



Maquassi Hills Local Municipality
Financial statements
for the year ended 30 June 2016

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Municipality
Members of Council Councillors	B.J. Mahumapelo P.R. Legabe K.G. Mojela T.S. Selete N.L. Tshingilane K.S. Seakane M.D. Matete M.S. Sejeso K.S. Kgaodi K.A. Mogapi O.H. Botsietseng G.P. Motswagole S.J. Lesie N.W. Ntiane M.D. Serectsi M.E. Motaung D.K. Mohadi M.G. Letlakane G.J. Van Zyl G.J. Muller J. Pheiffer
Accounting Officer	I.R. Jonas
Chief Finance Officer (CFO)	M.J. Molefe
Registered office	19 Kruger Street Wolmaransstad 2630
Business address	19 Kruger Street Wolmaransstad 2630
Postal address	Private Bag X3 Wolmaransstad 2630
Bankers	ABSA Wolmaransstad
Auditors	Auditor - General of South Africa

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Abbreviations

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

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Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 61, in terms of Section 126(1) of the Municipality Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

I R Jonas
Municipal Manager

DATE.....

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The Municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The financial statements are prepared on the basis that the Municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The financial statements set out on page 6 to 61 which have been prepared on the going concern basis, were approved by the accounting officer on 14 November 2016 and were signed on its behalf by:

I R Jonas

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The Municipality operates in South Africa.

The operating results and state of affairs of the Municipality are fully set out in the attached financial statements and do not in my opinion require any further comment.

2. Going concern

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

3. Subsequent events

The Accounting Officer is not aware of any matter or circumstance arising since the end of the financial year that would require disclosure in the financial statements.

4. Accounting Officer's interest in contracts

The Accounting Officer has no interests in contracts of the Municipality.

5. Accounting policies

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

6. Corporate governance

The accounting officer is committed to business integrity, transparency and professionalism in all his activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

	Notes	2016 R	2015 Restated R
Assets			
Current Assets			
Inventories	5	855 305	1 472 399
Investments	6	757 225	732 318
Receivables from non-exchange transactions	7	32 966 390	23 068 486
VAT receivable	8	24 452 921	18 918 111
Trade and other receivables from exchange transactions	10	23 886 713	21 021 603
Cash and cash equivalents	11	7 584 079	16 105 649
		90 502 633	81 318 566
Non-Current Assets			
Investment property	4	66 492 000	66 492 000
Property, plant and equipment	3	921 469 808	885 765 145
		987 961 808	952 257 145
Total Assets		1 078 464 441	1 033 575 711
Liabilities			
Current Liabilities			
Borrowings	12	5 811 462	5 585 596
Trade and other payables from exchange transactions	13	150 421 442	131 478 841
Consumer deposits	14	2 227 106	2 124 152
Employee benefit obligation	9	896 000	3 695 845
Unspent conditional grants and receipts	15	10 682 336	2 571 763
Provision for rehabilitation of landfill sites	16	17 896 295	41 219 007
Bank overdraft	11	3 638 646	2 432 684
		191 573 287	189 107 888
Non-Current Liabilities			
Borrowings	12	41 544 405	43 761 439
Employee benefit obligation	9	27 619 000	19 905 469
		69 163 405	63 666 908
Total Liabilities		260 736 692	252 774 796
Net Assets		817 727 749	780 800 915
Accumulated surplus		817 727 749	780 800 915

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Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

	Notes	2016 R	2015 Restated R
Revenue			
Revenue from exchange transactions			
Licence and permits	17	1 885 803	1 727 211
Service charges	19	136 864 338	126 213 585
Rental of facilities and equipment	20	610 809	488 600
Other income	21	60 719 870	1 825 011
Interest revenue	22	42 876 639	34 375 349
Total revenue from exchange transactions		242 957 459	164 629 756
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	30 970 962	27 202 262
Transfer revenue			
Government grants	23	144 138 426	117 954 233
Fines		18 528 270	27 606 436
Total revenue from non-exchange transactions		193 637 658	172 762 931
Total revenue	17	436 595 117	337 392 687
Expenditure			
Employee related costs	24	(65 769 338)	(61 181 828)
Remuneration of councillors	25	(7 163 876)	(6 767 379)
Depreciation and amortisation	26	(41 679 091)	(55 654 750)
Finance costs	27	(6 613 493)	(12 617 298)
Debt impairment	28	(60 227 466)	(63 689 746)
Repairs and maintenance		(13 466 460)	(11 837 790)
Bulk purchases	29	(89 373 963)	(78 599 196)
Contracted services	30	(6 167 723)	(5 632 273)
Revenue forgone		-	(4 636 847)
Loss on disposal of assets		(25 072)	-
General expenses	31	(51 284 523)	(25 986 207)
Total expenditure		(341 771 005)	(326 603 314)
Operating surplus		94 824 112	10 789 373
Surplus for the year		94 824 112	10 789 373

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Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 30 June 2014	709 652 264	709 652 264
Changes in net assets		
Prior period adjustment (refer to note 46)	60 359 278	60 359 278
Net income (losses) recognised directly in net assets	60 359 278	60 359 278
Surplus for the year	10 789 373	10 789 373
Total recognised income and expenses for the year	71 148 651	71 148 651
Total changes	71 148 651	71 148 651
Balance at 30 June 2015 - Restated	780 800 915	780 800 915
Changes in net assets		
Prior period adjustment (refer to note 46)	(57 897 278)	(57 897 278)
Net income (losses) recognised directly in net assets	(57 897 278)	(57 897 278)
Surplus for the year	94 824 112	94 824 112
Total recognised income and expenses for the year	36 926 834	36 926 834
Total changes	36 926 834	36 926 834
Balance at 30 June 2016	817 727 749	817 727 749

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Cash Flow Statement

	Notes	2016 R	2015 Restated R
Cash flows from operating activities			
Receipts			
Sale of goods and services		99 295 013	82 237 590
Government grants		152 249 000	117 954 233
Interest revenue		896 744	785 807
Other receipts		4 091 580	3 223 737
		<u>256 532 337</u>	<u>204 201 367</u>
Payments			
Employee costs		(72 933 214)	(67 949 207)
Suppliers and other payments		(144 296 243)	(96 235 580)
Finance costs		(4 379 493)	(9 101 894)
		<u>(221 608 950)</u>	<u>(173 286 681)</u>
Net cash flows from operating activities	33	<u>34 923 387</u>	<u>30 914 686</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(42 634 844)	(28 320 114)
Increase in investments		(24 907)	(17 457)
Net cash flows from investing activities		<u>(42 659 751)</u>	<u>(28 337 571)</u>
Cash flows from financing activities			
Decrease in borrowings		(1 991 168)	(2 959 215)
Net cash flows from financing activities		<u>(1 991 168)</u>	<u>(2 959 215)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(9 727 532)</u>	<u>(382 100)</u>
Cash and cash equivalents at the beginning of the year		13 672 965	14 055 065
Cash and cash equivalents at the end of the year	11	<u>3 945 433</u>	<u>13 672 965</u>

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Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference - Appendix A and B
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Licence and permits	13 820 000	(4 116 000)	9 704 000	1 885 803	(7 818 197)	
Service charges	167 993 000	(48 767 000)	119 226 000	136 864 338	17 638 338	
Rental of facilities and equipment	468 000	(99 000)	369 000	610 809	241 809	
Other income	561 000	5 360 000	5 921 000	60 719 870	54 798 870	
Interest revenue	33 132 000	6 708 000	39 840 000	42 876 639	3 036 639	
Total revenue from exchange transactions	215 974 000	(40 914 000)	175 060 000	242 957 459	67 897 459	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	31 160 000	(347 000)	30 813 000	30 970 962	157 962	
Transfer revenue						
Government grants	123 300 000	2 352 000	125 652 000	144 138 426	18 486 426	
Fines	17 002 000	(9 481 000)	7 521 000	18 528 270	11 007 270	
Total revenue from non-exchange transactions	171 462 000	(7 476 000)	163 986 000	193 637 658	29 651 658	
Total revenue	387 436 000	(48 390 000)	339 046 000	436 595 117	97 549 117	
Expenditure						
Personnel	(71 635 000)	2 960 000	(68 675 000)	(65 769 338)	2 905 662	
Remuneration of councillors	(6 797 000)	(443 000)	(7 240 000)	(7 163 876)	76 124	
Depreciation and amortisation	(34 758 000)	-	(34 758 000)	(41 679 091)	(6 921 091)	
Debt impairment	(94 545 000)	20 050 000	(74 495 000)	-	74 495 000	
Finance costs	(3 578 000)	1 311 000	(2 267 000)	(6 613 493)	(4 346 493)	
Bad debts written off	-	-	-	(60 227 466)	(60 227 466)	
Repairs and maintenance	-	(12 845 000)	(12 845 000)	(13 466 460)	(621 460)	
Bulk purchases	(78 743 000)	5 743 000	(73 000 000)	(89 373 963)	(16 373 963)	
Contracted services	(12 248 000)	(5 532 000)	(17 780 000)	(6 167 723)	11 612 277	
Loss on disposal of assets	-	-	-	(25 072)	(25 072)	
General Expenses	(41 038 000)	1 500 000	(39 538 000)	(51 284 523)	(11 746 523)	
Total expenditure	(343 342 000)	12 744 000	(330 598 000)	(341 771 005)	(11 173 005)	
Surplus for the year	44 094 000	(35 646 000)	8 448 000	94 824 112	86 376 112	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference - Appendix A and B
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	610 000	40 000	650 000	855 305	205 305	
Investments	1 000 000	(268 000)	732 000	757 225	25 225	
Trade and other receivables from non-exchange transactions	-	-	-	32 966 390	32 966 390	
VAT receivable	-	-	-	24 452 921	24 452 921	
Consumer debtors	24 611 000	-	24 611 000	23 886 713	(724 287)	
Cash and cash equivalents	10 150 000	4 121 000	14 271 000	7 584 079	(6 686 921)	
	36 371 000	3 893 000	40 264 000	90 502 633	50 238 633	
Non-Current Assets						
Investment property	-	-	-	66 492 000	66 492 000	
Property, plant and equipment	655 165 000	191 238 000	846 403 000	921 469 808	75 066 808	
Intangible assets	40 000	-	40 000	-	(40 000)	
Investments	-	732 000	732 000	-	(732 000)	
	655 205 000	191 970 000	847 175 000	987 961 808	140 786 808	
Total Assets	691 576 000	195 863 000	887 439 000	1 078 464 441	191 025 441	
Liabilities						
Current Liabilities						
Borrowings	2 571 000	987 000	3 558 000	5 811 462	2 253 462	
Trade and other payables from exchange transactions	83 000 000	34 031 000	117 031 000	150 421 442	33 390 442	
Consumer deposits	2 310 000	700 000	3 010 000	2 227 106	(782 894)	
Employee benefit obligation	-	-	-	896 000	896 000	
Unspent conditional grants and receipts	-	-	-	10 682 336	10 682 336	
Provision for rehabilitation of landfill sites	94 545 000	(11 700 000)	82 845 000	17 896 295	(64 948 705)	
Bank overdraft	22 500 000	(2 000 000)	20 500 000	3 638 646	(16 861 354)	
	204 926 000	22 018 000	226 944 000	191 573 287	(35 370 713)	
Non-Current Liabilities						
Borrowings	45 500 000	(5 100 000)	40 400 000	41 544 405	1 144 405	
Employee benefit obligation	-	-	-	27 619 000	27 619 000	
Provision for rehabilitation of landfill sites	46 866 000	(4 175 000)	42 691 000	-	(42 691 000)	
	92 366 000	(9 275 000)	83 091 000	69 163 405	(13 927 595)	
Total Liabilities	297 292 000	12 743 000	310 035 000	260 736 692	(49 298 308)	
Net Assets	394 284 000	183 120 000	577 404 000	817 727 749	240 323 749	
Reserves						
Accumulated surplus	394 284 000	183 120 000	577 404 000	817 727 749	240 323 749	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference - Appendix A and B
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services and other receipts	145 064 000	(30 793 000)	114 271 000	99 295 013	(14 975 987)	
Government Grants	123 300 000	500 000	123 800 000	152 249 000	28 449 000	
Interest revenue	567 000	-	567 000	896 744	329 744	
Other receipts	-	-	-	4 091 580	4 091 580	
	268 931 000	(30 293 000)	238 638 000	256 532 337	17 894 337	
Payments						
Suppliers, employee and other payments	(240 210 000)	-	(240 210 000)	(217 229 457)	22 980 543	
Finance costs	(3 578 000)	-	(3 578 000)	(4 379 493)	(801 493)	
	(243 788 000)	-	(243 788 000)	(221 608 950)	22 179 050	
Net cash flows from operating activities	25 143 000	(30 293 000)	(5 150 000)	34 923 387	40 073 387	
Cash flows from investing activities						
Purchase of property, plant and equipment	(27 235 000)	(31 569 000)	(58 804 000)	(42 634 844)	16 169 156	
Increase in investments	-	-	-	(24 907)	(24 907)	
Net cash flows from investing activities	(27 235 000)	(31 569 000)	(58 804 000)	(42 659 751)	16 144 249	
Cash flows from financing activities						
Decrease in borrowings	(1 950 000)	-	(1 950 000)	(1 991 168)	(41 168)	
Net increase/(decrease) in cash and cash equivalents	(4 042 000)	(61 862 000)	(65 904 000)	(9 727 532)	56 176 468	
Cash and cash equivalents at the beginning of the year	(5 299 000)	-	(5 299 000)	13 672 965	18 971 965	
Cash and cash equivalents at the end of the year	(9 341 000)	(61 862 000)	(71 203 000)	3 945 433	75 148 433	

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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. The details of any changes in accounting policies are explained in the relevant policy.

1.1 Significant judgements and sources of estimation uncertainty

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

Financial assets

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

Impairment testing

The recoverable amounts of cash-generating units/ individual assets and non-cash generating 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 fair value assumption may change which may then impact estimations and may then require a material adjustment to the carrying value of related 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. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for the assets. Expected future cash flows used to determine the value in use of related assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply and demand for municipal services, timing of cash flows, together with economic factors such as inflation and interest rates. Refer to sections 1.7 and 1.8 for more detail on the accounting policies for impairment of cash-generating and non-cash-generating 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 16 - Provisions.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

Useful lives and residual values of property, plant and equipment

The Municipality's management determines the estimated useful lives and residual values of property, plant and equipment. This estimate is based on judgment and the Municipality's plans with respect to the assets. Accumulated depreciation is adjusted accordingly to reflect the change in useful lives.

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Financial Statements for the year ended 30 June 2016

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement benefits

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

The Municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

1.2 Investment property

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

- use in the production or supply of goods or services or for
- administrative purposes, or
- 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.

Costs include costs incurred initially to acquire an investment property 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 Municipality 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 Municipality 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 Municipality 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 Municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the Municipality 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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.2 Investment property (continued)

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.3 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 fair value of the asset acquired or the asset given is not reliably measurable the cost of such an item of property, plant and equipment is measured at fair value of the asset acquired. If the acquired item's fair value was not determinable, the cost of the asset is measured at the carrying amount of the asset(s) given up.

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

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

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

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

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

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

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses

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

Maquassi Hills Local Municipality

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Accounting Policies

1.3 Property, plant and equipment (continued)

Item	Depreciation method	Useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Infrastructure:		
Electricity	Straight line	5 - 80 years
Roads	Straight line	5 - 80 years
Water	Straight line	10 - 100 years
Sewerage	Straight line	15 - 100 years
Pedestrians malls	Straight line	10 - 100 years
Housing	Straight line	80 years
Solid waste	Straight line	5 - 100 years
Rail waste	Straight line	20 - 100 years
ICT	Straight line	1 - 120 years
Other property, plant and equipment:		
Buildings	Straight line	20 - 80 years
Office equipment	Straight line	3 - 5 years
Furniture and fittings	Straight line	7 years
Other items of plant and equipment	Straight line	2 - 20 years
Specialised vehicles	Straight line	3 - 20 years
Specialised plant and equipment	Straight line	10 - 20 years
Water craft	Straight line	15 years
Community:		
Buildings and other assets	Straight line	20 - 80 years
Recreation facilities	Straight line	10 - 80 years
Security measures	Straight line	5 - 15 years

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

Derecognition

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

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure on an asset is capitalised when such expenditure meets the recognition criteria and definition of an asset.

1.4 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.

Initial recognition

Financial instruments are recognised when the Municipality becomes a party to contractual provision of the instruments.

Financial instruments are initially recognised at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added to the fair value.

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on the nature and terms of the financial instrument for which the financial instruments were obtained / incurred and takes place at initial recognition.

Maquassi Hills Local Municipality

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Accounting Policies

1.4 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

Trade and other receivables

Debtors are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Bad debts are written off during the year in which they are identified in surplus or deficit.

Trade and other payables

Trade payables are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents, and short-term investments

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

Bank overdraft, borrowings and other financial liabilities

Borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the effective interest rate method.

Bank overdraft and other financial liabilities are subsequently carried at amortised cost.

Impairment and uncollectibility of financial assets

The Municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Financial instruments (continued)

Derecognition

Financial assets

The Municipality derecognises a financial asset only when:

- Ÿ the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- Ÿ the Municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- Ÿ the Municipality, 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 Municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

On the derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received (including any asset obtained less any liability assumed) is recognised in surplus or deficit.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled, waived or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.5 Leases

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

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

Operating leases - The Municipality as lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases -The Municipality as lessee

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

1.6 Inventories

Inventories are recognised as an asset if :

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

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

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.6 Inventories (continued)

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

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

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

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

Current replacement cost is the cost the Municipality would incur to acquire the asset on the reporting date.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the Municipality.

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

1.7 Impairment of cash-generating assets

The Municipality classifies all assets held with the primary objective of generating a commercial return as cash generating assets. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

The Municipality assesses at each reporting date whether there is any indication that an asset maybe be impaired, or more frequently where events or changes in circumstances indicate that an asset may be impaired. When such an indication exists, the Municipality determines the recoverable amount of the asset.

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

The Municipality estimates the value in use of an asset by:

- estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- applying the appropriate discount rate to those future cash flows.

If the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired and the impairment loss is recognised immediately in surplus or deficit.

Impairment loss of a cash-generating unit is allocated to decrease the carrying amount of the assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. After allocating the impairment loss, the carrying amount should be the highest of, its fair value less cost to sell; or value in use; or zero.

An impairment loss recognised on prior periods for an asset is reversed when there has been a change in the estimate used to determine the asset recoverable service amount since the last impairment loss was recognised.

Reversal of an impairment loss for a group of assets / cash-generating unit should be allocated to the cash-generating assets of the unit, pro rata with the carrying amount of those assets.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.8 Impairment of non-cash-generating assets

Non-cash-generating assets are those assets held by the Municipality without an intention of generating a commercial return and held primarily for service delivery purposes. The Municipality classifies all assets held with the primary objective of generating a commercial return as cash generating assets. The Municipality applies its judgment in cases where it is not clear whether the primary objective is to generate a commercial return.

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality determines the recoverable service amount of the asset. The recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

The Municipality estimates the value in use of an asset by :

- estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal; and
- applying the appropriate discount rate to those future cash flows.

If the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired and the impairment loss is recognised immediately in surplus or deficit.

An impairment loss recognised in prior periods for an asset is reversed when there has been a change in the estimate used to determine the asset's recoverable service amount since the last impairment loss was recognised.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. The increase in the carrying amount of an asset due to the reversal of an impairment loss should not exceed what the carrying amount would have been if no impairment loss had been recognised.

1.9 Employee benefits

Short-term employee benefits

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

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

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the Municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.9 Employee benefits (continued)

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

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

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

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

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

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

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

Other employee benefits

The Municipality provides post-retirement health care benefits, upon retirement to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and 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 Municipality also provides long service awards. Awards are accrued over the period of employment .

Independent qualified actuaries carry out valuations of these awards.

The cost of providing the above mentioned benefits is determined using the projected unit credit method.

Actuarial gains/losses

Actuarial gains and losses may result from increases or decreases in either the present value of a defined employee benefit obligation or the fair value of any related plan assets. Causes of actuarial gains and losses may include:

- unexpectedly high or low rates of employee turnover, early retirement or mortality or of increase in salaries, benefits or medical costs;
- the effect of changes in estimates of future employee turnover, early retirement or mortality or of increase in salaries, benefits or medical costs;
- the effect of changes in the discount rate; and
- differences between the actual return on plan assets and the expected return on plan assets.

Actuarial gains and losses are recognised in full in the year that they occur in surplus or deficit.

1.10 Provisions and contingencies

Provision is a liability of uncertain timing or amount.

The provision for landfill site is 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 amount 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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.10 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the future expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The 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.

Where discounting is used, the carrying amount of the provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating deficits.

If the Municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. A contingent liability is disclosed in a note to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed in a note to the financial statements where an inflow of economic benefits or service potential is probable. Contingencies are disclosed in the relevant note to the financial statements.

1.11 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, volume rebates and Value Added Tax (VAT).

Sale of goods

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

- ÿ the Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- ÿ the Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- ÿ the amount of revenue can be measured reliably;
- ÿ it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality; and
- ÿ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Maquassi Hills Local Municipality

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Accounting Policies

1.11 Revenue from exchange transactions (continued)

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.

Stage of completion is determined by:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed; or
- the proportion that the costs incurred to date bear to the total estimated costs of the transaction.

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.

Interest

Revenue arising from the use by others of the Municipality assets yielding interest, royalties and dividends 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.

1.12 Revenue from non-exchange transactions

In a non-exchange transaction, the Municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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.

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 Municipality.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

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 a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount and the effective interest rate applicable.

Transfers and grants

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

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.

Income received from conditional grants, donations and subsidies is recognised 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.

Grants and receipts of a revenue nature: Income is transferred as revenue to surplus or deficit to the extent that the criteria, conditions or obligations have been met.

Fines

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.

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.

Where the Municipality collects fines in the capacity of an agent, the fine will not be revenue of the Municipality.

IGRAP1 indicates that non-payment in exchange and non-exchange revenue transactions should be considered when assessing impairment rather than in the initial consideration of whether or not it is probable that economic benefits or service potential will flow to the entity. As public sector entities are required to collect all revenue due to them, IGRAP1 ensures that appropriate accountability is exercised over this process.

Income foregone

In terms of the Municipal Property Rates Act, Act 6 of 2004 rebates and exemptions from property rates are provided. Rebates and exemptions are reductions in the amounts of property rates payable by property owners. They are foregone revenue and do not give rise to inflows or outflows of resources.

The effect is therefore that no revenue is recognised by the Municipality in the statement of financial performance for any rebates or exemptions granted.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.12 Revenue from non-exchange transactions (continued)

Indigent subsidy

All registered indigents receive a monthly subsidy for basic services which is funded from the equitable share.

The Municipality does not recognise revenue for the provision of free basic services in the statement of financial performance; however it does recognise an expense for such services provided in the statement of financial performance.

1.13 Comparative figures and prior period errors

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

The Municipality corrects material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of the total amount appropriated in the Municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with MFMA.

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

1.15 Fruitless and wasteful expenditure

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

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

1.16 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 Municipality'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.

Maquassi Hills Local Municipality

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Accounting Policies

1.17 Consumer deposit

Before a service may be supplied to any consumer, she/he must-

- Y enter into a service-delivery agreement with the municipality and such agreement must provide for a deposit to be paid as security; and
- Y pay the required security deposit.

A consumer must enter into a separate service-delivery agreement in respect of every separate property. The deposit to be paid must be in accordance with the approved tariff listing of the municipality, which tariff listing forms part of the annual budget of the municipality.

The municipality must maintain a deposit register. The total sum of deposits received constitutes a liability in the books of the municipality. No interest accrues in favour of the consumer upon termination of the service-delivery agreement with the municipality.

The deposit will first be offset against any outstanding balance and the balance, if any, will be refunded to the depositor/debtor.

1.18 Commitments

Where the Municipality has committed itself to future transactions where there is the probability of the outflow of resources, it is regarded as capital commitments.

The identified capital commitments are only disclosed in the notes to the financial statements and are not regarded as liabilities.

The commitments are disclosed when the specific expenditure is approved and the tender has already been awarded to certain contractors at reporting date. If the contract has been awarded at reporting date, but the goods or services have not been delivered/rendered, the Municipality also discloses the contract as a capital commitment.

1.19 Budget information

The budget has been included in the financial statements in accordance with GRAP 24.

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

The financial statements and the budget are both prepared on the accrual basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of Comparison of Budget and Actual Amounts.

The comparison between the last budget approved by the Municipal Council and the final budget is included as an appendix to the financial statements. Explanations of the significant variances between the last approved budget and final budget are included in the related appendix.

Furthermore explanations of the significant variances between the budget and actual amounts are also included as an appendix to the financial statements.

Maquassi Hills Local Municipality

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Accounting Policies

1.20 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Subject to the exception discussed below, if the Municipality has had related party transactions during the periods covered by the financial statements, it discloses the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosures will be in addition to the disclosure of remuneration of management.

The Municipality does not disclose related party transactions where such transactions occur within:

- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the Municipality to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the Municipality's legal mandate.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include key management personnel and close members of the family of key management personnel and councillors.

Key management personnel include all directors or members of the Municipal Council where the Council has jurisdiction. The Council, together with the Municipal Manager and Section 57 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of Municipal objectives. Therefore, key management personnel will include the Municipal Manager, Deputy Municipal Managers and Chief Financial Officer of the Municipality. Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the Municipality.

1.21 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue.

The date of authorisation for issue is the date on which the Accounting Officer signs off the annual financial statements.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The amounts recognised in the financial statements are adjusted to reflect any adjusting events after the reporting date.

The amounts recognised in the financial statements are not adjusted for non-adjusting events after the reporting date.

Disclosure of a material non-adjusting event is made in a note to the financial statements.

1.22 Going concern

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

1.23 VAT

The Municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15 (2)(a) of the Value-Added Tax Act No 89 of 199

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

2016

2015
Restated

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The Municipality has not applied the following standards and interpretations, which have been issued but not yet effective:

GRAP 18: Segment Reporting

Compliance with this standard would have had an effect on the presentation only. Financial information would have been reported by segments. The disclosure of this information will assist users of the financial statements to better understand the Municipality's past performance and to identify the resources allocated to support the major activities of the Municipality.

Municipalities and municipal entities are not required to apply or early adopt GRAP 18 Segment Reporting as the Minister of Finance has not yet determined the effective date for application.

GRAP 20: Related parties disclosures

The objective of this Standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Compliance with this Standard would have had an effect on the presentation only.

No effective date has been determined by the Minister of Finance.

GRAP 32: Service Concession Arrangement: Grantor

The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

Compliance with this Standard will not have an impact on the current financial information as the Municipality does not currently have any service concessions arrangements.

No effective date has been determined by the Minister of Finance.

GRAP 108: Statutory Receivables

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

When this Standard becomes effective, it will have an effect on the recognition, measurement, presentation and disclosure of statutory receivables.

The effective date of the Standard is not yet set by the Minister of Finance.

The Municipality expects to adopt the standard for the first time when the Minister has set the effective date for the Standard.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

Compliance with this Standard would have had an effect on the disclosure as the recognition and measurement of revenue, expenses, assets and/or liabilities are dealt with by other applicable standards of GRAP.

The effective date of the Standard is not yet set by the Minister of Finance.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2016	2015
R	R

2. New standards and interpretations (continued)

The Municipality expects to adopt the standard for the first time when the Minister has set the effective date for the Standard.

New standards and interpretations (continued)

IGRAP17: Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

Compliance with this Interpretation will not have an impact on the current financial information as the municipality does not currently have any service concessions arrangements.

The effective date of this Interpretation is not yet set by the Minister of Finance.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment

	2016			2015 Restated		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	228 669 149	(80 181 182)	148 487 967	228 669 149	(75 799 336)	152 869 813
Infrastructure	1 346 591 091	(610 040 472)	736 550 619	1 263 862 032	(578 418 397)	685 443 635
Community	61 961 204	(40 314 626)	21 646 578	61 870 869	(37 607 964)	24 262 905
Work in progress	11 256 591	-	11 256 591	16 723 288	-	16 723 288
Other assets	34 720 884	(31 192 831)	3 528 053	34 720 884	(28 255 380)	6 465 504
Total	1 683 198 919	(761 729 111)	921 469 808	1 605 846 222	(720 081 077)	885 765 145

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals / derecognition	Transfers	Depreciation	Closing balance
Land and buildings	152 869 813	-	-	-	(4 381 846)	148 487 967
Infrastructure	685 443 635	34 908 386	-	47 820 672	(31 622 074)	736 550 619
Community	24 262 905	146 466	(25 072)	-	(2 737 721)	21 646 578
Work in progress	16 723 288	42 634 844	(280 869)	(47 820 672)	-	11 256 591
Other assets	6 465 504	-	-	-	(2 937 451)	3 528 053
	885 765 145	77 689 696	(305 941)	-	(41 679 092)	921 469 808

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals / derecognition	Transfers	Prior period adjustment	Depreciation	Closing balance
Land and buildings	128 857 463	-	-	-	30 259 153	(6 246 803)	152 869 813
Infrastructure	672 697 850	-	(473 038)	10 555 527	46 002 724	(43 339 428)	685 443 635
Community	26 713 262	-	-	-	665 461	(3 115 818)	24 262 905
Work in progress	-	27 278 815	-	(10 555 527)	-	-	16 723 288
Other assets	8 436 788	1 041 299	(62 351)	-	2 469	(2 952 701)	6 465 504
	836 705 363	28 320 114	(535 389)	-	76 929 807	(55 654 750)	885 765 145

No assets are pledged as security and there are no restrictions on the title for property, plant and equipment.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
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4. Investment property

	2016			2015 Restated		
	Valuation	Fair value adjustment	Carrying value	Valuation	Prior period adjustment	Carrying value
Investment property	66 492 000	-	66 492 000	35 988 473	30 503 527	66 492 000

Reconciliation of investment property - 2016

	Opening balance	Closing balance
Investment property	66 492 000	66 492 000

Reconciliation of investment property - 2015

	Opening balance	Prior period adjustment	Closing balance
Investment property	35 988 473	30 503 527	66 492 000

No assets are pledged as security.

The significant portion of the Municipality's investment property is vacant land.

Investment properties were valued by an independent professional valuer.

5. Inventories

Consumable stores	822 359	1 441 569
Water stock	32 946	30 830
	855 305	1 472 399

There were no inventory write downs during the year.

No inventories are pledged as security.

6. Investments

At amortised cost

First National Bank Limited	370 831	345 924
SWK Shares Maquassi	6 612	6 612
SWK Shares Wolmaransstad	8 920	8 920
SWK Shares Leeudoringstad	10 862	10 862
ABSA Bank Limited	360 000	360 000
	757 225	732 318

Current assets

At amortised cost	757 225	732 318
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No investments are pledged as security / collateral.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R	
7. Receivables from non-exchange transactions			
Fines	15 712 340	13 693 655	
Other consumer debt	6 368 615	3 736 969	
Other debtors	2 627 436	2 894 775	
Property rates	8 257 999	2 743 087	
	32 966 390	23 068 486	
As at 30 June 2016			
	Gross Balance	Impairment	Net Balance
Fines	52 388 513	(36 676 173)	15 712 340
Other debtors - billing	156 273 111	(149 904 496)	6 368 615
Other debtors	2 627 436	-	2 627 436
Property rates	53 051 618	(44 793 619)	8 257 999
	264 340 678	(231 374 288)	32 966 390
As at 30 June 2015			
	Gross Balance	Impairment	Net Balance
Fines	44 822 093	(31 128 438)	13 693 655
Other debtors - billing	115 955 694	(112 218 725)	3 736 969
Other debtors	2 894 775	-	2 894 775
Property rates	43 599 806	(40 856 719)	2 743 087
	207 272 368	(184 203 882)	23 068 486
Ageing as at 30 June 2016			
		Property rates	Other debtors - billing
Current (0-30 days)		2 102 327	4 124 011
31 - 60 days		1 308 105	4 052 028
61 - 90 days		1 217 557	3 806 813
91+ days		48 423 629	144 290 259
Total		53 051 618	156 273 111
Ageing as at 30 June 2015			
		Property rates	Other debtors - billing
Current (0-30 days)		1 848 945	2 836 771
31 - 60 days		1 158 642	3 031 292
61 - 90 days		1 062 342	2 991 665
91+ days		39 529 877	107 095 966
Total		43 599 806	115 955 694
Reconciliation of allowance for impairment			
Beginning of the year		184 203 882	129 649 046
VAT provision		21 543	15 406
Contribution to provision		47 148 863	54 539 430
Balance at the end of year		231 374 288	184 203 882
8. VAT receivable			
VAT		24 452 921	18 918 111

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2016	2015
R	R

9. Employee benefit obligation

Defined benefit plan

Post-retirement health care benefits

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependents may continue membership of the medical scheme.

Eligible employees are entitled to receive a post-employment subsidy, which will be at a rate of 60% of the contribution payable should they be a member of a medical scheme at retirement. All continuation members and their eligible dependants receive a 60% subsidy.

The projected unit credit method has been used to value the liability. The valuation was performed by Ernst & Young as at 30 June 2016.

There are no assets backing the post-retirement health care liability.

Long service awards

The Municipality offers employees long service award for every five years of service completed, from ten years of service to 40 years of service, inclusive. The recognition of service is calculated from the later of the date of appointment and 1 July 1986.

The projected unit credit method has been used to value the liability. The valuation was performed by Ernst & Young as at 30 June 2016.

There are no assets backing the long service award liability.

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

Carrying value

Opening balances	23 601 314	25 714 755
Current services costs	1 903 000	1 805 851
Benefits paid	(703 314)	(817 321)
Actuarial loss/(gain)	1 480 000	(5 425 863)
Interest cost	2 234 000	2 323 892

Closing balance

28 515 000	23 601 314
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Non-current liabilities

(27 619 000)	(19 905 469)
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Current liabilities

(896 000)	(3 695 845)
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(28 515 000)	(23 601 314)
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Net expense recognised in the statement of financial performance

Current service cost	1 903 000	1 805 851
Benefits paid	(703 314)	(817 321)
Interest cost	2 234 000	2 323 892
Actuarial loss/(gain)	1 480 000	(5 425 863)
	4 913 686	(2 113 441)

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
9. Employee benefit obligation (continued)		
9.1 Post retirement health care benefits		
Opening balance	20 573 355	23 136 325
Current services costs	1 312 000	1 557 908
Benefits paid	(504 355)	(472 716)
Actuarial loss/(gain)	1 591 000	(5 780 791)
Interest cost	1 968 000	2 132 629
Closing balance	24 940 000	20 573 355
Net expense recognised in Statement of Financial Performance		
Current services costs	1 312 000	1 557 908
Benefits paid	(504 355)	(472 716)
Actuarial loss/(gain)	1 591 000	(5 780 791)
Interest cost	1 968 000	2 132 629
	4 366 645	(2 562 970)
9.2 Long service award		
Opening balance	3 027 959	2 578 430
Current services costs	591 000	247 943
Benefits paid	(198 959)	(344 605)
Actuarial (gain)/loss	(111 000)	354 928
Interest cost	266 000	191 263
Closing balance	3 575 000	3 027 959
Net expense recognised in Statement of Financial Performance		
Current services costs	591 000	247 943
Benefits paid	(198 959)	(344 605)
Actuarial (gain)/loss	(111 000)	354 928
Interest cost	266 000	191 263
	547 041	449 529
Key assumptions used - Post-retirement Health Care Benefits		
Assumptions used at the reporting date:		
Discount rate used	9.6 %	9.4 %
Health care cost inflation rate	8.6 %	8.4 %
Price inflation rate	7.1 %	6.9 %
Number of eligible in-service members and non-members	250	261
Number of continuation (retiree and widow) members	13	14

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

9. Employee benefit obligation (continued)

Sensitivity Analysis - Post-retirement Health Care Benefits

Below is the summary of the results of sensitivity analysis:

A percentage point change in the assumed discount rate and health care inflation would have the following effect:

	1% increase	1% decrease
Effect of discount rate changes on the defined benefit obligation	(3 820 000)	4 898 000
Effect of health care inflation changes on the defined benefit obligation	4 888 000	(3 876 000)

Key assumptions used - Long Service Awards

	2016	2015
Discount rate used	8.80%	8.24%
Salary inflation rate	7.40%	6.98%
Price inflation rate	6.40%	5.98%
Normal retirement age	63	63
Number of eligible in-service members	250	262

Sensitivity Analysis - Long Service Awards

Below is the summary of the results of sensitivity analysis:

A percentage point change in the assumed discount rate and salary inflation rate would have the following effects:

	1% increase	1% decrease
Effect of discount rate changes on the obligation	(234 000)	264 000
Effect of salary inflation changes on the obligation	272 000	(235 000)

Basis for the discount rate used

The discount rate used for post-retirement healthcare benefits and long service award obligation as at 30 June 2016 has been derived from the government bond yield curve published by the Bond Exchange of South Africa at the same date.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
10. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	15 941 141	21 167 689
Water	257 244 292	214 020 319
Sewerage	150 438 239	127 437 752
Refuse	77 835 327	66 242 288
	501 458 999	428 868 048
Less: Allowance for impairment		
Electricity	(10 097 613)	(12 638 991)
Water	(247 918 117)	(207 211 739)
Sewerage	(144 103 379)	(123 180 666)
Refuse	(75 453 177)	(64 815 049)
	(477 572 286)	(407 846 445)
Net balance		
Electricity	5 843 528	8 528 698
Water	9 326 175	6 808 580
Sewerage	6 334 860	4 257 086
Refuse	2 382 150	1 427 239
	23 886 713	21 021 603
Ageing as at 30 June 2016		
		Gross balance
Current (0-30 days)		15 135 083
31 - 60 days		9 052 380
61 - 90 days		8 851 756
91+ days		468 419 780
		501 458 999
Ageing as at 30 June 2015		
		Gross balance
Current (0-30 days)		14 093 097
31 - 60 days		7 689 858
61 - 90 days		8 769 221
91+ days		398 315 872
		428 868 048
Reconciliation of allowance for impairment		
Balance at beginning of the year	407 846 445	342 711 802
Contribution to allowance	61 148 337	57 159 195
Debt impairment written off against allowance	8 577 504	7 975 448
Balance at the end of year	477 572 286	407 846 445

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
11. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	3 010	2 960
Bank balances	7 581 069	16 102 689
Bank overdraft	(3 638 646)	(2 432 684)
	3 945 433	13 672 965
Current assets	7 584 079	16 105 649
Current liabilities	(3 638 646)	(2 432 684)
	3 945 433	13 672 965

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015
ABSA BANK - Current Account 4055605473	361 028	655 122	(3 638 646)	(2 432 684)
ABSA Bank - Current Account - 4061545689	848 209	623 833	1 215 106	623 833
ABSA Bank - Current Account - 4050989969	2 260 757	1 346 385	760 726	1 346 385
ABSA Bank - Current Account - 4064023765	3 661 289	12 550 883	2 050 320	12 550 883
ABSA Bank - Current Account -4064584280	4 578	5 464	5 046	5 464
ABSA Bank - Current Account - 4055636965	24 044	24 721	24 721	24 721
ABSA Bank - Current Account -4049678703	96 288	96 327	92 288	96 327
ABSA Bank - Current Account- 4055686261	221 343	948 301	221 343	948 302
ABSA Bank - Current Account - 4052543232	6 615	77 389	6 615	77 389
ABSA Bank - Current Account - 4064692380	21 303	20 870	20 854	20 870
ABSA Bank - Current Account - 9126643503	367 251	343 593	367 251	343 593
ABSA Bank - Current Account - 9138622959	69 392	64 922	69 392	64 922
Total	7 942 097	16 757 810	1 195 016	13 670 005

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
12. Borrowings		
At amortised cost		
Annuity loan DBSA 61007163	656 057	1 061 924
Annuity loan DBSA 61007165	45 836 753	47 442 183
Annuity loan DBSA 10263/102	118 208	346 389
Dr KK District Municipality	744 849	496 539
Total borrowings	47 355 867	49 347 035
Non-current liabilities		
At amortised cost	41 544 405	43 761 439
Current liabilities		
At amortised cost	5 811 462	5 585 596

The Municipality received three loans from the Development Bank of Southern Africa (DBSA) to fund infrastructure expenditure and one is currently being paid by Dr KK District Municipality and therefore the loan account is created.

The terms are as follows:

	Interest rate	Redemption date
DBSA 61007163	7.5%	30.06.2017
DBSA 61007165	5%	30.06.2033
DBSA 10236/102	10%	30.09.2016
Dr KK District Municipality	10%	30.09.2016

13. Trade and other payables from exchange transactions

Trade creditors	44 297 518	56 112 378
Accruals	84 111 032	58 405 157
Retention	5 665 668	3 633 401
Leave pay accrual	7 614 668	6 788 145
Payments received in advance	3 613 578	3 163 855
Other creditors	2 034 770	335 427
Bonus accrual	1 197 991	1 074 732
Performance bonus accrual	316 088	575 875
Deposits	579 927	398 283
Consumer debt	225 602	226 988
Department of Human Settlement	764 600	764 600
	150 421 442	131 478 841

Trade payables are normally settled within 30 days.

The leave pay accrual is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee. The leave pay accrual represents the number of leave days due to individual staff members at year end. The amount of the accrual is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Payments received in advance represents advance payments made by customers.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
14. Consumer deposits		
Water and Electricity	2 227 106	2 124 152

The amount reflected represent a cost value. No interest accrues in favour of the consumer upon termination of the service delivery with the Municipality.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	10 398 093	-
Provincial Government Library Grant	177 963	572 465
EPWP Roads	74 894	1 274 895
Finance Management Grant	11 070	412 070
Dr Kenneth Kaunda District Municipality	20 316	312 334
	10 682 336	2 571 763

Movement during the year

Unspent at the beginning of the year	2 571 763	3 637 994
Amounts received during current year	61 972 000	116 888 002
Transferred to revenue during current year	(52 260 427)	(117 954 233)
Amounts returned to National Treasury during the year	(1 601 000)	-
	10 682 336	2 571 763

See Note 23 for reconciliation of grants from National/Provincial Government.

16. Provision for rehabilitation of landfill sites

Reconciliation of provision for rehabilitation of landfill sites - 2016

	Opening Balance	Landfill site adjustment	Closing balance
Environmental rehabilitation	41 219 007	(23 322 712)	17 896 295

Reconciliation of provision for rehabilitation of landfill sites - 2015

	Opening Balance	Discount rate adjustment	Closing balance
Environmental rehabilitation	40 027 495	1 191 512	41 219 007

The provision for the rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. A report was compiled for all landfill sites after being inspected by AECOM SA. This report has been compiled in order to assure that the Municipality complies with the minimum requirements as set out in the Department of Water Affairs Minimum requirements for Waste Disposal by Landfill, 1998 and the current National norms and standards for Waste Disposal as published in Government Gazette Notices 634, 635 and 636 of 2013 as well as the National Environment Management Waste Act (Act 59 of 2008).

It is estimated that the landfill site will be rehabilitated in 9 years' time. The estimated future expenditure to rehabilitate the landfill was discounted at annual rate of 10% (which is the Municipality's cost of capital). The rehabilitation cost estimates have significantly reduced compared to the prior year, as the Department of Environmental Affairs has made its requirements clearer as to what it will look for during the application for licences to close and rehabilitate the landfill sites.

The net present value has been calculated in terms of historic and current South African inflation rates.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
17. Revenue		
Licences and permits	1 885 803	1 727 211
Service charges	136 864 338	126 213 585
Rental of facilities and equipment	610 809	488 600
Other income	60 719 870	1 825 011
Interest revenue	42 876 639	34 375 349
Property rates	30 970 962	27 202 262
Government grants	144 138 426	117 954 233
Fines	18 528 270	27 606 436
	436 595 117	337 392 687
The amount included in revenue arising from exchanges of goods or services are as follows:		
Licence and permits	1 885 803	1 727 211
Service charges	136 864 338	126 213 585
Rental of facilities and equipment	610 809	488 600
Other income	60 719 870	1 825 011
Interest revenue	42 876 639	34 375 349
	242 957 459	164 629 756
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	30 970 962	27 202 262
Transfer revenue		
Government grants	144 138 426	117 954 233
Fines	18 528 270	27 606 436
	193 637 658	172 762 931

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
18. Property rates		
Rates received		
All categories	30 970 962	27 202 262
Valuations		
Residential	1 070 837 861	1 243 777 324
Commercial	251 250 700	197 302 990
State	94 818 190	95 014 490
Agriculture	1 336 419 732	2 221 694 877
Other	6 646 200	67 518 675
	2 759 972 683	3 825 308 356

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis.

Interest is levied on rates outstanding after 30 days at prime interest rate plus 1%.

Income foregone

In terms of the Municipal Property Rates Act, Act 6 of 2004 rebates and exemptions from property rates are given.

The following is applicable for the year under review:

Rebates and exemptions from property rates are only given on Residential and Agricultural zones.

Residential	(3 413 853)	(3 680 417)
Agriculture	(58 349)	(62 178)
	(3 472 202)	(3 742 595)

19. Service charges

Sale of electricity	48 216 436	47 637 458
Sale of water	45 764 027	38 324 031
Sewerage and sanitation charges	29 086 372	27 356 315
Refuse removal	13 797 503	12 895 781
	136 864 338	126 213 585

20. Rental of facilities and equipment

Premises		
Rental of facilities	610 809	488 600

Maquassi Hills Local Municipality

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Notes to the Financial Statements

	2016 R	2015 R
21. Other income		
Advertising	55 959	12 462
Blocked sewerage fees	1 506	2 842
Building plans fees and copies	120 899	89 140
Cellphone/ telephone refund	4 758	17 157
Cemetery fees	132 332	136 256
Change of circuit breakers	-	918
Clearance certificates	15 055	15 491
Connection fees : electricity	4 325	11 887
Connection fees : sewerage	1 160	1 766
Connection fees : water	2 071	6 547
Contribution to annual bonus	-	328 485
Contribution to leave bonus	136 529	-
Deeds search	648	119
Dividends	1 683	1 111
Encroachment	1 415	1 028
Garden refuse removal	1 734	1 211
Insurance recoveries	225 513	16 242
Reversal of landfill site provision	23 322 711	-
Lost books library	-	185
Meter testing	966	1 095
Photostat fees	7 773	2 537
Poster fees	101 329	55 968
Reconnections : electricity	52 675	61 711
Reconnections: water	8 589	8 293
SETA	362 222	124 384
Sale of inventory	479 905	194 547
Sales : refuse bins	359	338
Donations received	35 054 852	-
Sales : town maps	-	718
Sales: sand and gravel	-	11 158
Stock surplus	13 911	548 850
Sub division of erven	4 105	1 326
Sundries	317 157	1 207
Supply of information	148 069	112 350
Surplus : cash	34	500
Transfer of erven	135 005	54 599
User fees	4 517	2 276
Valuation certificates	104	307
	60 719 870	1 825 011

22. Interest revenue

Interest revenue

Bank	896 744	785 807
Interest charged on trade and other receivables	41 979 895	33 589 542
	42 876 639	34 375 349

Maquassi Hills Local Municipality

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Notes to the Financial Statements

	2016 R	2015 R
23. Government grants and subsidies		
Operating grants		
Equitable Share	91 878 000	85 790 000
Municipal Infrastructure Grant	46 968 907	27 519 642
Dr Kenneth Kaunda District Municipality	292 018	179 122
Finance Management Grant	1 675 000	1 187 930
Municipal Systems Information Grant	930 000	934 000
EPWP	1 000 000	1 508 364
Library Grant	1 394 501	835 175
	144 138 426	117 954 233

Equitable Share

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

All registered indigents receive a monthly subsidy which is funded from the grant.

Indigent subsidy	3 878 237	1 360 194
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Municipal Infrastructure Grant

Balance unspent at beginning of year	-	(594 642)
Current-year receipts	(57 367 000)	(26 925 000)
Conditions met - transferred to revenue	46 968 907	27 519 641
Conditions still to be met - transferred to liabilities	(10 398 093)	-

The Municipal Infrastructure Grant complements the equitable share grant for local government, however, it is provided conditionally to municipalities. One of the key objects of the grant is to fully subsidise the capital costs of providing basic services to poor households. This implies that priority must be given to meeting the basic infrastructure needs of poor households, through the provision of appropriate bulk, connector and internal infrastructure in key services.

The grant was used by the Municipality to build and develop its infrastructure. The unused funds are committed and remain a liability at financial year end (see Note 15).

Provincial Government Library Grant

Balance unspent at beginning of year	(572 465)	(957 640)
Current-year receipts	(1 000 000)	(450 000)
Conditions met - transferred to revenue	1 394 502	835 175
Conditions still to be met - transferred to liabilities	(177 963)	(572 465)

The purpose of the grant is to maintain and operate the local library for the benefit of the community. The unused funds are committed and remain a liability at financial year end (see Note 15).

Finance Management Grant

Balance unspent at beginning of year	(412 070)	-
Current-year receipts	(1 675 000)	(1 600 000)
Conditions met - transferred to revenue	1 675 000	1 187 930
Amount returned to National Treasury during the year	401 000	-
Conditions still to be met - transferred to liabilities	(11 070)	(412 070)

The main purpose of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills. The grant was utilised by the Municipality for its intended purposes.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
23. Government grants and subsidies (continued)		
Dr Kenneth Kaunda District Municipality		
Balance unspent at beginning of year	(312 333)	(491 455)
Conditions met - transferred to revenue	292 017	179 122
Conditions still to be met - transferred to liabilities	(20 316)	(312 333)

This grant is received from Dr Kenneth Kaunda District Municipality as part of Inter-Governmental Relations. The grant is based on a business plan submission by the Municipality to the District Municipality. The District Municipality remains the implementing agent and the Municipality is the beneficiary.

Municipal Systems Improvement Grant

Current-year receipts	(930 000)	(934 000)
Conditions met - transferred to revenue	930 000	934 000
Conditions still to be met - transferred to liabilities	-	-

The grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist municipalities in developing their planning, budgeting financial management and technical skills. The grant was utilised by the Municipality for its intended purposes. There were no unused funds at the end of the financial year.

EPWP Roads

Balance unspent at beginning of year	(1 274 894)	(1 594 257)
Current-year receipts	(1 000 000)	(1 189 001)
Conditions met - transferred to revenue	1 000 000	1 508 364
Amount returned to National Treasury during the year	1 200 000	-
Conditions still to be met - transferred to liabilities	(74 894)	(1 274 894)

The grant is received from the National Department of Public Works for creating job opportunities for unemployed persons and so allowing them economic participation and resulting in poverty alleviation.

24. Employee related costs

Employee related costs - Salaries and Wages	36 125 191	35 550 404
Overtime payments	3 210 670	3 388 955
Performance and other bonuses	2 867 162	2 674 812
Employee related costs - Contributions for UIF, pensions and medical aids	12 711 783	10 682 004
Other employee related costs	711 860	888 701
Long-service awards	188 405	323 846
Travel, motor car, accommodation, subsistence and other allowances	3 802 743	2 939 352
Housing benefits and allowances	878 120	229 461
	60 495 934	56 677 535

Remuneration of Municipal Manager

Annual Remuneration	865 263	788 150
Car Allowance	485 834	302 736
Contributions to UIF, Medical and Pension Funds	254 106	237 409
	1 605 203	1 328 295

Mr S.J. Lehloenya acted as Municipal Manager from 10 December to 9 January 2015 while the existing Municipal Manager was on leave.

The acting allowance is included in above.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
24. Employee related costs (continued)		
Remuneration of Chief Finance Officer		
Annual Remuneration	1 093 045	811 443
Car Allowance	476 678	144 000
Contributions to UIF, Medical and Pension Funds	12 458	11 932
	1 582 181	967 375

The Chief Financial Officer position was vacant from October 2015, Ms TE Moeketsane acted in the position from October 2015 to December 2015. Mr MJ Molefe acted in the position from February 2016 to June 2016. The acting allowance is included in the above.

Remuneration of executive directors

Remuneration of Individual Executive Directors 2016

	Technical Services	Corporate Services	Community Services
Annual Remuneration	553 847	632 151	320 504
Travel, motor car, accommodation, subsidies and other allowances	60 000	503 670	-
Contributions to UIF, Medical and Pension Funds	3 831	12 017	-
	617 678	1 147 838	320 504

The Director Technical Services position was vacant since September 2015, Mr N Mwase acted in the position from September 2015 to June 2016. The acting allowance is included above.

The Director Community Services position was vacant since July 2015. Mr K.J Leseisane acted in the position from July 2015 to June 2016. The acting allowance is included above.

Remuneration of Individual Executive Directors 2015

Annual Remuneration	839 134	619 495	81 928
Travel, motor car, accommodation, subsidies and other allowances	178 032	467 010	-
Contributions to UIF, Medical and Pension Funds	11 417	11 607	-
	1 028 583	1 098 112	81 928

The Director Technical Services was appointed in January 2014. The Director Corporate Services was appointed in January 2014. Mr B.V Sebekedi acted as Director Community Services for the month of August 2014 till November 2014. There was no acting Director for Community Services during the remaining period. The acting allowance is included above.

25. Remuneration of councillors

Mayor	422 179	422 746
Speaker	364 514	347 686
Executive Committee Members	1 124 372	1 058 992
Councillors	2 414 019	2 266 208
Councillors' pension and medical aid contributions	719 152	652 938
Councillors' allowances	2 119 640	2 018 809
	7 163 876	6 767 379

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
26. Depreciation and amortisation		
Property, plant and equipment	41 679 091	55 654 750
27. Finance costs		
Trade and other payables	2 091 939	6 688 027
Discounting of landfill site provision	-	1 191 512
Bank	-	3 542
Borrowings	2 287 554	2 410 325
Interest expense on employee benefit obligation	2 234 000	2 323 892
	6 613 493	12 617 298
28. Debt impairment		
Contributions to debt impairment provision	60 227 466	63 689 746
29. Bulk purchases		
Electricity	41 641 233	34 692 832
Water	47 732 730	43 906 364
	89 373 963	78 599 196
30. Contracted services		
IT Licenses	2 455 349	1 686 861
TMT	2 693 387	2 744 298
Insurance	1 018 987	1 201 114
	6 167 723	5 632 273

Maquassi Hills Local Municipality

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Notes to the Financial Statements

	2016 R	2015 R
31. General expenses		
Advertising	150 197	278 791
Aid allowance and grants	1 259 000	1 101 250
Auditors remuneration	2 771 644	1 931 046
Bank charges	244 057	505 569
Cleaning	65 819	35 267
Commission paid	1 203 124	120 057
Community development and training	13 464	10 995
Consulting and professional fees	12 818 670	6 251 113
Contribution to annual bonus	3 506 209	(3 253 961)
Contributions to leave and bonuses	-	584 933
Deed notices	58 449	25 095
Departmental consumption	2 239 005	1 648 904
Dustbins	219	-
Entertainment	144 749	184 015
Fuel and oil	1 811 558	1 554 606
Hosting of meetings	-	24 451
Indigent relief	4 126 918	1 360 194
Internal transfers	2 124 268	845 204
Internet services	60 101	30 021
Legal fees	3 433 716	1 558 066
Library grant - social	40 797	24 000
License fees	148 667	148 848
MPRA : Phase-in and rebates	4 320 187	3 803 545
Mayoral projects	1 573 300	929 756
Membership fees	761 820	769 846
Postage	17 129	38 483
Printing and stationery	994 751	841 392
Refuse	-	8 000
SETA	192 420	-
Security costs	881 393	895 602
Skills development levies	551 411	521 732
Stock shortage	5 114	110 841
Stocks and material	41 402	20 523
Subscription and publication	57 399	31 769
Sundries	328 205	4 322
Telephone	1 934 966	1 569 175
Town planning scheme	712 964	106 200
Training	1 083 651	191 396
Travel and subsistence	1 457 600	880 603
Uniforms	150 180	294 558
	51 284 523	25 986 207
32. Auditors' remuneration		
Fees	2 771 644	1 931 046

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
33. Cash generated from operations		
Surplus	94 824 112	10 789 373
Adjustments for:		
Depreciation and amortisation	41 679 091	55 654 750
Loss on disposal of assets	305 940	535 389
Increase/(decrease) in employee benefit obligation	4 913 686	(2 113 441)
(Decrease)/increase in provisions	(23 322 712)	1 191 512
Donation in kind	(35 054 852)	-
Prior period adjustments	(57 897 278)	(47 074 056)
Changes in working capital:		
Trade and other receivables from exchange transactions	(2 865 110)	(5 883 179)
Other receivables from non-exchange transactions	(9 897 903)	(7 290 177)
Inventories	617 094	(732 792)
Trade and other payables from exchange transactions	18 942 602	24 255 750
VAT	(5 534 810)	2 708 517
Unspent conditional grants and receipts	8 110 573	(1 066 231)
Consumer deposits	102 954	(60 729)
	34 923 387	30 914 686

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
34. Commitments		
Commitments in respect of capital expenditure		
Approved and contracted for		
Y Infrastructure	4 489 310	15 649 979
This expenditure will be financed from		
Y MIG	4 489 310	15 649 979
Approved and not contracted for		
Infrastructure	26 925 000	26 167 001
Operating leases - Municipality as lessee		
Operating Leases : Office equipment	Minimum lease payments	Straight-lined value of minimum lease payments
30 June 2016		
Within one year	681 067	675 578
Within two to five years	101 039	101 039
Less : Amount due for settlement within 12 months (Current portion)	(681 067)	(675 578)
	101 039	101 039
30 June 2015		
Within one year	916 053	914 473
Within two to five years	526 088	520 599
Less : Amount due for settlement within 12 months (current portion)	(916 053)	(914 473)
	526 088	520 599

The average lease term is 3-5 years.

Interest rates are either fixed or variable at the contract date.

All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements.

The annual escalation rate varies between 10% to 15%.

The Municipality's obligation under operating leases is secured by the lessor's charge over the leased assets.

The Municipality did not default on any of the interest or capital repayment of the operating leases.

All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased assets.

There is no restriction imposed on the lease arrangements.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
34. Commitments (continued)		
Operating leases - Municipality as lessor		
Operating leases : Land and buildings		
	Minimum lease receipts	Straight-lined value of
30 June 2016		
Within one year	400 798	371 731
Within two years to five years	212 522	195 752
Less : Amount due for receipt within 12 months (current portion)	(400 798)	(371 731)
	212 523	195 752
30 June 2015		
Within one year	386 853	369 521
Within two years to five years	282 852	246 014
Less : Amount due for receipt within 12 months (current portion)	(386 853)	(369 521)
	282 852	246 014

The average lease term is 3-15 years and the average effective borrowing rate is 10%.

Interest rates are either fixed or variable at the contract date.

All leases have fixed or variable repayments and in certain instances contingent rent is payable, as per stipulations in the lease agreements.

The Municipality monitors rental payments and institutes debt control where needed. No terms and conditions of the leases were re-negotiated.

All risks and rewards of ownership remain with the lessor upon expiry of the lease and there is no option to purchase the leased assets.

35. Contingencies

Contingent liabilities

Year under review claims

Mr C. Wenum - The Municipality's former CFO had his contract terminated and the matter is currently at the Labour Court for review - (Claim: R1 356 940).

Mr M. Besani - The contract of the Municipality's former Director: Engineering Services was terminated and the matter is currently at the Labour Court for review - (Claim: R1 537 744).

Mr D. Struwig - The claim of R8 924.11 relates to the damage to his vehicle by a pothole in Leeudoringstad.

Mr M. Manele - The claim of R63 800.92 relates to the damage to his wall fence and the matter is currently with the attorneys.

Mr R. Ali - The claim of R18 043.00 relates to the damages to his vehicles by potholes.

Mr B.S. Mooi and Mr L.J. Matsogo - The claim of R100 000.00 the matter is currently with the attorneys.

Previous years claims

Councillor D.K Mohadi – House and contents burnt during service delivery protests – (R339 640.00) (August 2014).

Mr G.S Schutte – Theft of border fence by community members – (R45 083.00) (September 2014).

Mr M. Mmoleli – Municipal truck reversed into his car – (R1 368.00) (September 2014).

Mr Medupe - Municipal employee who wanted to enforce arbitration award (R70 000).

B.Molifi - Disputed appointment of another person in the Position of Public Safety matter - matter is at labour court for review (R200 000).

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

36. Related parties

Section 57 Managers

No remuneration was paid to family members of Section 57 Managers.

Members of Council:

No remuneration was paid to family member of the council.

All councillors and employees have disclosed their interest in related parties and no one has the ability to control or exercise significant influence over council in making financial and operating decisions.

District Municipality:

Maquassi Hills Local Municipality is related to Dr Kenneth Kaunda District Municipality. Transactions with the District Municipality and balances owing by Maquassi Hills Local Municipality are disclosed below.

Related party transaction

Dr Kenneth Kaunda District Municipality donated palisade fencing to the value of R146 466 to the Municipality during the year under review. This was recognised as revenue in the Statement of Financial Performance and as additions to property, plant and equipment in the Statement of Financial Position.

Related party balance

The amount owed relates to the loan the Municipality has with the District Municipality. The terms of this loan are disclosed in note 12.

Loan owing to the related party - Dr Kenneth Kaunda District Municipality
Total liability

	<u>744 849</u>	<u>496 539</u>
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37. Comparative figures

Where necessary, comparative figures have been restated for prior period error adjustments (refer to Note 46) and /or reclassified to conform to changes in presentation in the current year.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2016	2015
R	R

38. Risk management

Liquidity risk

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.

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

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.

	2016	2015
Payables from exchange transactions	150 421 442	131 478 841
Short term portion on long term liabilities	5 811 462	5 585 596
Bank overdraft	3 638 646	2 432 684
	159 871 550	139 497 121

Credit risk

Credit risk is the risk of financial loss to the Municipality if customers or counterparties to financial instruments fail to meet their contractual obligations.

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

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

Financial assets exposed to credit risk at year end are noted under the respective financial assets - investments, trade and other receivables and cash and cash equivalents.

These balances represent the maximum exposure to credit risk:

	2016	2015
Cash and cash equivalent	7 584 079	16 105 649
Short term investment deposits	757 225	732 318
Trade and other receivables from exchange and non-exchange transactions	56 853 103	44 090 089

Market risk

Interest rate risk

Deposits and overdue consumer debtors attract interest at a rate that vary with prime. The Municipality's policy is to manage interest rate risk so that fluctuations in variable rates does not have a material impact on surplus/deficit.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	R

39. Going concern

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

The ability of the Municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations for the Municipality and raise and collect revenue for services rendered.

The Municipality's liquidity ratios are shown below. Cash / cost coverage ratio indicates the Municipality's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue, during that month. The ratio is adjusted for unspent conditional grants as the cash is not available for normal Municipal day-to-day operational expenditure but rather reserved for grant related expenditure.

The current ratio assesses the Municipality's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables):

	2016	2015
Cash/cost coverage ratio (in months)	-0.2	0.4
Current ratio	0.47	0.43

Measures to address going concern issues

The municipality has solicited services of the debt collection and credit control companies to ensure that collection rate of the municipality is brought to an acceptable level in line with Circular 71 of the National Treasury.

Strict measures will be enforced on all debtors who default on their accounts, this will be done in line with Council Policy on Debt Collection and Credit Control as well as measures that will be enforced by service providers as appointed by council to assist in this regard. It is envisaged that this measures will assist in improving the collection rate of the municipality. For long term, the National Treasury will also be approached to assist the municipality with the development of a Financial Recovery Plan to assist the municipality to deal with all other matters relating revenue as well as capacity within the Budget and Treasury Office.

40. Events after the reporting date

There are no material events after the reporting date.

41. Unauthorised expenditure

Opening balance	368 403 193	337 224 850
Current year unauthorised	40 034 602	31 178 343
Total unauthorised expenditure	408 437 795	368 403 193

42. Fruitless and wasteful expenditure

Opening balance	4 869 768	1 992 409
Interest and penalties on late payment of creditors	2 351 520	2 877 359
Fruitless and wasteful expenditure condoned during the year	(4 190 736)	-
Fruitless and wasteful expenditure awaiting condonement	3 030 552	4 869 768

Comparative figures have been restated, fruitless and wasteful expenditure awaiting for condonement previously reported amounted to R29 913 273 and the restated expenditure have been restated to R4 869 768.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
43. Irregular expenditure		
Opening balance	153 688 179	116 306 109
Bid documents not submitted/ No contracts in place	4 480 798	8 186 664
SCM and Tender processes not followed	12 669 073	29 195 406
Irregular expenditure awaiting ratification and condonement	170 838 050	153 688 179
<p>Comparative figures have been restated, irregular expenditure awaiting for ratification and condonement previously reported amounted to R98 313 168 and the restated expenditure have been restated to R153 688 179.</p>		
44. In-kind donations and assistance		
In-kind donations and assistance:		
ÿ The firm JBFE was appointed by Provincial Treasury to perform the unbundling of the infrastructure assets.		
ÿ National and Provincial Treasury appointed a team to assist the Municipal finance staff.		
ÿ Dr Kenneth Kaunda District Municipality donated palisade fencing to the value of R146 466 to the Municipality.		
ÿ Provincial Government assisted with the installation of bulk and internal water for Oersonskraal and Boskuil to the value of R34 908 386.		
45. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription	711 040	582 159
Skills development levy		
Current year subscription / fee	551 411	518 431
Amount paid - current year	(551 411)	(518 431)
	-	-
Audit fees		
Opening balance	3 716 522	1 785 476
Current year audit fee (excl. VAT)	2 771 644	1 931 046
Amount paid - current year (Excl. VAT)	(3 996 435)	-
	2 491 731	3 716 522
PAYE and UIF		
Current year payroll deductions and council contributions	9 139 810	8 267 333
Amount paid - current year	(9 139 810)	(8 267 333)
	-	-
Pension and Medical Aid Deductions		
Current year payroll deductions and council contributions	14 722 877	13 199 172
Amount paid - current year	(14 722 877)	(13 199 172)
	-	-
VAT		
VAT receivable	24 452 921	18 918 111

The Municipality is on the payment basis for VAT and submit monthly returns.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2016	2015
R	R

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding at 30 June 2016:

	Balance
30 June 2016	
G V Kgabi	596
K G Mojela	6 022
M S Sejeso	19 969
K S Seakane	43 142
M D Matete	1 259
A K Mogapi	302
N L Tshingilane	242
N W Ntiane	269
	<hr/>
	71 801
	<hr/>
30 June 2015	
G V Kgabi	2 622
K G Mojela	7 358
D K Mohadi	6 755
M D Sereetsi	29 694
M E Motaung	20 429
M S Sejeso	1 371
K S Seakane	66 682
O H Batsietseng	170
O H Pheipher	3 233
	<hr/>
	138 314
	<hr/>

Deviation from supply chain management regulations

Paragraph 12(1) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of written/verbal quotations, formal written quotations and a competitive bidding process, depending on the specified threshold values.

Paragraph 36 of the above mentioned gazette also provides that the Accounting Officer may dispense with the official procurement process in certain circumstances provided that he/she records the reasons for any deviations, reports them to the next meeting of the Council and include as a note to the financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12 (1) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer who considered them and subsequently approved the deviations from the normal supply chain management regulation. Deviations for quarters 1 to 3 were reported Council.

The reasons for the deviations were mainly due to emergency cases and sole/single suppliers.

From a total expenditure of R341 771 005 deviations were R1 404 469 being 0.41% of the total expenditure. Deviations to the value of R892 288 (relating to quarter 4) had not yet been reported to Council at year end.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
46. Prior period errors		
The correction of the error(s) results in adjustments as follows:		
Statement of financial position		
Trade and other receivables from non-exchange transactions		
Balance previously reported		23 147 438
Increase in operating lease accrual 2014/2015		53 661
Decrease in other receivables 2014/2015		(14 465)
Increase in operating lease accrual 2014/2015		(15 080)
Decrease in operating lease accrual 2013/2014		(103 068)
Restated balance		23 068 486
VAT receivables		
Balance previously reported		18 709 529
Increase in expenditure and accruals 2014/2015		201 450
Decrease in expenditure and accruals 2014/2015		(553)
Increase in levies and receivables 2014/2015		(6 590)
Decrease in levies and receivables 2014/2015		1 852
Increase in expenditure and accruals 2013/2014		1 387
Decrease in levies and receivables 2013/2014		11 036
Restated balance		18 918 111
The increase in VAT receivables is attributed mainly to accruals in the 2014/2015 financial year which had to be raised under trade and other payables as a result of payments being made in the 2015/2016 financial year, however, the services were rendered or goods were received in the prior periods. These expenses were never accounted for in the prior periods, therefore expenditure as well as accruals were also restated due to the effect of understatement in prior periods.		
The decrease in VAT receivables in the 2014/2015 financial year arose as a result of VAT not being in error on income earned.		
Trade and other payables from exchange transactions		
Balance previously reported		121 030 873
Increase in telephone expense 2014/2015		59 731
Increase in security 2014/2015		1 085
Increase in legal fees 2014/2015		127 867
Increase in general expenses 2014/2015		243 096
Increase in repairs and maintenance 2014/2015		15 369
Increase in repairs and maintenance 2014/2015		3 237
Increase in consulting and professional fees 2014/2015		185 991
Increase in printing and stationery 2014/2015		1 397
Increase in bulk purchases 2014/2015		8 685 314
Increase in printing and stationery 2014/2015		76 800
Increase in repairs and maintenance 2014/2015		966
Increase in general expenses 2014/2015		34 433
Increase in lease expense 2014/2015		61 492
Decrease in cleaning 2014/2015		(4 506)
Increase in personnel 2014/2015		9 057
Increase in legal fees 2013/2014		1 048 586
Increase in security 2013/2014		6 333
Increase in repairs and maintenance 2013/2014		4 958
Increase in cemetery fees 2013/2014		(113 238)
Restated balance		131 478 841

In the current year, payments were made which related to expenditure in prior periods. However, this expenditure was never included in the prior periods as accruals.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
46. Prior period errors (continued)		
Investment Property		
Balance previously reported		37 445 871
Fair value adjustment 2013/2014		30 503 527
Fair value adjustment		(1 457 398)
Restated balance		66 492 000
The prior period balance was restated to correct the prior period fair value.		
Property, plant and equipment at cost		
Balance previously reported		1 489 196 903
Correction of prior period 2014/2015		116 649 319
Restated balance		1 605 846 222
Property, plant and equipment - accumulated depreciation		
Balance previously reported		672 793 860
Correction of prior period error 2014/2015		47 287 217
Restated balance		720 081 077
The property, plant and equipment prior year was restated due to the correction on additions and other correction of other errors identified in the current year.		
Statement of Financial Performance		
Rental of facilities and equipment		
Amount previously reported		454 758
Increase in rental of facilities and equipment 2014/2015		47 070
Decrease in rental of facilities and equipment 2014/2015		(13 228)
Restated amount		488 600
Levies not recognised in 2014/2015.		
General expenses		
Amount previously reported		25 369 479
Correction of bank charges expense 2014/2015		14 465
Correction of cleaning expenses 2014/2015		251
Correction of consulting and professional fees 2014/2015		163 150
Correction of entertainment expenses 2014/2015		19 600
Correction of fuel and oil 2014/2015		136 338
Correction of legal expenses 2014/2015		127 867
Correction of printing and stationery expenses 2014/2015		68 594
Correction of security expenses 2014/2015		952
Correction of subscription and publication expenses 2014/2015		3 385
Correction of telephone expenses 2014/2015		52 506
Correction of contribution to annual bonus 2014/2015		9 057
Reclassification of insurance recoveries 2014/2015		16 241
Reclassification to sundry expenses in 2014/2015		4 322
Restated amount		25 986 207
Accruals not raised in 2014/2015.		

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
46. Prior period errors (continued)		
Property rates		
Amount previously reported		27 200 707
Increase in rates 2014/2015		1 555
Restated amount		27 202 262
Service charges		
Amount previously reported		121 578 293
Increase in sale of water 2014/2015		2 220 927
Increase in sewerage and sanitation charges 2014/2015		1 594 845
Increase in refuse removal charge 2014/2015		819 520
Restated amount		126 213 585
Service charges not recognised in 2014/2015.		
Contracted services		
Amount previously reported		5 577 173
Increase in contracted services 2014/2015		55 100
Restated amount		5 632 273
Accruals not raised for contracted services in 2014/2015.		
Bulk purchases		
Amount previously reported		70 052 605
Increase in bulk purchases - electricity 2014/2015		8 546 591
Restated amount		78 599 196
Accruals not raised for all bulk purchases 2014/2015.		
Revenue forgone		
Amount previously reported		-
Revenue forgone on sale of water 2014/2015		2 220 927
Revenue forgone on sewerage and sanitation charges 2014/2015		1 594 845
Revenue forgone on refuse removal charge 2014/2015		819 520
Revenue forgone on rates 2014/2015		1 555
		4 636 847
Income forgone on service charges not recognised in 2014/2015.		
Fair value adjustment - Investment property		
Amount previously reported		1 457 398
Decrease in fair value 2014/2015		(1 457 398)
Restated amount		-
Fair value adjustment correction in 2014/2015.		
Repairs and maintenance		
Amount previously reported 2014/2015		11 720 749
Increase in repairs and maintenance		117 041
Restated amount		11 837 790
Accruals not raised for repairs and maintenance costs in 2014/2015.		

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016 R	2015 R
46. Prior period errors (continued)		
Depreciation		
Amounts previously reported		48 087 045
Increase in depreciation of immovable assets in 2014/2015		7 319 947
Restated amount		55 406 992

Statement of Changes in Net Assets

Effect of prior period adjustment on accumulated surplus

Balance previously reported		692 711 022
Increase in property, plant and equipment		69 362 103
Increase in trade and other payables from exchange transactions		(10 447 968)
Increase in VAT receivables		208 582
Increase in investment property		29 046 129
Decrease in trade and other receivables from		(78 953)
Restated balance at 30 June 2016		780 800 915

Notes to the Financial Statements

Fruitless and wasteful expenditure

Amount previously disclosed		29 913 273
Correction to fruitless and wasteful expenditure		(25 043 505)
Restated amount		4 869 768

Irregular expenditure

Amount previously disclosed		98 313 168
Correction to irregular expenditure		55 375 011
Restated amount		153 688 179

47. Distribution losses

Electricity losses

Electricity units (kWh) purchased from Eskom	49 247 500	42 424 054
Electricity units (kWh) sold to consumers	(44 512 410)	(41 263 539)
	4 735 090	1 160 515

Electricity losses for the financial year is 9.61% (2015 : 2.73%). The Rand value of the electricity losses for the current financial year is R3 099 495 (2015 : R115 112).

The losses are attributable to electricity line losses within the electricity network infrastructure.

Water losses

Water (KL) purchased	5 395 906	5 524 373
Water (KL) sold to consumers	(2 379 281)	(2 249 859)
	3 016 625	3 274 514

Water losses for the financial year is 55.91% (2015:59.27%). The Rand value of water losses for the current year is R40 211 611 (2015 : R40 407 503).

The selling price rate per kilolitre for the current year is R13.33 (2015: R12.34).