
Housing development fund	13	3 393 450	3 206 348
Accumulated surplus		256 754 057	212 693 859
Total Net Assets		260 147 507	215 900 207

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Statement of Financial Performance

for the year ended 30 June 2016

	Note	2016 R	2015 R
Revenue			
Service charges	15	583 665	566 489
Rental of facilities and equipment		327 025	280 203
Other income	16	1 997 089	3 055 120
Interest received	17	5 095 274	3 787 659
Property rates	18	5 430 585	5 101 383
Government grants and subsidies	19	115 367 748	100 847 258
Traffic fines	20	489 650	611 000
Total revenue		129 291 035	114 249 112
Expenditure			
Employee related costs	21	29 385 945	28 725 035
Remuneration of councillors	22	7 197 332	6 702 586
Depreciation and amortisation	23	11 773 929	10 132 180
Impairment loss	24	630 588	418 800
Finance costs	25	572 509	465 538
(Reversal of) / debt impairment	26	(2 886 241)	1 345 922
Repairs and maintenance		7 630 720	4 210 116
Contracted services	27	1 756 473	1 233 497
General expenses	28	28 978 644	28 123 526
Total expenditure		85 039 899	81 357 200
Electricity projects transferred		-	13 722 032
Loss on disposal property, plant and equipment		3 836	204 403
Surplus for the year		44 247 300	18 965 477

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Statement of Changes in Net Assets

For the year ended 30 June 2016

	Housing Development Fund	Accumulated Surplus	Total: Net Assets
		R	R
Balance at 01 July 2014	2 277 324	194 659 600	196 936 924
Changes in net assets			
Surplus for the year	-	18 965 477	18 965 477
Transferred to / (from) the Housing Development Fund	929 024	(929 024)	-
Transfer of interest to the Housing Development Fund	-	(2 194)	(2 194)
Total changes	929 024	18 034 259	18 963 283
Balance at 30 June 2015	3 206 348	212 693 859	215 900 207
Changes in net assets			
Surplus for the year	-	44 247 300	44 247 300
Transferred to / (from) the Housing Development Fund	187 101	(187 101)	-
Total changes	187 101	44 060 198	44 247 300
Balance at 30 June 2016	3 393 449	256 754 057	260 147 507

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Cashflow Statement

for the year ended 30 June 2016

	Note	2016 R	2015 R
Cash flows from operating activities			
Receipts		141 013 156	109 957 482
Rates received and provision of municipal services		5 157 374	3 895 668
Grants		125 779 964	106 061 814
Other revenue		10 075 817	-
Payments		80 042 965	68 679 840
Employee costs		36 843 277	33 822 471
Suppliers		43 199 688	34 857 369
Net cash flows from operating activities	30	60 970 191	41 277 648
Interest received		5 095 274	3 787 659
Interest paid		(572 509)	(465 538)
Net operating surplus from from operation activities		65 492 955	44 599 769
Cash flows from investing activities			
Purchase of property, plant and equipment		(53 238 123)	(39 741 567)
Other movements in property, plant and equipment		(68 886)	-
Purchase of intangible assets		-	(10 252)
Net cash flows from investing activities		(53 307 009)	(39 751 819)
Cash flows from financing activities			
Repayment of finance leases		(56 024)	(268 000)
		(56 024)	(268 000)
Net increase in cash and cash equivalents		12 129 922	4 579 950
Net cash and cash equivalents at the beginning of the year		57 000 215	52 420 265
Net cash and cash equivalents at the end of the year	31	69 130 137	57 000 215

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Statement of Comparison of Budget and Actual amounts

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
	R	R	R	R	R
Statement of Financial Performance					
Revenue					
Revenue from exchange transactions					
Service charges	250 000	(10 000)	240 000	583 665	343 665
Rental of facilities and equipment	282 000	-	282 000	327 025	45 025
Interest received (trading)	-	-	-	8 080	8 080
Other income (rollup)	474 450	189 050	663 500	1 997 089	1 333 589
Interest received - investment	4 232 000	-	4 232 000	5 087 193	855 193
Total revenue from exchange transactions	5 238 450	179 050	5 417 500	8 003 053	2 585 553
Revenue from non-exchange transactions	145 444 934	(200 000)	145 244 934	121 287 983	(23 956 952)
Property rates	5 219 934	-	5 219 934	5 195 580	(24 354)
Property rates - penalties	115 000	-	115 000	235 005	120 005
Transfer revenue					
Government grants and subsidies	139 810 000	-	139 810 000	115 367 748	(24 442 252)
Fines, penalties and forfeits	300 000	(200 000)	100 000	489 650	389 650
Total revenue from non-exchange transactions	150 683 384	(20 950)	150 662 434	129 291 035	(21 371 399)
Expenditure					
Personnel	32 418 375	(3 025 776)	29 392 599	29 385 945	6 653
Remuneration of councillors	7 111 855	483 206	7 595 061	7 197 332	397 729
Depreciation and amortisation	6 331 510	6 000 000	12 331 510	11 773 929	557 581
Impairments loss / (reversal of impairments)	-	924 863	924 863	630 588	294 275
Finance costs	377 358	200 000	577 358	572 509	4 849
Bad debts	471 698	-	471 698	(2 886 241)	3 357 939
Repairs and maintenance	9 836 318	152 221	9 988 539	7 630 720	2 357 819
Contracted services	3 667 925	1 277 370	4 945 294	1 756 473	3 188 821
General expenses	28 951 846	2 407 837	31 359 683	28 978 644	2 381 039
	89 166 884	8 419 721	97 586 605	85 039 899	12 546 706
Operating surplus	61 516 501	(8 440 671)	53 075 829	44 251 136	(8 824 693)
Electricity projects	-	-	-	-	-
Loss on disposal property, plant and equipment	-	-	-	3 836	(3 836)
Net Surplus	61 516 501	(8 440 671)	53 075 829	44 247 300	(8 828 529)
Actual amount on comparable basis presented in the Budget and Actual Comparative Statement	61 516 501	(8 440 671)	53 075 829	44 247 300	(8 828 529)
Capital expenditure					
Capital expenditure by Department					
Executive and Council	394 231	(30 000)	364 231	115 225	249 006
Budget and Treasury	370 192	-	370 192	233 404	136 788
Infrastructure	89 940 539	542 656	90 483 195	57 058 888	33 424 307
Corporate Services	661 538	-	661 538	139 907	521 631
Community Services	850 000	513 000	1 363 000	577 377	785 623
Total capital expenditure by function	92 216 501	1 025 656	93 242 157	58 124 801	35 117 356
Funding sources					
Government grants	49 819 000	-	49 819 000	39 477 797	10 341 203
Internal funding	42 397 501	1 025 656	43 423 157	18 647 003	24 776 154
Total funding sources	92 216 501	1 025 656	93 242 157	58 124 800	35 117 357

Comparison of budget to actual results is presented in note 44 of the notes to the financial statements.

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Statement of Comparison of Budget and Actual amounts

	Approved budget	Final Budget	Actual	Variance (Rand value)	Variance percentage
	R	R	R	R	R
Statement of Financial Position					
Total current assets	35 909 302	43 544 660	82 593 202	39 048 542	89,67%
Total non-current assets	195 273 057	208 798 712	219 128 413	10 329 701	4,95%
Total assets	231 182 359	252 343 372	301 721 615	49 378 243	19,57%
Total current liabilities	18 495 000	18 495 000	34 997 670	16 502 670	89,23%
Total non-current liabilities	2 815 351	2 815 351	6 576 438	3 761 087	133,59%
Total current liabilities	21 310 351	21 310 351	41 574 108	20 263 757	95,09%
Total net assets	209 872 008	231 033 021	260 147 507	29 114 486	12,60%
Total Net Assets and Liabilities	231 182 359	252 343 372	301 721 615	49 378 243	
Statement of Cashflow position					
Net cash flows from operating activities	67 048 763	88 209 779	60 970 191	(27 239 588)	-31%
Net cash used in investing activities	(82 656 150)	(93 242 794)	(53 238 123)	40 004 671	-43%
Net cash flows / (used) in financings activities	300 000	300 000	(56 024)	(356 024)	-119%
	(15 307 387)	(4 733 015)	7 676 044	12 409 059	

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Accounting Policies

1. Presentation of Annual Financial Statements

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

Effective new standards adopted in the current year

In the current year the Municipality adopted the following standards which have been issued and are effective:

Standard	Description	Effective Date	Expected Impact
GRAP 18	Segment reporting.	01 April 2015	Not applicable.
GRAP 105	Transfer of functions between entities under common control.	01 April 2015	Not applicable.
GRAP 106	Transfer of functions between entities not under common control.	01 April 2015	Not applicable.
GRAP 107	Mergers	01 April 2015	Not applicable.
IGRAP 11	Consolidation: Special purpose entities.	01 April 2015	Not applicable.
IGRAP 12	Jointly controlled entities: Non-monetary contributions by ventures.	01 April 2015	Not applicable.
GRAP 6	Consolidated and Separate Financial Statements.	01 April 2015	Not applicable.
GRAP 7	Investments in Associates.	01 April 2015	Not applicable.
GRAP 8	Interest in Joint Ventures.	01 April 2015	Not applicable.

Standards issued but not yet effective.

In the current year the Municipality adopted the following standards which have been issued and are effective:

Standard	Description	Effective Date	Expected Impact
GRAP 20	Related parties.	01 April 2016	Minimal impact.
GRAP 32	Service Concession Arrangements Grantor	01 April 2016	Not applicable.
GRAP 108	Statutory Receivables.	01 April 2016	Minimal impact.
IGRAP 17	Service Concession Arrangements Grantor where a Grantor Controls a Significant Residual Interest in an Asset.	01 April 2016	Not applicable.
Directive 11	Change in measuring baseses following the initial adoption of Standards of GRAP.	01 April 2016	Minimal impact.

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Accounting Policies

1. Presentation of Annual Financial Statements

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

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgemental as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (cont.)

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of intangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 10 - Provisions.

Useful lives of property, plant and equipment and intangible assets

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangible assets. This estimate is based on the condition and use of the individual assets, in order to determine the remaining period over which the asset can and will be used.

Effective interest rate

The municipality used the government bond rate to discount future cash flows in the event of it being material.

Allowance for impairment

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

Budget Information

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exist. All material differences are explained in the relevant notes to the annual financial statement

1.4 Investment property

Investment property is property (land) held to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services, or for
- Administrative purposes; or for
- Sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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

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

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

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Accounting Policies

1.4 Investment property (cont.)

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

Fair value

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property reflects market conditions at the reporting date. A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.5 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and the cost of the item can be measured reliably. Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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

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

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Accounting Policies

1.5 Property, plant and equipment (cont.)

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Property, plant and equipment is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life. The useful lives of items of property, plant and equipment have been assessed as follows:

Asset Class	Average useful life
Infrastructure:	
Streetlights	1 - 30 Years
Roads	1 - 30 Years
Pedestrian Footways	1 - 30 Years
Community Assets:	
Office buildings	1 - 30 Years
Cemeteries	1 - 30 Years
Community centres and halls	1 - 30 Years
Libraries	1 - 30 Years
Sports and related stadiums	1 - 30 Years
Golf courses	1 - 20 Years
Flood lighting	1 - 15 Years
Parkhomes	1 - 15 Years
Car wash	1 - 10 Years
Houses / hostels	1 - 30 Years
Public places	1 - 30 Years
Taxi rank	1 - 30 Years
Other Assets:	
Landfill site	1 - 15 Years
Office equipment	1 - 17 Years
Office machines	1 - 7 Years
Air conditioners	1 - 10 Years
Furniture and fittings	1 - 15 Years
Fire extinguishers	1 - 10 Years
Other firefighting equipment	1 - 15 Years
Computer equipment	1 - 13 Years
Security measures	1 - 20 Years
Train	1 - 30 Years
Engine	1 - 10 Years
Generator	1 - 10 Years
Boiler	1 - 10 Years
Loud hailer / Public Address System	1 - 10 Years
Fencing	1 - 20 Years

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Accounting Policies

1.5 Property, plant and equipment (cont.)

Asset Class	Average useful life
Motor vehicles:	
Truck and light delivery vehicles	1 - 16 Years
Mini-bus and delivery vehicles	1 - 16 Years
Tractors	1 - 16 Years
Fencing	1 - 5 Years
Plant and equipment	
Graders	1 - 20 Years
Lawn mowers	1 - 20 Years
Compressors	1 - 20 Years
Firearms	1 - 20 Years
Radio equipment	1 - 10 Years

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimates. Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Incomplete construction work

Incomplete construction work is stated at historical cost . Depreciation only commences when the asset is available for use.

Leased assets

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or, where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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Accounting Policies

1.6 Site restoration and dismantling cost (cont.)

If the related asset is measured using the cost model:

Subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current (a) period;

If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in (b) surplus or deficit; and

(c) If the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount and any impairment loss is recognised in accordance with the accounting policy of impairment of cash-generating assets and / or impairment of non-cash generating assets.

1.7 Intangible assets

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

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

An intangible asset is recognised when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and the cost or fair value of the asset can be measured reliably. The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

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

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

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

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

Item	Useful life
Computer software, other	3 - 12 Years

Intangible assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

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1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index or prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have similar response to changes in market factors.

It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is cash, a residual interest of another entity, or a contractual right to receive cash or another financial asset from another entity or exchange financial assets or financial liabilities with another entity under conditions that potentially favourable to the entity.

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1.8 Financial instruments (cont.)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions. Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as equity instruments or similar forms of unissued capital; a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the entity designates at fair value at initial recognition; or are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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Accounting Policies

1.8 Financial instruments (cont.)

Financial instruments at fair value comprise financial assets or financial liabilities that are derivatives; combined instruments that are designated at fair value; instruments held for trading. A financial instrument is held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Type of Financial Asset

Classification in terms of GRAP 104

Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Bank, cash and cash equivalents - Bank and cash	Financial asset measured at amortised cost
Bank, cash and cash equivalents - Call investments	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Type of Financial Liability

Classification in terms of GRAP 104

Trade payables from non-exchange transactions	Financial liability measured at amortised cost
Trade payables from exchange transactions	Financial liability measured at amortised cost
Current portion of finance lease liability	Financial liability measured at amortised cost
Finance lease liability	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

A social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or

Non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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1.8 Financial instruments (cont.)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition at amortised cost.

All financial assets measured at amortised cost, or at cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting. The entity derecognises a financial asset only when:

The contractual rights to the cash flows from the financial asset expire, are settled or waived;

The entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or

The entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity derecognises the asset; and recognises separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

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Accounting Policies

1.8 Financial instruments (cont.)

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit. Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Ingwe Municipality

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Accounting Policies

1.8 Financial instruments (cont.)

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards. When a lease includes both land and buildings elements, the entity assesses the classification of each element separately. incidental to ownership.

Finance leases - lessee

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

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

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

1.10 Impairment of cash-generating assets

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

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

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

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

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

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Accounting Policies

1.10 Impairment of cash-generating assets (cont.)

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

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

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use. Useful life is either the period of time over which an asset is expected to be used by the municipality; or the number of production units or similar units expected to be obtained from the assets by the municipality.

1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Useful life is either the period of time over which an asset is expected to be used by the municipality; or the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

Employee benefits are all forms of consideration given by the entity in exchange for service rendered by employees. Termination benefits are employee benefits payable as a result of either an entity's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits.

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Accounting Policies

1.12 Employee benefits (cont.)

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

Salaries, wages and social security contributions;

Short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;

Bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and

Non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

As a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

As an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Defined contribution plans-KZN Joint Municipal Pension fund

The municipality has a defined contribution plan with Natal Joint Municipal Pension Fund . Payments to a defined contribution plan are charged as an expense as they fall due.

Ingwe Municipality

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Accounting Policies

1.12 Employee benefits (cont.)

Other employee benefits

The municipality provides long service awards benefits to certain qualifying employees after the completion of a minimum service period.

The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- The present value of the defined benefit 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 entity shall recognise 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 shall all be recognised immediately;
- Past service cost, which shall all be recognised immediately; and
- The effect of any curtailments or settlements.

□

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised.

The municipality has an obligation to rehabilitate its landfill site in terms of its licence stipulations. The amount of the provision is recognised at the present value of the expenditure expected to be required to settle the obligation.

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Accounting Policies

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

The municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;

The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

The amount of revenue can be measured reliably;

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

The amount of revenue can be measured reliably;

It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;

The stage of completion of the transaction at the reporting date can be measured reliably; and

The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Ingwe Municipality

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Accounting Policies

1.14 Revenue from exchange transactions (cont.)

Interest

Revenue arising from the use by others of entity assets yielding interest, service fees or similar distributions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality and the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method. Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.15 Service charges

Waste removal is based on the size of the bin and the number of times it is collected. Waste removal services are billed on a monthly basis.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Ingwe Municipality

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Accounting Policies

1.16 Revenue from non-exchange transactions (cont.)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Fines are economic benefits or service potential received or receivable by the municipality, as determined by court or other law enforcement body, as a consequence of breach of laws or regulations. Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

The best estimate is made to assess the probability of collecting fines revenue after initial recognition of an asset.. Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.16 Revenue from non-exchange transactions (cont.)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised but are disclosed in the notes to the annual financial statements.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Comparative figures

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

1.19 Unauthorised expenditure

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

□

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

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

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.22 Housing Development Fund

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

1.23 Conditional grants and receipts

Revenue received 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.

1.24 Events after reporting date

Events after reporting dates that are classified as adjusting events have been accounted for in annual financial statements. Events after reporting date that are classified as non-adjusting events after reporting date have been disclosed in the notes to the annual financial statements.

1.25 Budget information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies adopted by the Council for the preparation of the Annual Financial Statements. The amounts are scheduled as a separate additional financial statement, called the Statement of Comparison of Budget and Actual amounts. Explanatory comments are provided in the statement giving reasons for overall growth or decline in the budget and motivations for over-or under spending on line items.

The approved budget is prepared on an accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2015 to 30/06/2016.

1.26 Related parties

Individuals as well as their close family members and /or entities 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 related party and comprises the Councillors, the Mayor, the Executive Committee Members, the Municipal Manager, the Chief Financial Officer and all Managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.27 Commitments

Commitments are future expenditure items of both an operating and capital nature; in respect of which the Municipality has committed funds which on execution will result in an outflow of resources embodying economic benefits. Commitments are neither recognised in the Statement of Financial Position as liabilities nor recognised in the Statement of Financial Performance as expenditure but are disclosed as future commitments in the notes to the annual financial statements.

Commitments are disclosed in respect of:

Approved and contracted commitments, where expenditure has been approved and contracts have been awarded at reporting date, where the disclosure is required by the specific standard of GRAP.

Approved but not yet contracted for, where budget has been approved by Council but resulting contracts are yet to be awarded or are awaiting finalisation at the reporting date.

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements.

Other commitments for contracts that are non-cancellable or in respect of contracts that are only cancellable at significant cost, should relate to something other than the business of the municipality.

1.28 Value added tax

The municipality accounts for Value Added Tax on a cash basis.

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
	R	R
2 Receivables from non-exchange transactions		
Traffic fines	577 953	553 511
Suppliers deposits	210 551	151 939
Other receivables	215 152	224 617
	1 003 656	930 067
Receivables from non-exchange transactions pledged as security:		
There were no receivables from non-exchange transactions that were pledged as security.		
3 Vat receivable		
	7 098 413	2 859 365
Vat represents net input tax receivable from the South African Revenue Services		
4 Receivables from exchange and non-exchange transactions		
Gross balances		
Rates	8 863 605	7 648 099
Refuse	1 386 922	1 169 066
Rental	152 145	289 144
Vat	220 909	210 250
Sundry debtors	9 368	10 304
	10 632 949	9 326 863
Less: Allowance for impairment		
Provision for impairment	(5 271 953)	(8 158 195)
Net balances		
Rates	8 863 605	7 648 099
Refuse	1 386 922	1 169 066
Rental	152 145	289 144
Vat	220 909	210 250
Sundry debtors	9 368	10 304
Provision for impairment	(5 271 953)	(8 158 195)
	5 360 996	1 168 668
Included in the amounts above are receivables from exchange transactions:		
Refuse	1 386 922	1 169 066
Rental	152 145	289 144
Sundry debtors	9 368	10 304
	1 548 434	1 468 514

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
	R	R
4 Receivables from exchange and non-exchange transactions (cont.)		
Included in the amounts above are receivables from non-exchange transactions (taxes and transfers):		
Rates	8 863 605	7 648 099
Vat	220 909	210 250
	9 084 514	7 858 349
Rates		
Current (0 - 30 days)	(69 359)	-
31 - 60 days	18 079	11 708
> 121 days	8 914 886	7 636 391
	8 863 606	7 648 099
Refuse		
Current (0 - 30 days)	52 378	57 084
31 - 60 days	36 202	49 424
61 - 90 days	34 222	47 859
91 - 120 days	33 870	47 037
> 121 days	1 446 625	1 177 911
	1 603 297	1 379 315
Rental		
Current (0 - 30 days)	16 016	11 467
31 - 60 days	15 735	13 795
61 - 90 days	9 612	9 662
91 - 120 days	8 295	9 662
> 121 days	106 927	244 557
	156 585	289 143
Sundry debtors		
Current (0 - 30 days)	9 368	10 304
Total debtors	10 632 856	9 326 861
Summary of debtors by customer classification		
Consumers		
Current (0 - 30 days)	12 024	8 145
31 - 60 days	14 992	15 643
61 - 90 days	14 259	11 684
91 - 120 days	13 995	11 145
121 - 365 days	1 625 647	1 266 475
	1 680 917	1 313 092

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
	R	R
4 Receivables from exchange and non-exchange transactions (cont.)		
Summary of debtors by customer classification (cont.)		
Industrial / commercial		
Current (0 - 30 days)	(24 195)	132 323
31 - 60 days	3 141	2 972
61 - 90 days	2 359	2 544
91 - 120 days	2 271	2 543
121 - 365 days	894 201	779 873
	877 777	920 255
National and Provincial Government		
Current (0 - 30 days)	47 549	29 912
31 - 60 days	33 108	46 092
61 - 90 days	26 868	42 192
91 - 120 days	25 551	41 911
121 - 365 days	5 113 041	4 875 136
	5 246 117	5 035 243
Agriculture and others		
Current (0 - 30 days)	(36 341)	(115 925)
31 - 60 days	18 776	9 119
61 - 90 days	348	-
91 - 120 days	348	-
121 - 365 days	2 845 009	2 165 078
	2 828 140	2 058 272
Total		
Current (0 - 30 days)	(963)	54 455
31 - 60 days	70 017	73 826
61 - 90 days	43 834	56 420
91 - 120 days	42 165	55 599
121 - 365 days	10 477 898	9 086 562
	10 632 949	9 326 863
Less: Allowance for impairment	(5 271 954)	(8 158 195)
	5 360 995	1 168 668
Reconciliation of allowance for impairment		
Balance at beginning of the year	(8 158 195)	(7 096 530)
Bad debts written off	-	284 257
(Reversal of impairment) / contribution to the impairment	2 886 241	(1 345 922)
	(5 271 954)	(8 158 195)

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

2016

2015

R

R

4 Receivables from exchange and non-exchange transactions (cont.)

The provision for impairment on receivables exists predominantly due to the possibility that these debts will not be recovered. In assessing receivables for potential impairment; we adopted the following multi-approach: Debtors were assessed at individual level and on aggregate we grouped together debtors with similar credit risk characteristics and collectively assessed them for impairment.

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payments ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of trade receivables, the municipality considers any change in the credit quality of the debtor from the date the credit was initially granted up to the reporting date. the concentration of credit risk is limited due to the customer base being large and unrelated . Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
	R	R
5 Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	443	1 238
Bank balances	432 200	3 001 725
Short-term deposits	68 660 249	53 960 720
Other cash and cash equivalents	37 245	36 526
	69 130 137	57 000 209

Cash and cash equivalents held by the entity that are available for use .

For the purpose of Statement of financial position and the Cash flow statement, cash and cash equivalents includes cash -on hand, cash in banks and investments in money market instruments, net of outstanding overdraft.

The municipality does not have overdrawn current account facilities with its banker and therefore does not incur overdrawn current account . Interest is earned at different rates per annum on favourable

The management of the municipality is of the opinion that the carrying value of the current investment deposits , bank balances and cash and cash equivalents recorded at amortised cost in the annual financial statement approximate their fair value.

The fair value of current investment deposits, bank balances and cash and cash equivalents was determined after considering the standard terms and conditions of agreement entered into between the municipality and the financial institutions.

The Municipality has the following bank accounts:

	Bank statement balances			Cashbook balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Main Account FNB Cheque 52551036969 Nkwezela Disaster Account FNB 62245385093	330 238	2 745 455	2 383 297	315 396	2 762 152	2 383 297
FNB Salaries Account 62051076688	37 245	36 513	36 526	37 245	36 513	36 526
Stanlib Yield Fund 5511 30458	116 804	242 329	108 237	116 804	242 329	108 237
FNB 32 Days Stimela 74165605518	550 416	490 321	8 727 876	550 416	490 321	8 727 876
FNB Money Market 62008452071	717 661	686 876	661 765	717 661	686 876	661 765
Investec Fixed Deposit 442026-452	1 336 566	2 861 877	6 591 601	1 336 566	2 861 877	6 591 601
	-	-	8 182 634	-	-	8 182 634
Sub-total carried forward	3 088 930	7 063 371	26 691 936	3 074 088	7 080 068	26 691 936

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

					2016	2015
					R	R
5 Cash and cash equivalents (cont.)						
Sub-total brought	3 088 930	7 063 371	26 691 936	3 074 088	7 080 068	26 691 936
Investec Fixed Deposit 442026-454	-	-	15 548 653	-	-	15 548 653
FNB Fixed Deposit 74460230002	-	10 000 000	10 148 651	-	10 000 000	10 148 651
Nedbank Call Deposit 03/7881098635/000019	10 779 310	10 232 563	-	10 779 310	10 232 563	-
Bulwer Community Service Centre FNB 62550105011	13 164 996	-	-	13 164 996	-	-
Nedbank Call Deposit 7881098635/09	-	10 117 421	-	-	10 117 421	-
Investec Bank 442026-454	-	16 365 314	-	-	16 365 314	-
Municipal Housing Operation Account FNB Fixed 62544294987	1 478 112	1 396 615	-	1 478 112	1 396 615	-
Fixed Deposit - Housing Dev Fund FNB 62544297436	1 915 338	1 809 734	-	1 915 338	1 809 734	-
Investec Bank 442026-501	28 291 579	-	-	28 291 579	-	-
Nedbank Investment 03/7881098635/000018	10 426 269	-	-	10 426 269	-	-
	69 144 536	56 985 018	52 389 240	69 129 694	57 001 715	52 389 240
6 Investment property						
	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying Value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying Value
Investment property	2 885 000	-	2 885 000	2 885 000	-	2 885 000
Reconciliation of investment property - 2016						
	Opening balance	Additions	Disposals	Total		
Investment property	2 885 000	-	-	2 885 000		
Reconciliation of investment property - 2015						
	Opening balance	Additions	Disposals	Total		
Investment property	565 000	2 500 000	(180 000)	2 885 000		

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
	R	R

6 Investment property (cont.)

Pledged as security:

No investment property is pledged as security.

Investment property consists of land held for an undeterminable future use.

Details of valuation

Investment property mainly land and vacant stands are stated at fair values, which have been determined based on valuations by an independent valuer, Mr Mark Jonathan Govender as at 30 June 2016 an industry specialist in valuing these types of properties. Mr Mark Jonathan Govender is the member of Institute of Valuers of South Africa and have appropriate qualifications and experience in the valuation of properties in the relevant location. The valuation which confirms to International Standards of Valuation was arrived at by reference to market evidence of transaction prices for similar properties.

7 Property, plant and equipment

	<u>2016</u>			<u>2015</u>		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying Value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying Value
Land	1 815 000	-	1 815 000	1 630 000	-	1 630 000
Buildings	11 034 214	(5 208 537)	5 825 678	10 468 071	(4 858 386)	5 609 685
Plant and machinery	8 779 121	(1 481 293)	7 297 828	7 434 654	(1 015 919)	6 418 735
Furniture and fixtures	1 456 717	(1 059 880)	396 837	1 145 344	(932 207)	213 137
Motor vehicles	11 265 001	(4 754 668)	6 510 333	7 664 073	(3 844 014)	3 820 059
Office equipment	1 255 921	(509 772)	746 149	1 041 483	(459 923)	581 560
Computer equipment	1 519 827	(833 762)	686 065	1 570 323	(876 919)	693 404
Security measures	6 855 126	(1 211 312)	5 643 814	4 770 505	(836 543)	3 933 962
Leased assets	852 248	(358 680)	493 568	547 902	(75 055)	472 847
Infrastructure	61 337 976	(14 690 891)	46 647 085	59 967 069	(14 443 924)	45 523 145
Community assets	124 362 471	(18 798 689)	105 563 782	110 769 811	(15 103 330)	95 666 481
Other property, plant and equipment	6 570 345	(1 787 962)	4 782 383	6 774 022	(1 726 599)	5 047 423
Electricity projects	29 781 374	-	29 781 374	5 272 495	-	5 272 495
	<u>266 885 342</u>	<u>(50 695 447)</u>	<u>216 189 895</u>	<u>219 055 752</u>	<u>(44 172 819)</u>	<u>174 882 933</u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

7 Property, plant and equipment (cont.)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals / Write offs	Transfers	Other movements	Depreciation and impairments	Total
	R	R	R	R	R	R	R
Land	1 630 000	185 000	-	-	-	-	1 815 000
Buildings	5 609 685	566 144	-	-	-	(350 151)	5 825 678
Plant and machinery	6 418 735	1 490 446	-	-	-	(611 285)	7 297 896
Furniture and fixtures	213 137	298 928	-	-	-	(115 259)	396 806
Motor vehicles	3 820 059	3 804 549	-	-	-	(1 114 275)	6 510 333
Office equipment	581 561	341 423	-	-	-	(176 453)	746 531
Computer equipment	693 404	236 272	(3 836)	-	-	(239 775)	686 065
Security measures	3 933 962	2 084 622	-	-	-	(374 770)	5 643 814
Leased assets	472 846	304 346	-	-	-	(283 801)	493 391
Infrastructure	45 523 145	5 698 603	-	-	60 167	(4 634 778)	46 647 137
Community	95 666 481	13 701 711	-	-	8 719	(3 813 425)	105 563 486
Other property, plant and equipment	5 047 423	17 200	-	-	-	(282 239)	4 782 384
Electricity projects	5 272 495	24 508 879	-	-	-	-	29 781 374
	<u>174 882 933</u>	<u>53 238 123</u>	<u>(3 836)</u>	<u>-</u>	<u>68 886</u>	<u>(11 996 211)</u>	<u>216 189 895</u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

7 Property, plant and equipment (cont.)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other movements	Depreciation and impairments	Total
	R	R	R	R	R	R	R
Land	1 630 000	-	-	-	-	-	1 630 000
Buildings	5 200 840	724 640	-	-	-	(315 795)	5 609 685
Plant and machinery	6 051 423	782 048	(409)	-	-	(414 327)	6 418 735
Furniture and fixtures	321 398	8 735	(18 134)	-	-	(98 862)	213 137
Motor vehicles	4 845 181	-	-	-	-	(1 025 122)	3 820 059
Office equipment	456 181	265 149	(1 228)	-	(379)	(138 162)	581 561
Computer equipment	840 616	140 759	(16 129)	-	(26 752)	(245 090)	693 404
Security measures	1 986 504	2 203 462	-	-	-	(256 004)	3 933 962
Leased assets	155 796	547 902	(101 947)	-	-	(128 905)	472 846
Infrastructure	39 002 754	10 746 886	-	-	-	(4 226 495)	45 523 145
Community	83 139 553	15 456 543	-	-	-	(2 929 615)	95 666 481
Other property, plant and equipment	5 329 022	-	-	-	-	(281 599)	5 047 423
Electricity projects	10 129 084	8 865 443	-	(13 722 032)	-	-	5 272 495
	159 088 352	39 741 567	(137 847)	(13 722 032)	(27 131)	(10 059 976)	174 882 933

Work in progress

Included in additions and opening balance of property, plant and equipment are the following assets under construction:

	<u>2016</u>	<u>2015</u>
Infrastructure assets	11 320 174	7 922 384
Community assets	42 347 232	20 628 832
Other assets	442 364	-
Electricity projects	29 781 373	5 272 494
	83 891 143	33 823 710

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

8 Intangible assets

	<u>2016</u>			<u>2015</u>		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying Value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying Value
Computer software	<u>320 833</u>	<u>(267 315)</u>	<u>53 518</u>	<u>515 833</u>	<u>(429 621)</u>	<u>86 212</u>

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Impairment loss	Carrying value
Computer software	<u>86 212</u>	<u>-</u>	<u>(32 694)</u>	<u>-</u>	<u>53 518</u>

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Disposals	Impairment loss	Total
Computer software	<u>178 780</u>	<u>10 252</u>	<u>(71 619)</u>	<u>(31 200)</u>	<u>86 212</u>

Restricted title:

All computer software are issued under licence and are restricted to the condition under which each licence is issued.

2016 **2015**

9 Finance lease obligation

Minimum lease payments due		
- Within one year	744 566	595 920
- In second to fifth year inclusive	483 278	943 540
	<u>1 227 844</u>	<u>1 539 460</u>
Less: Future finance charges	(567 945)	(1 052 494)
Present value of minimum lease payments	<u>659 899</u>	<u>486 966</u>
Present value of minimum lease payments due:		
- Within one year	295 461	66 504
- In second to fifth year inclusive	364 438	420 462
	<u>659 899</u>	<u>486 966</u>
Non-current liabilities	364 438	420 462
Current liabilities	295 461	66 504
	<u>659 899</u>	<u>486 966</u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

9 Finance lease obligation (cont.)

The average lease term is 3 years. The capitalised liabilities are in respect of office equipment leased by the municipality. The lease agreements neither provide the nominal nor the effective interest rates, accordingly, internal rates of return applicable to each lease were determined and accordingly applied to amortise each of the respective lease repayments. Therefore, the average effective borrowing rate is 12%, which is subject to a 15% escalation per annum. The majority of these leases have fixed repayment terms. The agreements do not provide for contingent rental payments.

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015	
	R	R	
10 Payables from exchange transactions			
Trade payables	8 717 399	5 439 952	
Retention creditors - contracts	7 207 494	6 054 357	
Staff leave accrual	1 788 697	2 578 683	
Other payables	982 421	601 807	
	<u>18 696 011</u>	<u>14 674 799</u>	
11 Unspent conditional grants and receipts			
Bulwer Community Service Centre	13 164 996	5 149 852	
Municipal Infrastructure Grant	2 841 203		
Sports and Recreation	-	150 000	
KZN Department of Sports and Recreation (Nkwezela Sports Stadium Grant)	-	28 591	
KZN Co-operative Governance (Pound)	-	265 539	
	<u>16 006 199</u>	<u>5 593 982</u>	
Movement during the year			
Balance at the beginning of the year	5 593 982	229 564	
Additions during the year	55 186 144	40 037 000	
Income recognised during the year	<u>(44 773 927)</u>	<u>(34 672 582)</u>	
	<u>16 006 199</u>	<u>5 593 982</u>	
See note on Government Grants and Subsidies for reconciliation of grants from National and Provincial Governments.			
12 General Provisions Note - Long-term			
	Opening balance	Contributions to provision	Closing balance
12,1 Reconciliation Provision for landfill site rehabilitation - 2016			
Environmental rehabilitation - landfill site	<u>584 500</u>	<u>3 315 500</u>	<u>3 900 000</u>
Reconciliation Provision for landfill site rehabilitation - 2015			
Environmental rehabilitation - landfill site	<u>384 867</u>	<u>199 633</u>	<u>584 500</u>
The provision for rehabilitation of refuse disposal sites relates to the legal obligation to rehabilitate the disposal sites. The municipality operates two landfill sites, one at Creighton and the other at Bulwer. Both these landfill sites are relatively new each with a 10 year licence issued on the 15 of September 2015 and the 26 of October 2015 respectively. Taking into account the estimated landfill site capacity the average refuse disposal per month on each landfill site; it is estimated that these landfill sites will be in operation for at least the next 7 and 8 years respectively, this in addition to the fact that each of them has their respective licences valid till the second-half of 2025. The provision made represents the present value of estimated future rehabilitation costs for these relatively new landfill sites.			

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
	R	R
12 General Provisions Note - Long-term		
12,2 Long service awards obligation		
Balance at the beginning of the year	257 000	223 000
Current service cost	40 000	39 000
Interest cost	22 000	19 000
Benefits paid	(20 000)	(27 500)
Actuarial gains and losses	3 000	3 500
	302 000	257 000

The municipality offers certain employees leave awards that may be exchanged for cash on certain anniversaries of commencing service determined by the length of service.

The most recent actuarial valuation of plan assets of long service awards and the present value of the defined benefit obligation were carried out at 30 June 2016 by ZAQ Finance , Fellow of the Actuarial Society of South Africa . The present value of the defined benefit obligation , and the related current service cost and past service cost, were measured using the Projected Credit Method .

The principal assumptions used for the purpose of actuarial valuations are as follows:

Discount rate	Yield Curve Difference between nominal and yield curves	8%
Consumer Price Index (CPI)	CPI +1%	6%
Normal salary increase rate	Yield curve based	7%
Net effective discount rate		1%

The amount recognised in the Statement of Financial Position is as follows:

Present value of unfunded obligations	302 000	257 000
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The amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	40 000	39 000
Interest cost	22 000	19 000
Actuarial gains / (losses)	3 000	3 500
	65 000	61 500

Movements in the present value of the defined benefit obligation were as follows:

Balance at the beginning of the year	257 000	223 000
Current service cost	40 000	39 000
Interest cost	22 000	19 000
Benefits paid	(20 000)	(27 500)
Actuarial gains and losses	3 000	3 500
	302 000	257 000

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
	R	R
12 Provisions (cont.)		
12,2 Long service awards obligation		
Movement in the present value of plan assets were as follows:		
Contributions from employer	20 000	27 500
Benefits paid	(20 000)	(27 500)
	<u>-</u>	<u>-</u>
Present value of obligation	<u>302 000</u>	<u>257 000</u>

12,3 Post retirement health care benefits obligations

The history of experienced adjustments is as follows:

Balance at the beginning of the year	2 315 000	1 804 155
Current service cost	165 000	221 479
Interest cost	211 000	171 575
Actuarial (losses) and gains	(681 000)	117 791
	<u>2 010 000</u>	<u>2 315 000</u>

The municipality provides certain post -retirement health care benefits liability by funding the medical aid contribution of qualifying retired members of the municipality . According to the rules of the Medical Aid Funds , with which the municipality is associated , a member (Who is on the current Conditions of service) is entitled to remain a continued member of such medical aid fund on retirement , in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operate an unfunded defined benefit plan for these qualifying employees.

The most recent Actuarial valuations of plan assets and present value of the unfunded defined benefit obligation were carried out at 30 June 2016 by ZAQ Consultants and Actuaries , a fellow of the Faculty of Actuaries and Fellow of Actuarial Society of South Africa. The present value of the defined benefit obligation , and the related current service costs and past service costs were measured using the Projected Unit Credit Method.

The members of the post-employment benefit plant are made up as follows:

In-service members	<u>55</u>	<u>55</u>
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The liability in respect of past service has been estimated as follows:

In-service members	<u>2 010 000</u>	<u>2 315 000</u>
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The Municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

Key Health, Samwumed and LA Health.

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015
	R	R
12 Provisions (cont.)		
12,3 Post retirement health care benefits obligations (cont.)		
The principal assumptions used for the purposes of the actuarial valuations were as follows:		
Health care cost inflation	Yield Curve Difference between nominal and yield curves	9%
Expected inflation	CPI +1%	7%
Discount rate	Yield curve based	9%
Salary inflation		1%
The amount recognised in the statement of financial position is as follows:		
Present value of unfunded obligations	<u><u>2 010 000</u></u>	<u><u>2 315 000</u></u>
The amount recognised in the statement of financial performance is as follows:		
Current service cost	165 000	221 479
Interest cost	211 000	171 575
Actuarial losses / (gains)	681 000	(117 791)
Total included included in employee related costs	<u><u>1 057 000</u></u>	<u><u>275 263</u></u>
Movements in the present value of the defined benefit obligation were as follows:		
Balance at the beginning of the year	2 315 000	1 804 155
Current service cost	165 000	221 479
Interest cost	211 000	171 575
Actuarial gains and losses	(681 000)	117 791
	<u><u>2 010 000</u></u>	<u><u>2 315 000</u></u>
13 Housing Development Fund		
The Housing Development Fund	<u><u>3 393 450</u></u>	<u><u>3 206 348</u></u>
Movement in the current year:		
Opening balance	3 206 348	2 277 324
Add: Interest received and further advances	187 102	929 024
Closing balance	<u><u>3 393 450</u></u>	<u><u>3 206 348</u></u>
The Housing Development Fund is represented by cash and cash equivalents to the extent of:	<u><u>3 393 450</u></u>	<u><u>3 206 348</u></u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

		2016 R	2015 R
14 Revenue			
Revenue comprises of revenue from exchange and from non-exchange transactions as follows:			
14,1 Revenue from exchange transactions			
Service charges	15	583 665	566 489
Rental of facilities and equipment		327 025	280 203
Other income	16	1 997 089	3 055 120
Interest received	17	5 095 274	3 787 659
		<u>8 003 053</u>	<u>7 689 471</u>
14,2 Revenue from non - exchange transactions			
Taxation revenue			
Property rates	18	5 195 580	4 936 753
Property rates - penalties imposed		235 005	164 630
Transfer revenue			
Government grants and subsidies	19	115 367 748	100 847 258
Traffic fines		489 650	611 000
		<u>121 287 983</u>	<u>106 559 641</u>
15 Service charges			
Refuse removal		<u>583 665</u>	<u>566 489</u>
16 Other income			
Tender documents		266 399	369 056
Sundry income		1 614 682	2 528 816
Pound income		116 008	157 248
		<u>1 997 089</u>	<u>3 055 120</u>
17 Interest received			
Investment revenue		5 087 193	3 771 904
Interest charged on trade and other receivables		8 080	15 755
		<u>5 095 274</u>	<u>3 787 659</u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
18 Property rates		
Residential	721 871	673 401
Commercial	1 027 726	969 749
State	1 071 740	1 013 955
Small holdings and farms	45 611	45 590
PSI	11 484	19 615
Farms	2 317 148	2 214 443
	<u>5 195 580</u>	<u>4 936 753</u>
Property rates - penalties imposed	235 005	164 630
	<u>5 430 585</u>	<u>5 101 383</u>
Valuations		
Business and commercial	71 279 000	71 279 000
Industrial	2 130 000	2 130 000
Residential	59 096 000	58 536 000
State owned	23 670 000	23 670 000
State trust land	208 306 000	208 306 000
Educational	230 887 000	230 887 000
Farms (Agricultural)	798 083 299	797 856 299
Small holdings agricultural	170 000	170 000
PSI	4 458 000	4 458 000
Municipal	33 617 000	33 617 000
Place of worship	27 658 000	27 658 000
Public benefit organisations	21 181 000	21 181 000
MUL - Multiple Use	2 100 000	2 100 000
Residential (Lower use)	27 534 000	27 534 000
	<u>1 510 169 299</u>	<u>1 509 382 299</u>

Valuation of properties within the boundaries of the Municipal area are performed every five years. The current valuation came into effect on 1 July 2013. Interim valuations are carried out to take account of changes in individual property values due to subdivisions, property improvements etc.

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
19 Government grants and subsidies		
Operating grants		
Equitable share	70 593 820	66 024 823
Municipal Systems Improvement Grant	930 000	934 001
Financial Management Grant	1 800 000	1 800 001
KZN Department of Sports and Recreation (Kilmon and Nkwezela)	178 591	646 407
Expanded Public Works Programme	1 070 000	1 229 565
KZN Department of Arts and Culture - Librarian subsidiy	1 052 000	981 000
Department of Minerals and Energy - Electricitfication Grant	18 000 000	5 000 000
KZN Department of Co-operative Governance (Pound Grant)	265 539	734 461
	93 889 950	77 350 258
Capital grants		
Municipal Infrastructure Grant	21 477 797	23 497 000
	115 367 748	100 847 258
Equitable share		
In terms of the Constitution, this grant is used to subsidie the provision of basic services to indigent community members.		
19,1 Municipal Systems Improvement Grant		
Current year receipts	930 000	934 000
Conditions met - recognised as revenue	(930 000)	(934 000)
	-	-
This grant is used to capacitate the IDP /PMS Department of the municipality. Conditions of the grant have been met. There was no delay or withholding of the grant.		
19,2 Financial Management Grant		
Current year receipts	1 800 000	1 800 000
Conditions met - recognised as revenue	(1 800 000)	(1 800 000)
	-	-
This grant is used to finance sound financial management and to pay salaries for the interns. Conditions of the grants have been met.		
19,3 Department of Sports and Recreation (Kilmon and Nkwezela)		
Unspent balance at the beginning of the year	178 593	-
Current year receipts	-	825 000
Conditions met - recognised as revenue	(178 593)	(646 407)
Unspent balance at the end of the year	-	178 593
This grant was used to subsidise the cost of running the library. Conditions of the grants have been met .There was no delay or withholding of the grant.		

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
19 Government grants and subsidies (cont.)		
19,4 Expanded Public Works Programme		
Unspent balance at the beginning of the year	-	229 565
Current year receipts	1 070 000	1 000 000
Conditions met - recognised as revenue	<u>(1 070 000)</u>	<u>(1 229 565)</u>
	<u>-</u>	<u>-</u>
<p>The grant is utilised for creating of job opportunities in environmental and cultural, infrastructure and the social eradication of poverty and capacity building and skills programmes. Conditions of the grant have been met. There was no delay or withholding of the grant.</p>		
19,5 KZN Department of Arts and Culture - Librarian subsidy		
Current year receipts	1 052 000	981 000
Conditions met - recognised as revenue	<u>(1 052 000)</u>	<u>(981 000)</u>
	<u>-</u>	<u>-</u>
<p>This grant was used to subsidise the cost of running the library. Conditions of the grants have been met. There was no delay or withholding of the grant.</p>		
19,6 Municipal Infrastructure Grant		
Current year receipts	24 319 000	23 497 000
Conditions met - recognised as revenue	<u>(21 477 797)</u>	<u>(23 497 000)</u>
Unspent balance at the end of the year	<u>2 841 203</u>	<u>-</u>
<p>This grant was used to subsidise the cost of building infrastructure. Conditions of the grant have been met. There was no delay or withholding of the grant.</p>		
19,6 Department of Minerals and Energy - Electrification Grant		
Current year receipts	18 000 000	5 000 000
Conditions met - recognised as revenue	<u>(18 000 000)</u>	<u>(5 000 000)</u>
	<u>-</u>	<u>-</u>
<p>This grant was used to subsidise the cost of providing electricity. Conditions of the grant have been met. There was no delay of withholding of the grant.</p>		
19,7 KZN COGTA - Bulwer Service Centre		
Unspent balance at the beginning of the year	5 149 852	-
Current year receipts	8 015 144	5 149 852
Conditions met - recognised as revenue	-	-
Unspent balance at the end of the year	<u>13 164 996</u>	<u>5 149 852</u>
<p>This grant is used in the subsidisation of the construction of the Bulwer Service Centre.</p>		

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
19 Government grants and subsidies (cont.)		
19,8 KZN COGTA - Pound Grant		
Unspent balance at the beginning of the year	265 539	-
Current year receipts	-	1 000 000
Conditions met - recognised as revenue	<u>(265 539)</u>	<u>(734 461)</u>
Unspent balance at the end of the year	<u><u>-</u></u>	<u><u>265 539</u></u>
This grant was used to subsidise the cost of running the animal pound. Certain conditions of the grant have been met. There was no delay or withholding of the grant.		
20 Traffic fines		
Traffic fines	<u><u>489 650</u></u>	<u><u>611 000</u></u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
21 Employee related costs		
Salaries and wages	19 042 983	20 435 757
Bonus	4 209 599	1 249 697
Contribution to medical aid schemes, pension funds and UIF	4 172 094	3 640 729
Leave pay provision charge	704 893	1 060 305
Travel and standby allowances	879 046	852 717
Overtime payments	482 351	153 783
Provision for long service awards	(260 000)	544 845
Housing benefits and other employee related costs	154 981	787 202
	<u>29 385 945</u>	<u>28 725 035</u>
Remuneration of the Municipal Manager		
Annual remuneration	676 794	650 483
Travel, housing and other allowances	252 000	240 000
Contribution to medical aid, pension fund and UIF	112 622	161 698
	<u>1 041 416</u>	<u>1 052 181</u>
Remuneration of the Chief Financial Officer		
Annual remuneration	543 737	527 048
Travel, housing and other allowances	237 740	297 460
Contribution to medical aid, pension fund and UIF	101 406	27 370
	<u>882 883</u>	<u>851 878</u>
Remuneration of the IPD Manager		
Annual remuneration	667 860	658 314
Travel, housing and other allowances	189 000	157 343
Contribution to medical aid, pension fund and UIF	27 022	36 924
	<u>883 882</u>	<u>852 581</u>
Remuneration of the Corporate Services Manager		
Annual remuneration	757 882	721 792
Travel, housing and other allowances	126 000	120 000
Contribution to medical aid, pension fund and UIF	-	10 641
	<u>883 882</u>	<u>852 433</u>
Remuneration of the Community Services Manager		
Annual remuneration	-	110 299
Travel, housing and other allowances	-	30 000
Contribution to medical aid, pension fund and UIF	-	1 603
	<u>-</u>	<u>141 902</u>
22 Remuneration of Councillors		
Mayor	507 626	672 763
Deputy Mayor	631 969	538 210
Speaker	401 667	538 210
Executive Committee Members	1 143 755	925 049
Councillors	4 512 315	4 028 354
	<u>7 197 332</u>	<u>6 702 586</u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
22 Remuneration of Councillors (cont.)		
In-kind benefits:		
The Mayor, Deputy Mayor, Speaker and two Exco member are full-time. Each of them are provided with an office and secretarial support at the cost of the municipality. Councillors were paid within the Upper Limits envisaged in section 219 of the constitution. The Mayor, Deputy Mayor and Speaker are provided with municipal vehicles at the cost to the council.		
23 Depreciation and amortisation		
Property, plant and equipment	11 741 235	10 060 561
Intangible assets	32 694	71 619
	<u>11 773 929</u>	<u>10 132 180</u>
24 Impairment of assets		
Other financial assets - Traffic fines		
The best estimate of impairment loss recognised on traffic fines receivable is made on the basis of the general history of traffic fines not being recovered. This is exacerbated by the prevailing economic conditions in the country.	375 588	360 470
Property, plant and equipment		
Impairment loss recognised against property, plant and equipment reflects scenarios where the recoverable amount of each of such assets is below the respective carrying amounts; representing obsolete information technology equipment, physically damaged items, stolen and other redundant / idle items of property, plant and equipment.	255 000	58 330
	<u>630 588</u>	<u>418 800</u>
25 Finance costs		
Interest paid on finance leases	<u>572 509</u>	<u>465 538</u>
26 (Reversal of impairment on) / impairment of trade debtors	<u>(2 886 241)</u>	<u>1 345 922</u>
Reversal of impairment on debtors represents a reversal of previous impairment of trade consumers which are no longer impaired.		

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
27 Contracted services		
Security services	<u>1 756 473</u>	<u>1 233 497</u>
28 General expenses		
Accounting fees	799 830	841 098
Advertising	588 708	570 008
Anti-corruption measures	-	168 250
Arts and culture	483 607	785 266
Audit fees - external	1 113 666	1 105 306
Catering	249 449	517 865
Cleaning	145 674	330 912
Communications	758 359	135 573
Community functions	946 688	770 860
Consultants fees	2 835 098	1 092 624
Disaster relief programmes and initiatives	53 186	306 293
Educational support	862 412	682 435
Free basic electricity	1 146 531	1 187 339
Fuel and oil	1 264 243	1 263 962
HIV and Aids related expenditure	23 553	109 567
IDP review	605 180	-
Insurance	655 577	689 350
Internal Audit and Audit Committee	358 782	726 460
LED strategy	326 723	404 046
Legal expenses	318 175	65 826
Mayoral cup	54 981	503 543
Municipal relief fund	-	96 100
Newspapers and publications	28 036	37 723
Poverty Alleviation	132 802	197 236
Printing and stationery	1 046 213	876 219
Protective clothing	425 747	91 594
Provision for rehabilitation of the landfill site	3 315 500	199 633
Public participation	533 035	414 998
Special programmes	-	473 685
Sports development	1 054 255	453 705
Staff bursaries	64 448	293 729
Sundry expenses	2 007 092	4 041 154
Telephone	873 033	1 120 857
Training - Councillors	195 606	551 358
Training - Personnel	637 097	-
Travelling, accommodation and subsistence - personnel	2 247 738	4 100 129
Travelling, accommodation and subsistence - councillors	603 603	990 830
Ward committee expenses	725 563	887 504
Water and electricity	979 264	734 655
Youth development	519 191	305 834
	<u>28 978 644</u>	<u>28 123 526</u>
29 Auditors' remuneration		
Fees	1 113 666	1 105 306

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
30 Cash generated from operations		
Surplus for the year	44 247 300	18 965 477
Adjustment for:		
Depreciation and amortisation	11 773 929	10 132 180
Loss on sale of assets	3 836	204 403
Impairment loss - assets	630 588	418 800
Finance costs	572 509	465 538
(Reversal of) debt impairment	(2 886 241)	1 345 922
Interest received	(5 095 274)	(3 811 162)
Non-cash items - net movement in provisions	3 055 500	(744 487)
Leave pay provision movements	-	(1 326 000)
Bonus provision	-	533 621
Non-cash items - transfer of electrification infrastructure	-	13 722 032
Non-cash items - other	2 510 623	-
Operating surplus before working capital changes	54 812 770	39 906 324
Working capital changes		
Increase in receivables from non-exchange transactions	(73 589)	(331 868)
Increase in VAT receivable	(4 239 048)	(1 104 258)
Increase in receivable from exchange and non-exchange transactions	(4 192 328)	(720 736)
Increase in current portion of finance lease liability	228 957	-
Increase/(decrease) in payables from exchange transactions	4 021 212	(1 836 223)
Increase in unspent conditional grants and receipts	10 412 217	5 364 409
Cash generated from operations	60 970 191	41 277 648
31 Cash and cash equivalents		
Cash and cash equivalents included in the cash flow statement comprise the following:		
Cash on hand	443	1 238
Bank balances	432 200	3 001 725
Short-term deposits	68 660 249	53 960 720
Other cash and cash equivalents	37 245	36 526
Bank balances and cash	69 130 137	57 000 209

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
32 Commitments		
Authorised capital expenditure		
Approved and contracted for		
- Infrastructure assets	8 877 491	2 646 435
- Community assets	4 610 709	7 749 508
- Other assets	19 414 521	4 072 360
	32 902 721	14 468 303
Approved but not contracted for		
Infrastructure assets	18 981 546	16 008 558
Community assets	36 120 967	61 987 057
Other assets	4 305 000	8 243 654
	59 407 513	86 239 269
Total capital commitments	92 310 234	100 707 572
This expenditure will be financed from:		
Government grants	68 590 713	88 391 558
Own resources	23 719 521	12 316 014
	92 310 234	100 707 572
Operating commitments		
General expenses	4 367 085	362 111
Repairs and maintenance	12 375	3 214 204
Consultants	66 234	418 408
Contracted services	637 117	-
	5 082 811	3 994 723
33 Unauthorised expenditure		
Opening balance	6 018 053	5 632 898
Unauthorised expenditure - current year	-	6 018 053
Unauthorised expenditure - condoned	-	(5 632 898)
Closing balance	6 018 053	6 018 053
Negative variance in Revenue:		
- Property rates	24 354	-
- Government grants and subsidies	24 442 252	455 748
Total negative variance in revenue	24 466 606	455 748
Negative variance in Expenditure:		
- Personnel	-	-
- Depreciation and amortisation	-	4 035 180
- Impairment loss	-	418 800
- Debt impairment	-	903 922
- General expenses	-	-
- Electricity projects	-	-
- Loss on disposal property, plant and equipment	3 836	204 403
	3 836	5 562 305
Grand total - all negative variances	24 470 442	6 018 053

A comprehensive variance analysis is presented in note 44.

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
34 Fruitless and wasteful expenditure		
Opening balance	59 418	63 572
Fruitless and wasteful expenditure - current year	-	59 418
Condoned by council	-	(63 572)
	<u>59 418</u>	<u>59 418</u>
35 Irregular expenditure		
Opening balance	11 447 406	713 963
Irregular - current year	16 267 136	11 447 406
Condoned by council	-	(713 963)
	<u>27 714 542</u>	<u>11 447 406</u>
Details of irregular expenditure - current year:		
Appointments under emergency situations	141 856	
Expenditure in excess of existing contract.	112 193	
Appointment of a service provider not in possession of a valid tax clearance and failure to round off to nearest decimal	15 994 927	
Appointment in respect of which only one quotation was obtained.	18 160	
	<u>16 267 136</u>	
36 Additional disclosure in terms of the Municipal Finance Management Act		
36,1 Contributions to organised local government		
Current year subscription	<u>500 000</u>	<u>500 000</u>
36,2 Audit fees		
Current year	1 113 666	1 105 306
Amount paid in the current year	<u>(1 113 666)</u>	<u>(1 105 306)</u>
	<u>-</u>	<u>-</u>
36,3 PAYE and UIF		
Opening balance	(165 759)	338 391
Current year amount	5 197 762	4 875 261
Amount paid in the current year	<u>(5 032 003)</u>	<u>(5 379 411)</u>
Balance (overpaid) included in debtors	<u>-</u>	<u>(165 759)</u>
36,4 Pension and medical aid deductions		
Opening balance	1 339	504 400
Payroll deductions	6 440 228	6 334 524
Amount paid in the current year	<u>(6 441 180)</u>	<u>(6 837 585)</u>
Balance unpaid included in creditors	<u>387</u>	<u>1 339</u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016 R	2015 R
36 Additional disclosure in terms of the Municipal Finance Management Act		
36,5 VAT		
Vat receivable	<u>7 098 413</u>	<u>2 859 365</u>
<p>The net of VAT input payables and VAT output receivables are shown in note 3. All VAT returns have been submitted by the due date throughout the year.</p>		
36,6 Councillor's arrear consumer accounts		
	Outstanding for more than 90 days	Outstanding for more than 90 days
Councillor Luzulane	<u>-</u>	<u>8 773</u>
37 SCM Deviations		
Details of Section 36 deviations		
Sole supplier(s) of goods and services procured	607 726	371 325
Emergency situations	61 822	303 795
Urgent repairs and maintenance	-	13 700
Only one quotation received	87 780	-
Scope extension	-	8 949
State entity and sole supplier	22 235	-
	<u>779 563</u>	<u>697 769</u>

Ingwe Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

	2016	2015		
	R	R		
38 Risk Management				
38,1 Financial management risk				
<p>The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.</p> <p>The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.</p> <p>The Directorate : Budget and Treasury Office monitors and manages the financial risks related to operations through internal policies and procedures . These risks include interest rate risks , credit risks and liquidity. Compliance with policies and procedures is reviewed continuously by the internal auditors and annual by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.</p> <p>Internal auditors responsible for initiating a control framework and monitoring and responding to potential risks , reports to the municipality's audit committee , an independent body that monitors the effectiveness of the internal audit.</p>				
38,2 Liquidity risk				
<p>Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.</p> <p>The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.</p> <p>Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.</p> <p>The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.</p>				
	Less than 1 Year	Over 1 Year and not more than 5 Years	Over 5 Years	Total
Maturity profile - 30 June 2016				
Finance lease obligations	295 461	364 438	-	659 899
Trade payables	18 696 011	-	-	18 696 011
Total	<u>18 991 472</u>	<u>364 438</u>	<u>-</u>	<u>19 355 910</u>
Maturity profile - 30 June 2015				
Finance lease obligations	52 134	203 174	-	255 308
Trade payables	14 674 799	-	-	14 674 799
Total	<u>14 726 933</u>	<u>203 174</u>	<u>-</u>	<u>14 930 107</u>

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	2016	2015
	R	R
38 Risk Management (cont.)		
38,3 Credit risk		
<p>Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter- party.</p> <p>Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.</p> <p>Financial assets exposed to credit risk at year end were as follows:</p>		
Financial instruments		
Receivables from non-exchange transactions	1 003 656	930 067
Receivables from exchange transactions	5 360 996	1 168 668
Bank, and cash equivalents	69 130 137	57 000 209
	<u>75 494 789</u>	<u>59 098 944</u>

38,4 Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The municipality's interest rate risk arises from short term investments. Investments are made at variable rates and are exposed to cash flow interest rate risk.

At year end, financial instruments exposed to interest rate risk were Call Deposits and Notice Deposits.

38,5 Market risk

The municipality's activities expose it primarily to the financial risk of changes in interest rates . No formal policy exists to hedge volatilities in the interest rate market.

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	2016	2015
	R	R
39 Related parties		
Relationships		
Compensation to the Accounting Officer, other Key Management and to the Council:		
Accounting Officer and other Key Management	3 692 063	3 751 245
Councillors	7 197 332	6 621 765
	<u>10 889 395</u>	<u>10 373 010</u>
40 In-kind donations and assistance		
No in-kind donations and assistance was received during the year under review.		
41 Financial Instruments - at amortised cost		
At 30 June 2016		
Financial Assets		
Receivables from non-exchange transactions	1 003 656	930 067
Receivables from exchange transactions	5 360 996	1 168 668
Cash and cash equivalents - cash at bank	432 643	3 002 963
Cash and cash equivalents - call investments	68 660 249	53 960 720
Cash and cash equivalents - other / cash on hand	37 245	36 526
	<u>75 494 789</u>	<u>59 098 944</u>
Financial Liabilities		
Long-term portion of finance leases	364 438	420 462
Trade payables	18 696 011	14 674 799
Short-term portion of finance leases	364 438	66 504
	<u>19 424 887</u>	<u>15 161 765</u>

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2016	2015
R	R

42 Going concern assumption

In terms of the section 24 and 25 of the Local Government: Municipal Demarcation Act, Act 27 of 1998 and Section 2 of the Municipal Structures Act, Act 117 of 1998; Ingwe and kwaSani Municipalities amalgamated into one municipality (DEM 4150) forming the Dr Nkosazana Dlamini-Zuma Municipality - KZN 436. The merger is effective the 10th of August 2016.

As a means to prepare for the merger; a Harry Gwala Political Change Management Committee was formed, assuming responsibility for planning for a smooth transition both in a legal sense and in terms of institutional stability cum ongoing service delivery. Amongst other critical and fundamental legal and institutional governance imperatives put in place by the committee are the following:

- The timely adoption of a fully cash-backed the budget for the Dr Nkosazana Dlamini-Zuma Municipality. This budget has since been implemented effective the 10th of August 2016.
 - Policies and the supporting procedures were adopted with the budget.
 - The newly elected Council is the Council for the new Municipality.
 - Both establishing Municipalities as standalone entities in their previous form independently subscribed to thorough and technically sound cash management practices that were fully embedded in the day-to-day operations of these entities, this in the ordinary course of service delivery.
- The Dr Nkosazana Dlamini-Zuma Municipality will continue with this philosophy and approach.

Joint Municipal revenue in the form of rates, service charges and income derived from letting municipal facilities will continue to as an ongoing inflow of economic resources supporting the ongoing delivery of municipal services by the Dr Nkosazana Dlamini-Zuma Municipality. Best practice working capital management wherein liquidity and risk related ratios are closely monitored with swift corrective measures taken as and when necessary, will accordingly continue to be applied in the new institution.

In summary therefore, as a legal entity, Ingwe Municipality is not a going concern, however from an economic viability point of view; the previously demarcated Ingwe Municipal area will continue to thrive as a viable financial entity within the new Dr Nkosazana Dlamini-Zuma Municipality.

43 Contingencies

43,1 Contingent liabilities

In previous years the Municipality purchased land from two independent families for a combined amount of R200 000. The land was used for a development of a housing project by the institution. To-date; the purchase price has not been paid over. Accordingly, a contingent liability exists in the form of interest payable from the date of the completion of the project (date of completion certificate) to the date of payment of the capital balance.

43,2 Contingent assets

A contingent asset exists representing a possible recovery of Municipal funds fraudently disbursed from the Municipality's bank account by a former employee of the institution.

44 Comparison of actual to budgeted results

Only the major variances are explained:

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2016	2015
R	R

44,1 Revenue

The major revenue is in respect of Government grant income. The variance is due to three main factors: Firstly, for the year under review National Treasury short-paid the institution's equitable share by R12.5m. A recovery payment will be made in December 2016. Secondly, while the funds for the Bulwer Community Service Centre have been received (R13m) refer to note 19.7; yet the project has not commenced. This as a result of the delay in the appointment of consultants by the Province - COGTA. Finally, the R1.9m Demarcation Grant has not been received from COGTA, it will be received in the new financial year.

44,2 Operational expenditure

- Remuneration for Council was under spent due to the fact that the Municipality operating without a Mayor and a Speaker for a number of months.
- The Municipality does not make any provision for doubtful debts in respect of Government Debtors.
- The In respect of repairs and maintenance, contracted services and general expenses the institution successfully implemented National Treasuries' austerity measures, notwithstanding the substantial negative variance of anticipated government grants and subsidies.

44,3 Capital expenditure

For the year under review some of the Municipality's infrastructure projects were behind schedule. Accordingly, this negatively impacted the rate of capital expenditure against budget. We highlight the major causes below:

- Moodle Electrical / Ceehoo's contract who were responsible for the Hlanganani 4 Electrification Project was terminated; this was as a result of poor performance on the job. Accordingly, this has led to the delay of the project.
- The Thonsini Access Road Project is on hold due to Environmental Impact Assessment studies.
- The Mvulleni Sexule Pedestrian Bridge has been delayed; this is as a result of Environmental Impact Assessment Studies and Project Design.
- The Construction of the Bulwer and Creighton Asphalt Road has been delayed. This is due to excessive first stage design project costs.

Included in the Community Services Department is a budget for the departmental vehicle; which will be delivered only in the new financial year. This explains the temporal delay in the matching capital expenditure budget.

45 Events after the reporting date

In terms of resolution DEM 4150 Ingwe Municipality legally and formally merged with the KwaSani Municipality effective the 10th of August 2016, forming the Dr Nkosazana Dlamini-Zuma Municipality, KZN 436. The implication of the merger is that both the establishing Municipalities ceased to exist as legal standalone entities effective the 10th of August 2016. As a result; both Ingwe and Kwa-Sani Municipalities each closed their respective books of account on the 9th of August 2016 and as at this date; final audited sets of financial statements will be prepared. These dates are informed by the proclamation of the recent Local Government Election Results; as proclaimed by the Independent Electoral Commission on the 9th of August 2016. This an implementation of resolution DEM 4150 issued by the Dermacation Board previously.