



Maquassi Hills Local Municipality
Financial Statements
for the year ended 30 June 2015

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

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)	C. Wenum
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 67, 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 26 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 2015

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 2016 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 Auditor - General is 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 xxxx.

The financial statements set out on page 6 to 67, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2015 and were signed on its behalf by:

Accounting Officer

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2015.

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 our opinion require 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, 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 its 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 2015

Statement of Financial Position as at 30 June 2015

	Notes	2015 R	2014 Restated R
Assets			
Current Assets			
Inventories	5	1 472 399	739 607
Investments	6	732 318	714 861
Receivables from non-exchange transactions	7	23 147 438	15 778 309
VAT receivable	8	18 709 529	21 626 628
Trade and other receivables from exchange transactions	10	21 021 603	15 138 424
Cash and cash equivalents	11	16 105 649	16 912 805
		81 188 936	70 910 634
Non-Current Assets			
Property, plant and equipment	3	816 403 043	836 705 363
Investment property	4	37 445 871	35 988 473
		853 848 914	872 693 836
Total Assets		935 037 850	943 604 470
Liabilities			
Current Liabilities			
Borrowings	12	5 585 596	6 352 015
Trade and other payables from exchange transactions	13	121 030 873	107 223 091
Consumer deposits	14	2 124 152	2 184 881
Employee benefit obligation	9	3 695 845	817 321
Unspent conditional grants and receipts	15	2 571 763	3 637 994
Provision for rehabilitation of landfill sites	16	41 219 007	40 027 495
Bank overdraft	11	2 432 684	2 857 740
		178 659 920	163 100 537
Non-Current Liabilities			
Borrowings	12	43 761 439	45 954 235
Employee benefit obligation	9	19 905 469	24 897 434
		63 666 908	70 851 669
Total Liabilities		242 326 828	233 952 206
Net Assets		692 711 022	709 652 264
Accumulated surplus		692 711 022	709 652 264

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Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

	Notes	2015 R	2014 Restated R
Revenue			
Revenue from exchange transactions			
Licence and permits		1 727 211	3 449 621
Service charges	19	121 578 293	124 286 968
Rental of facilities and equipment		454 758	379 362
Other income		1 808 769	1 364 300
Interest revenue		34 375 349	26 171 555
Total revenue from exchange transactions		159 944 380	155 651 806
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	27 200 707	22 600 462
Transfer revenue			
Government grants		117 954 233	115 469 385
Fines		27 606 436	27 427 293
Total revenue from non-exchange transactions		172 761 376	165 497 140
Total revenue	17	332 705 756	321 148 946
Expenditure			
Personnel	26	(61 181 828)	(53 443 077)
Remuneration of councillors	27	(6 767 379)	(6 438 454)
Depreciation and amortisation	29	(48 087 045)	(48 055 370)
Finance costs	30	(12 617 298)	(15 175 834)
Debt impairment	28	(63 689 746)	(78 457 664)
Repairs and maintenance		(11 720 749)	(2 991 553)
Bulk purchases	32	(70 052 605)	(67 402 319)
Contracted services	31	(5 577 173)	(5 349 305)
Loss on disposal of assets		(477 360)	-
General expenses	25	(25 369 479)	(25 465 933)
Total expenditure		(305 540 662)	(302 779 509)
Operating surplus		27 165 094	18 369 437
Fair value adjustments	24	1 457 398	20 242 176
Surplus for the year		28 622 492	38 611 613

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 30 June 2013	501 429 766	501 429 766
Changes in net assets		
Prior period adjustment (refer note 48)	169 610 885	169 610 885
Net income (losses) recognised directly in net assets	169 610 885	169 610 885
Surplus for the year	38 611 613	38 611 613
Total recognised income and expenses for the year	208 222 498	208 222 498
Total changes	208 222 498	208 222 498
Balance at 30 June 2014 - Restated	709 652 264	709 652 264
Changes in net assets		
Prior period adjustment (refer note 48)	(45 563 734)	(45 563 734)
Net income (losses) recognised directly in net assets	(45 563 734)	(45 563 734)
Surplus for the year	28 622 492	28 622 492
Total recognised income and expenses for the year	(16 941 242)	(16 941 242)
Total changes	(16 941 242)	(16 941 242)
Balance at 30 June 2015	692 711 022	692 711 022

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Financial Statements for the year ended 30 June 2015

Cash Flow Statement

	Notes	2015 R	2014 Restated R
Cash flows from operating activities			
Receipts			
Sale of goods and services		77 487 949	66 120 128
Government grants		117 954 233	115 469 385
Interest revenue		785 807	631 189
Other receipts		3 535 980	4 813 921
		<u>199 763 969</u>	<u>187 034 623</u>
Payments			
Employee costs		(67 949 207)	(59 881 531)
Suppliers and other payments		(91 798 182)	(67 820 075)
Finance costs		(9 101 894)	(11 033 967)
		<u>(168 849 283)</u>	<u>(138 735 573)</u>
Net cash flows from operating activities	33	<u>30 914 686</u>	<u>48 299 050</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(28 320 114)	(25 512 099)
Increase in investments		(17 457)	(24 451)
		<u>(28 337 571)</u>	<u>(25 536 550)</u>
Net cash flows from investing activities		<u>(28 337 571)</u>	<u>(25 536 550)</u>
Cash flows from financing activities			
(Decrease) / Increase in borrowings		(2 959 215)	1 891 218
		<u>(2 959 215)</u>	<u>1 891 218</u>
Net cash flows from financing activities		<u>(2 959 215)</u>	<u>1 891 218</u>
Net increase/(decrease) in cash and cash equivalents		<u>(382 100)</u>	<u>24 653 718</u>
Cash and cash equivalents at the beginning of the year		14 055 065	(10 598 653)
Cash and cash equivalents at the end of the year	11	<u>13 672 965</u>	<u>14 055 065</u>

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Financial Statements for the year ended 30 June 2015

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
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Licence and permits	13 820 000	-	13 820 000	1 727 211	(12 092 789)	
Service charges	153 169 000	-	153 169 000	121 578 293	(31 590 707)	
Rental of facilities and equipment	567 000	-	567 000	454 758	(112 242)	
Other income	694 000	(42 000)	652 000	1 808 769	1 156 769	
Interest revenue	23 800 000	-	23 800 000	34 375 349	10 575 349	
Total revenue from exchange transactions	192 050 000	(42 000)	192 008 000	159 944 380	(32 063 620)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	31 731 000	-	31 731 000	27 200 707	(4 530 293)	
Government grants	144 888 000	(27 810 000)	117 078 000	117 954 233	876 233	
Transfer revenue						
Fines	7 478 000	-	7 478 000	27 606 436	20 128 436	
Total revenue from non-exchange transactions	184 097 000	(27 810 000)	156 287 000	172 761 376	16 474 376	
Total revenue	376 147 000	(27 852 000)	348 295 000	332 705 756	(15 589 244)	
Expenditure						
Personnel	(67 718 000)	6 511 000	(61 207 000)	(61 181 828)	25 172	
Remuneration of councillors	(6 875 000)	-	(6 875 000)	(6 767 379)	107 621	
Depreciation and amortisation	(27 119 000)	-	(27 119 000)	(48 087 045)	(20 968 045)	
Finance costs	(2 407 000)	-	(2 407 000)	(12 617 298)	(10 210 298)	
Debt impairment	(83 034 000)	-	(83 034 000)	(63 689 746)	19 344 254	
Repairs and maintenance	(11 247 000)	(3 065 000)	(14 312 000)	(11 720 749)	2 591 251	
Bulk purchases	(71 092 000)	-	(71 092 000)	(70 052 605)	1 039 395	
Contracted services	(9 799 000)	(250 000)	(10 049 000)	(5 577 173)	4 471 827	
General Expenses	(38 734 000)	1 568 000	(37 166 000)	(25 369 479)	11 796 521	
Total expenditure	(318 025 000)	4 764 000	(313 261 000)	(305 063 302)	8 197 698	
Operating surplus	58 122 000	(23 088 000)	35 034 000	27 642 454	(7 391 546)	
Loss on disposal of assets	-	-	-	(477 360)	(477 360)	
Fair value adjustments	-	-	-	1 457 398	1 457 398	
	-	-	-	980 038	980 038	
Surplus before taxation	58 122 000	(23 088 000)	35 034 000	28 622 492	(6 411 508)	

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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
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	600 000	-	600 000	1 472 399	872 399	
Investments	970 000	-	970 000	732 318	(237 682)	
Trade and other receivables from non-exchange transactions	-	-	-	23 147 438	23 147 438	
VAT receivable	-	-	-	18 709 529	18 709 529	
Consumer debtors	300 000 000	-	300 000 000	21 021 603	(278 978 397)	
Cash and cash equivalents	9 600 000	-	9 600 000	16 105 649	6 505 649	
	311 170 000	-	311 170 000	81 188 936	(229 981 064)	
Non-Current Assets						
Investment property	-	-	-	37 445 871	37 445 871	
Property, plant and equipment	27 731 000	(19 435 000)	8 296 000	816 403 043	808 107 043	
Intangible assets	40 000	-	40 000	-	(40 000)	
	27 771 000	(19 435 000)	8 336 000	853 848 914	845 512 914	
Total Assets	338 941 000	(19 435 000)	319 506 000	935 037 850	615 531 850	
Liabilities						
Current Liabilities						
Borrowings	-	-	-	5 585 596	5 585 596	
Trade and other payables from exchange transactions	79 000 000	-	79 000 000	121 030 873	42 030 873	
Consumer deposits	2 201 000	-	2 201 000	2 124 152	(76 848)	
Employee benefit obligation	-	-	-	3 695 845	3 695 845	
Unspent conditional grants and receipts	-	-	-	2 571 763	2 571 763	
Provision for rehabilitation of landfill sites	-	-	-	41 219 007	41 219 007	
Other provisions	87 546 000	-	87 546 000	-	(87 546 000)	
Bank overdraft	22 000 000	-	22 000 000	2 432 684	(19 567 316)	
	190 747 000	-	190 747 000	178 659 920	(12 087 080)	
Non-Current Liabilities						
Borrowings	45 449 000	-	45 449 000	43 761 439	(1 687 561)	
Employee benefit obligation	23 382 000	-	23 382 000	19 905 469	(3 476 531)	
Provision for rehabilitation of landfill sites	23 484 000	-	23 484 000	-	(23 484 000)	
Other provisions	-	(19 435 000)	(19 435 000)	-	19 435 000	
	92 315 000	(19 435 000)	72 880 000	63 666 908	(9 213 092)	
Total Liabilities	283 062 000	(19 435 000)	263 627 000	242 326 828	(21 300 172)	
Net Assets	55 879 000	-	55 879 000	692 711 022	636 832 022	
Reserves						
Accumulated surplus	55 879 000	-	55 879 000	692 711 022	636 832 022	

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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
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	148 175 000	538 000	148 713 000	77 487 949	(71 225 051)	
Government Grants	144 888 000	(27 810 000)	117 078 000	117 954 233	876 233	
Interest revenue	600 000	-	600 000	785 807	185 807	
Other receipts	-	-	-	3 535 980	3 535 980	
	293 663 000	(27 272 000)	266 391 000	199 763 969	(66 627 031)	
Payments						
Suppliers, employee and other payments	(189 706 000)	-	(189 706 000)	(159 747 389)	29 958 611	
Finance costs	(2 407 000)	-	(2 407 000)	(9 101 894)	(6 694 894)	
	(192 113 000)	-	(192 113 000)	(168 849 283)	23 263 717	
Net cash flows from operating activities	101 550 000	(27 272 000)	74 278 000	30 914 686	(43 363 314)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(54 850 000)	27 411 000	(27 439 000)	(28 320 114)	(881 114)	
Increase in investments	-	-	-	(17 457)	(17 457)	
Net cash flows from investing activities	(54 850 000)	27 411 000	(27 439 000)	(28 337 571)	(898 571)	
Cash flows from financing activities						
Decrease in borrowings	(2 022 000)	-	(2 022 000)	(2 959 215)	(937 215)	
Increase in consumer deposits	2 201 000	-	2 201 000	-	(2 201 000)	
Net cash flows from financing activities	179 000	-	179 000	(2 959 215)	(3 138 215)	
Net increase/(decrease) in cash and cash equivalents	46 879 000	139 000	47 018 000	(382 100)	(47 400 100)	
Cash and cash equivalents at the beginning of the year	-	-	-	14 055 065	14 055 065	
Cash and cash equivalents at the end of the year	46 879 000	139 000	47 018 000	13 672 965	(33 345 035)	

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

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 judgements 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, held to maturity investments 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.

Fair value estimation

The carrying values of trade receivables and payables are assumed to approximate their fair values.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the 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. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. 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 demand for municipal services, timing of cash flows, together with economic factors such as inflation, interest rates.

Provisions

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

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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

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 industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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 post-retirement obligations are based on current market conditions. Additional information is disclosed in the relevant note.

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. Transactions 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.

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Financial Statements for the year ended 30 June 2015

Accounting Policies

1.2 Investment property (continued)

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.

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 received or the asset given up is not reliably measurable the cost of such an item of property, plant and equipment is measured at fair value. 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.

Maquassi Hills Local Municipality

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Accounting Policies

1.3 Property, plant and equipment (continued)

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 at 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:

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

The remaining useful life of an asset, its residual value and depreciation method are reviewed atleast at each reporting date and any changes are recognised 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.

Maquassi Hills Local Municipality

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Accounting Policies

1.3 Property, plant and equipment (continued)

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 it increases the capacity or future economic benefits associated with the 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 purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

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, using the effective interest rate method

Bank overdraft, borrowings and other financial liabilities

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

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 directly or 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 2015

Accounting Policies

1.4 Financial instruments (continued)

Derecognition

Financial assets

The Municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the Municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- 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:
 - derecognises the asset; and
 - recognises 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 as 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 Municipality 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 the 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 :

- it is probable that future economic benefits or service potential associated with the item will flow to the Municipality; and
- 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 2015

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 2015

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 will apply its judgment and disclose the criteria used in making such judgment in cases where it's 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 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.

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 2015

Accounting Policies

1.9 Employee benefits (continued)

Defined benefit plans

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 actuarial gains and losses and 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

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 2015

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 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.

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

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

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

Provisions are not recognised for future operating deficits.

If 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 unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable. Contingencies are disclosed in the relevant note.

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:

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

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 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

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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 2015

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.

1.17 Budget information

The budget has been included in the Financial Statements in accordance with GRAP 24.

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 Statement of Comparison of Budget and Actual Amounts.

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.18 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 reporting 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, close members of the family of key management personnel and councillors.

Key management personnel include all directors or members of the Municipal council of the Municipality where that 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.

1.19 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.

1.20 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 1991.

1.21 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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.22 Events after reporting date

Events after the reporting date are defined as favourable and unfavourable events that occur between the reporting date and the date the annual 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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated R

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 published and are mandatory for the Municipality's accounting periods beginning on or after 01 July 2015 or later periods:

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 entity's past performance and to identify the resources allocated to support the major activities of the entity

Municipalities, municipal entities, trading entities, Parliament and the Provincial Legislatures 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.

GRAP 20: Related parties disclosures

Compliance with this standard would have had an effect on the presentation only. Related party transactions have been disclosed in accordance with IPSAS 20.

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

GRAP 32: Service Concession Arrangement: Grantor

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 105: Transfers of functions between entities under common control

Compliance with this standard will not have an impact on the current financial information as no transactions relating to the transfer of functions between entities under common control exist in the current year.

The effective date of the Standard is for financial periods beginning on or after 1 July 2015.

It is unlikely that the amendment will have a material impact on the Municipality's financial statements.

GRAP 106: Transfers of functions between entities not under common control

Compliance with this standard will not have an impact on the current financial information as no transactions relating to the transfer of functions between entities not under common control exist in the current year.

The effective date of the Standard is for financial periods beginning on or after 1 July 2015.

GRAP 107: Mergers

Compliance with this standard will not have an impact on the current financial information as no transactions relating to mergers exist in the current year.

The effective date of the Standard is for financial periods beginning on or after 1 July 2015

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

2015	2014
R	R

2. New standards and interpretations (continued)

2.1 Standards and interpretations issued, but not yet effective

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.

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

IGRAP 11: Consolidation – Special Purpose Entities

This interpretation of the Standards of GRAP provides guidance with regards to consolidation of special purpose entities (SPEs) as the Standard of GRAP on Consolidated and Separate Financial Statements does not provide explicit guidance on the consolidation of SPEs.

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such an SPE may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE.

Compliance with this Interpretation will not have an impact on the current financial information as the municipality does not currently have or control any special purpose entities.

The effective date of the Interpretation is for financial periods beginning on or after 1 July 2015.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

2015	2014
R	R

2. New standards and interpretations (continued)

IGRAP 12: Jointly Controlled Entities – Non-Monetary Contributions

This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a jointly controlled entity (JCE) in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation. The Standard of GRAP on Interest in Joint Ventures does not provide explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to JCEs.

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

Compliance with this Interpretation will not have an impact on the current financial information as the municipality is not currently a venturer with interest in jointly controlled entities. The effective date of the Interpretation is for financial periods beginning on or after 1 July 2015.

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 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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

3. Property, plant and equipment

	2015			2014 Restated		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Community	61 377 886	(37 704 288)	23 673 598	61 377 885	(34 664 623)	26 713 262
Infrastructure	1 196 588 078	(549 834 813)	646 753 265	1 186 783 406	(514 085 556)	672 697 850
Land and buildings	196 647 691	(73 857 834)	122 789 857	196 647 692	(67 790 229)	128 857 463
Other assets	17 859 960	(11 396 925)	6 463 035	19 298 705	(10 861 917)	8 436 788
Work in progress	16 723 288	-	16 723 288	-	-	-
Total	1 489 196 903	(672 793 860)	816 403 043	1 464 107 688	(627 402 325)	836 705 363

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals / derecognition	Transfers	Depreciation	Closing balance
Community	26 713 262	-	-	-	(3 039 664)	23 673 598
Infrastructure	672 697 850	-	(473 038)	10 555 527	(36 027 074)	646 753 265
Land and buildings	128 857 463	-	-	-	(6 067 606)	122 789 857
Other assets	8 436 788	1 041 299	(62 351)	-	(2 952 701)	6 463 035
Work in progress	-	27 278 815	-	(10 555 527)	-	16 723 288
	836 705 363	28 320 114	(535 389)	-	(48 087 045)	816 403 043

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Prior period adjustment	Additions	Transfers	Depreciation (Restated)	Closing balance (Restated)
Community	8 862 902	20 930 807	-	-	(3 080 447)	26 713 262
Infrastructure	490 088 345	186 162 388	-	32 200 705	(35 753 588)	672 697 850
Land and buildings	113 486 042	21 492 816	-	-	(6 121 395)	128 857 463
Other assets	7 977 020	1 507 531	2 052 177	-	(3 099 940)	8 436 788
Work in progress	40 186 760	(31 445 977)	23 459 922	(32 200 705)	-	-
	660 601 069	198 647 565	25 512 099	-	(48 055 370)	836 705 363

Pledged as security

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

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the Municipality.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
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4. Investment property

	2015			2014 Restated		
	Valuation	Fair value adjustment	Carrying value	Valuation	Fair value adjustment	Carrying value
Investment property	35 988 473	1 457 398	37 445 871	15 749 670	20 238 803	35 988 473

Reconciliation of investment property - 2015

	Opening balance	Fair value adjustment	Closing balance
Investment property	35 988 473	1 457 398	37 445 871

Reconciliation of investment property - 2014

	Opening balance	Prior period adjustment	Fair value adjustment	Closing balance (Restated)
Investment property	32 587 374	(16 837 704)	20 238 803	35 988 473

Pledged as security

No assets are pledged as security.

The significant portion of Municipality investment property is vacant land.

Investment properties were valued by an independent professional valuer, C. Theron, a registered valuer with the South African Council for the Property Valuers Profession (Registration number : 6831).

The valuation methods utilised to determine market value include comparable sales method and accrued depreciation method of valuation.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the Municipality.

5. Inventories

Consumable stores	1 441 569	710 520
Water stock	30 830	29 087
	1 472 399	739 607

There were no inventory write downs during the year.

Inventory pledged as security

No assets are pledged as security.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
6. Investments		
At amortised cost		
First National Bank Limited	345 924	328 467
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
	732 318	714 861

No investments are pledged as security / collateral.

7. Trade and other receivables from non-exchange transactions

Fines	13 693 655	7 671 804
Other debtors - billing	3 994 613	1 684 649
Other debtors	2 716 083	3 005 945
Property rates	2 743 087	3 415 911
	23 147 438	15 778 309

As at 30 June 2015

	Gross Balance	Impairment	Net balance
Fines	44 822 093	(31 128 438)	13 693 655
Other debtors- billing	116 213 338	(112 218 725)	3 994 613
Other debtors	2 716 083	-	2 716 083
Property rates	43 599 806	(40 856 719)	2 743 087
	207 351 320	(184 203 882)	23 147 438

As at 30 June 2014

	Gross Balance	Impairment	Net balance
Fines	24 630 433	(16 958 629)	7 671 804
Other debtors - billing	83 642 930	(81 958 282)	1 684 648
Other debtors	3 005 945	-	3 005 945
Property rates	34 148 047	(30 732 135)	3 415 912
	145 427 355	(129 649 046)	15 778 309

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
7. Trade and other receivables from non-exchange transactions (continued)		
Ageing as at 30 June 2015		
Current (0-30 days)	1 848 945	3 094 415
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
	43 599 806	116 213 338
Ageing as at 30 June 2014		
Current (0-30 days)	1 478 377	2 518 813
31-60 days	851 245	2 432 040
61-90 days	796 546	2 378 548
91+ days	31 021 879	76 313 529
	34 148 047	83 642 930
Reconciliation of allowance for		
Beginning of year	129 649 046	83 272 527
VAT provision	15 406	24 003
Contributions to provision	54 539 430	46 352 516
Balance at the end of the year	184 203 882	129 649 046
There are no receivables pledged as security for debt.		
8. VAT receivable		
VAT	18 709 529	21 626 628

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 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.		
Upon a member's death-in-service the surviving dependants will not continue to receive the 60% subsidy.		
The projected unit credit method has been used to value the liability. The valuation was performed by One Pangaea Financial as at 30 June 2015. The total liability has decreased by 11% since the last actuarial valuation (performed as at 30 June 2014), due to changes in the participants to the post employment medical subsidy such as the active employees on medical aid decreased by 6 and the option of cheaper medical aid contributions by active staff, would have decreased the liability. Furthermore the increase in the discount rate would have decreased the liability.		
There are no long-term assets set aside off-balance sheet in respect of the Municipality's 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 45 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 One Pangaea Financial as at 30 June 2015. The total liability has increased by 17.43% since the last actuarial valuation (performed as at 30 June 2014) due to changes in participants, salary increases, and changes in the withdrawal and early-retirement rates assumptions.		
There are currently no long-term assets set aside off-balance sheet in respect of the Municipality's long service award liability.		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Opening balance	25 714 755	23 484 421
Current service costs	1 805 851	1 556 075
Benefits paid	(817 321)	(726 775)
Actuarial gain	(5 425 863)	(431 247)
Interest cost	2 323 892	1 832 281
Closing balance	(23 601 314)	(25 714 755)
Non-current liabilities	(19 905 469)	(24 897 434)
Current liabilities	(3 695 845)	(817 321)
	(23 601 314)	(25 714 755)

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
9. Employee benefit obligation (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	1 805 851	1 556 075
Benefits paid	(817 321)	(726 775)
Interest cost	2 323 892	1 832 281
Actuarial gain	(5 425 863)	(431 247)
	(2 113 441)	2 230 334
9.1 Post retirement health care benefits		
Balance at beginning of the year	23 136 325	21 256 004
Current services costs	1 557 908	1 209 938
Benefits paid	(472 716)	(473 417)
Actuarial gain	(5 780 791)	(548 665)
Interest cost	2 132 629	1 692 465
	20 573 355	23 136 325
Net expense recognised in Statement of Financial Performance		
Current services costs	1 557 908	1 209 938
Benefits paid	(472 716)	(473 417)
Actuarial gain	(5 780 791)	(548 665)
Interest cost	2 132 629	1 692 465
	(2 562 970)	1 880 321
9.2 Long service award		
Opening balance	2 578 430	2 228 417
Current service costs	247 943	346 137
Benefits paid	(344 605)	(253 358)
Actuarial loss	354 928	117 418
Interest cost	191 263	139 816
	3 027 959	2 578 430
Net expenses recognised in Statement of Financial Performance		
Current services costs	247 943	346 137
Benefits paid	(344 605)	(253 358)
Actuarial loss	354 928	117 418
Interest cost	191 263	139 816
	449 529	350 013
Key assumptions used - Post-retirement Health Care Benefits		
Assumptions used at the reporting date:		
Discount rates used	9.38 %	9.31 %
Health care cost inflation rate	8.40 %	8.46 %
Net effective discount rate	0.90 %	0.78 %
Average retirement age	65	60
Number of eligible in-service members and non-members	261	268
Number of continuation (retiree and widow) members	14	14

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
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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 health care inflation would have the following effect:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest	804 830	730 195
Effect on the obligation	4 558 128	(3 680 756)

Key assumptions used - Long Service Awards

Assumptions used at the reporting date:

	2015	2014
Discount rates used	8.24%	7.94%
Salary increase rate	6.98%	7.10%
Net effective discount rate	1.18%	0.78%

Normal retirement age	63	63
Number of eligible in-service members	262	265

Sensitivity Analysis - Long Service Awards

Below is the summary of the results of sensitivity analysis.

A percentage point change in the assumed general salary inflation would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest	45 719	(40 145)
Effect on the obligation	241 367	(216 378)

Basis for the discount rate used

The discount rate used post-retirement healthcare benefits and long service award obligation was determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2015.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
10. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	21 167 689	16 344 775
Water	214 020 319	180 650 165
Sewerage	127 437 752	105 660 602
Refuse	66 242 288	55 194 684
	428 868 048	357 850 226
Less: Allowance for impairment		
Electricity	(12 638 991)	(10 473 527)
Water	(207 211 739)	(175 052 863)
Sewerage	(123 180 666)	(102 830 596)
Refuse	(64 815 049)	(54 354 816)
	(407 846 445)	(342 711 802)
Net balance		
Electricity	8 528 698	5 871 248
Water	6 808 580	5 597 302
Sewerage	4 257 086	2 830 006
Refuse	1 427 239	839 868
	21 021 603	15 138 424
Ageing as at 30 June 2015		
		Gross balance
Current (0-30 days)		14 093 097
31 - 60 days		7 689 859
61 - 90 days		8 769 220
91+ days		398 315 872
		428 868 048
Ageing as at 30 June 2014		
		Gross balance
Current (0 - 30 days)		12 119 786
31 - 60 days		7 780 866
61 - 90 days		7 405 064
91+ days		330 544 510
		357 850 226
Reconciliation of allowance for impairment		
Balance at beginning of the year	342 711 802	266 722 862
Contributions to allowance	57 159 195	66 708 682
Debt impairment written off against allowance	7 975 448	9 280 258
Balance at the end of year	407 846 445	342 711 802

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
11. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	2 960	7 282
Bank balances	16 102 689	16 905 523
Bank overdraft	(2 432 684)	(2 857 740)
	13 672 965	14 055 065
Current assets	16 105 649	16 912 805
Current liabilities	(2 432 684)	(2 857 740)
	13 672 965	14 055 065

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2015	30 June 2014	30 June 2015	30 June 2014
ABSA BANK - Current Account 4055605473	655 122	389 231	(2 432 684)	(2 857 740)
ABSA Bank - Current Account - 4061545689	623 833	2 772 295	623 833	2 772 295
ABSA Bank - Current Account - 4050989969	1 346 385	513 590	1 346 385	513 590
ABSA Bank - Current Account - 4064023765	12 550 883	12 133 945	12 550 883	12 133 945
ABSA Bank - Current Account - 4064584280	5 464	6 252	5 464	6 252
ABSA Bank - Current Account - 4055636965	24 721	25 403	24 721	25 403
ABSA Bank - Current Account - 4049678703	96 327	96 508	96 327	96 508
ABSA Bank Limited - Current Account- 4055686261	948 301	873 120	948 302	873 120
ABSA Bank - Current Account - 4052543232	77 389	77 438	77 389	77 438
ABSA Bank - Current Account - 4064692380	20 870	20 751	20 870	20 751
ABSA Bank - Current Account - 9126643503	343 593	324 843	343 593	324 843
ABSA Bank - Current Account - 9138622957	64 922	61 380	64 922	61 380
Total	16 757 810	17 294 756	13 670 005	14 047 785

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
12. Borrowings		
At amortised cost		
Annuity loan DBSA 61007163	1 061 924	1 556 593
Annuity loan DBSA 61007165	47 442 183	49 950 646
Annuity loan DBSA 10263/102	346 389	550 741
Dr KK District Municipality	496 539	248 270
Total borrowings	49 347 035	52 306 250
Non-current liabilities		
At amortised cost	43 761 439	45 954 235
Current liabilities		
At amortised cost	5 585 596	6 352 015

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 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	56 112 378	44 257 075
Accruals	47 914 500	47 185 043
Retention	3 633 401	4 578 956
Leave pay accrual	6 788 145	5 604 773
Payments received in advance	3 163 855	2 594 140
Other creditors	273 935	-
Bonus accrual	1 065 675	935 730
Performance bonus accrual	575 875	458 431
Deposits	398 283	480 839
Consumer debt	340 226	357 643
Department of Human Settlement	764 600	770 461
	121 030 873	107 223 091

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 2015

Notes to the Financial Statements

	2015 R	2014 R
14. Consumer deposits		
Water and Electricity	2 124 152	2 184 881

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

Management however believes that the cost value approximates the fair value.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	594 642
Provincial Government Library Grant	572 465	957 640
EPWP Roads	1 274 894	1 594 257
Finance Management Grant	412 070	-
Dr Kenneth Kaunda District Municipality	312 334	491 455
	2 571 763	3 637 994

Movement during the year

Unspent at the beginning of the year	3 637 994	974 521
Amounts received during current year	116 888 002	118 132 858
Transferred to revenue during current year	(117 954 233)	(115 469 385)
	2 571 763	3 637 994

See Note 20 for the liability at financial year end and Appendix B for more details.

16. Provision for rehabilitation of landfill sites

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

Reconciliation of provision for rehabilitation of landfill sites - 2014

	Opening Balance	Discount rate adjustment	Closing balance
Environmental rehabilitation	37 717 909	2 309 586	40 027 495

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 10 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 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 2015

Notes to the Financial Statements

	2015 R	2014 R
17. Revenue		
Fines	27 606 436	27 427 293
Government grants	117 954 233	115 469 385
Interest revenue	34 375 349	26 171 555
Licences and permits	1 727 211	3 449 621
Other income	1 808 769	1 364 300
Property rates	27 200 707	22 600 462
Rental of facilities and equipment	454 758	379 362
Service charges	121 578 293	124 286 968
	332 705 756	321 148 946
The amount included in revenue arising from exchanges of goods or services are as follows:		
Licence and permits	1 727 211	3 449 621
Service charges	121 578 293	124 286 968
Rental of facilities and equipment	454 758	379 362
Other income	1 808 769	1 364 300
Interest revenue	34 375 349	26 171 555
	159 944 380	155 651 806
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	27 200 707	22 600 462
Transfer revenue		
Government grants	117 954 233	115 469 385
Fines	27 606 436	27 427 293
	172 761 376	165 497 140

Maquassi Hills Local Municipality

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Notes to the Financial Statements

	2015 R	2014 R
18. Property rates		
Rates received		
All categories	<u>27 200 707</u>	<u>22 600 462</u>
Valuations		
Residential	1 243 777 324	837 353 359
Commercial	197 302 990	195 923 579
State	95 014 490	66 477 363
Agriculture	2 221 694 877	1 554 179 119
Other	67 518 675	6 200 000
	<u>3 825 308 356</u>	<u>2 660 133 420</u>

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	(3 680 417)	(3 199 567)
Agriculture	(62 178)	(557 460)
	<u>(3 742 595)</u>	<u>(3 757 027)</u>

19. Service charges

Sale of electricity	47 637 458	41 533 546
Sale of water	36 103 105	46 690 520
Sewerage and sanitation charges	25 761 469	24 714 288
Refuse removal	12 076 261	11 348 614
	<u>121 578 293</u>	<u>124 286 968</u>

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
20. Government grants and subsidies		
Finance Management Grant	1 187 930	1 550 000
EPWP	1 508 364	-
Municipal Infrastructure Grant	27 519 642	26 829 358
WWTP Wolmaransstand	-	1 472 388
Fire Brigade Grant	-	2 100 000
Library Grant	835 175	272 624
Equitable share	85 790 000	81 259 000
Municipal Systems Information Grant	934 000	890 000
Dr Kenneth Kaunda District Municipality	179 122	1 096 015
	<u>117 954 233</u>	<u>115 469 385</u>

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	<u>1 360 194</u>	<u>1 554 492</u>
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Municipal Infrastructure Grant

Balance unspent at beginning of year	(594 642)	-
Current-year receipts	(26 925 000)	(27 424 000)
Conditions met - transferred to revenue	27 519 642	26 829 358
Conditions still to be met - transferred to liabilities	<u>-</u>	<u>(594 642)</u>

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. There are no unspent funds at year end.

Provincial Government Library Grant

Balance unspent at beginning of year	(957 640)	(380 264)
Current-year receipts	(450 000)	(850 000)
Conditions met - transferred to revenue	835 175	272 624
Conditions met and transferred to revenue	<u>(572 465)</u>	<u>(957 640)</u>

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 liability at financial year end (see Note 15).

Finance Management Grant

Current-year receipts	(1 600 000)	(1 550 000)
Conditions met - transferred to revenue	1 187 930	1 550 000
Conditions still to be met - transferred to liabilities	<u>(412 071)</u>	<u>-</u>

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 the intended purposes.

Dr Kenneth Kaunda District Municipality

Maquassi Hills Local Municipality

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Notes to the Financial Statements

	2015 R	2014 R
20. Government grants and subsidies (continued)		
Balance unspent at beginning of year	(491 455)	-
Current-year receipts	-	(1 587 470)
Conditions met - transferred to revenue	179 122	1 096 015
Conditions still to be met - transferred to liabilities	(312 333)	(491 455)

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 our Municipality is the beneficiary.

Local Government of Traditional Affairs

The grant is received from the Department of Local Government and Traditional Affairs as a Provincial Infrastructure Grant (PIG). This grant complements the Municipal Infrastructure Grant. The grant was used by the municipality to build and develop its infrastructure.

EPWP Roads

Balance unspent at beginning of year	(1 594 257)	(594 257)
Current-year receipts	(1 189 001)	(1 000 000)
Conditions met - transferred to revenue	1 508 364	-
Conditions met and transferred to revenue	(1 274 894)	(1 594 257)

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. The unused funds are committed and should remain a liability at financial year end (see Note 15).

Municipal Systems Improvement Grant

Current-year receipts	(934 000)	(890 000)
Conditions met - transferred to revenue	934 000	890 000
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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
20. Government grants and subsidies (continued)		
WWTP Government Grant		
Current-year receipts	-	(1 472 388)
Conditions met - transferred to revenue	-	1 472 388
Conditions still to be met - transferred to liabilities	-	-

This grant was the Provincial Infrastructure Grant received for the Waste Water Treatment Plant in the prior year.

Fire Brigade

Current-year receipts	-	(2 100 000)
Conditions met - transferred to revenue	-	2 100 000
Conditions still to be met - transferred to liabilities	-	-

The grant was received from the Department of Local Government and Traditional Affairs as a Disaster Management Grant. This grant was used to uplift the Municipality's Fire Emergency Services by means of new fire fighting vehicles in the prior year.

21. Interest revenue

Interest revenue

Bank	785 807	631 189
Interest charged on trade and other receivables	33 589 542	25 540 366
	34 375 349	26 171 555

Maquassi Hills Local Municipality

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Notes to the Financial Statements

	2015 R	2014 R
22. Other income		
Actuarial gains on employee benefit obligation	-	548 665
Advertising	12 462	9 422
Blocked sewerage fees	2 842	5 512
Building plans fees and copies	89 140	121 565
Cellphone/ telephone refund	17 157	21 200
Cemetery fees	136 256	92 768
Change of circuitbreakers	918	-
Cleaning of stands	-	1 078
Clearance certificates	15 491	15 005
Connection fees : electricity	11 887	6 444
Connection fees : sewerage	1 766	2 769
Connection fees : water	6 547	3 179
Contribution to annual bonus	328 485	-
Deeds search	119	120
Dividends	1 111	841
Encroachment	1 028	1 028
Garden refuse removal	1 211	-
Insurance claims paid out	-	82 500
Lost books library	185	-
Meter testing	1 095	649
Photostat fees	2 537	1 245
Poster fees	55 968	86 120
Reconnections : electricity	61 711	78 310
Reconnections: water	8 293	10 488
Sale of inventory	194 547	118 511
Sales : refuse bins	338	1 330
Sales : town maps	718	-
Sales: sand and gravel	11 158	-
Seta	124 384	36 499
Stock surplus	548 850	14 158
Sub division of erven	1 326	-
Sundries	1 207	-
Supply of information	112 350	92 859
Surplus : cash	500	201
Transfer of erven	54 599	9 009
User fees	2 276	2 639
Valuation certificates	307	186
	1 808 769	1 364 300
23. Rental of facilities and equipment		
Premises		
Rental of facilities	454 758	379 362
24. Fair value adjustments		
Investment property (Fair value model)	1 457 398	20 242 176

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
25. General expenses		
Advertising	278 791	215 726
Aid allowance and grants	1 101 250	1 222 000
Auditors remuneration	1 931 046	2 331 152
Bank charges	491 104	474 069
Cleaning	35 016	77 577
Commission paid	120 057	-
Community development and training	10 995	21 774
Consulting and professional fees	6 087 963	2 967 542
Contribution to annual bonus	-	21 348
Contribution to performance bonuses	575 876	348 607
Contributions to leave and bonuses	549 584	5 399 841
Contributions to leave provision	-	560 923
Deed notices	25 095	22 457
Departmental consumption	1 648 904	1 548 981
Entertainment	164 415	46 209
Fuel and oil	1 418 268	1 238 200
Hosting of meetings	24 451	-
Impairment loss / reversal of impairment	(16 242)	-
Indigent relief	1 360 194	1 554 492
Internal transfers	845 204	854 632
Internet services	30 021	48 013
Legal fees	1 430 199	1 358 370
Library grant - social	24 000	-
License fees	148 848	172 387
Mayoral projects	929 756	15 327
Membership fees	769 846	617 802
Postage	38 483	248 426
Printing and stationery	772 798	494 361
Refuse	8 000	-
Security costs	894 651	721 644
Skills development levies	521 732	449 268
Stock shortage	110 841	-
Stocks and material	20 523	8 424
Subscription and publication	28 385	20 711
Sundries	-	11 579
Telephone	1 516 668	1 186 896
Town planning scheme	106 200	677 747
Training	191 396	24 459
Travel and subsistence	880 603	486 454
Uniforms	294 558	16 672
VTS and DLCT	-	1 863
	25 369 479	25 465 933

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
26. Employee related costs		
Employee related costs - Salaries and Wages	35 550 404	31 587 570
Overtime payments	3 388 955	2 785 600
Performance and other bonuses	2 674 812	2 501 274
Employee related costs - Contributions for UIF, pensions and medical aids	10 682 004	10 142 248
Other employee related costs	888 701	804 002
Long-service awards	323 846	253 358
Travel, motor car, accommodation, subsistence and other allowances	2 939 352	2 391 931
Housing benefits and allowances	229 461	234 341
	56 677 535	50 700 324

Remuneration of Municipal Manager

Annual Remuneration	788 150	664 154
Car Allowance	302 736	219 553
Contributions to UIF, Medical and Pension Funds	237 409	197 010
	1 328 295	1 080 717

The Municipal Manager was appointed in August 2012. 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.

Remuneration of Chief Finance Officer

Annual Remuneration	811 443	419 732
Car Allowance	144 000	109 464
Contributions to UIF, Medical and Pension Funds	11 932	5 111
	967 375	534 307

The Chief Financial Officer was appointed in January 2014.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
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26. Employee related costs (continued)

Remuneration of executive directors

Remuneration of Individual Executive Directors

	Technical Services	Corporate Services	Community Services
2015			
Annual Remuneration	839 134	619 495	81 928
Travel, motor car, accommodation, subsistence and other allowances	178 032	467 010	-
Contributions to UIF, Medical and Pension Funds	11 417	11 607	-
	<u>1 028 583</u>	<u>1 098 112</u>	<u>81 928</u>

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.

Remuneration of Individual Executive Directors

2014			
Annual Remuneration	335 360	254 704	222 935
Travel, motor car, accommodation, subsistence and other allowances	71 424	233 808	-
Contributions to UIF, Medical and Pension Funds	4 492	5 006	-
	<u>411 276</u>	<u>493 518</u>	<u>222 935</u>

The position for Director Technical Services was vacant from 16 May 2013 to 31 December 2013. Mr V.AK. Motlashuping acted in the position from 17 May 2013 till 31 August 2013. Acting allowance is included in above.

The position for Director Corporate Services was vacant since October 2010. Ms J.M. Rudman acted in the position from July 2012 till 30 October 2012 and May 2013 till 31 August 2013 and Mr AK.J. Leseisane from November 2012 till May 2013. For December 2013 there was no acting Director for Corporate Services. Acting allowance is included above. The position for Director Community Services was vacant since July 2013. Mr T.I. Mokwena acted in the position from July 2013 till 30 September 2013. For the month of November 2013 Mr B.V. Sebekedi acted as Director Community Services. For December 2013 there was no acting Director for Community Services. Acting allowance is included above.

27. Remuneration of councillors

Mayor	422 746	399 626
Speaker	347 686	329 464
Executive Committee Members	1 058 992	1 000 522
Councillors	2 266 208	2 134 778
Councillors' pension and medical aid contributions	652 938	634 683
Councillors' allowances	2 018 809	1 939 381
	<u>6 767 379</u>	<u>6 438 454</u>

Remuneration of councillors includes the total earnings for the annum plus the company contributions for the 2015 financial year.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
28. Debt impairment		
Contributions to debt impairment provision	<u>63 689 746</u>	<u>78 457 664</u>
29. Depreciation and amortisation		
Property, plant and equipment	<u>48 087 045</u>	<u>48 055 370</u>
30. Finance costs		
Trade and other payables	6 688 027	5 571 288
Discounting of landfill site provision	1 191 512	2 309 586
Bank	3 542	-
Borrowings	2 410 325	5 462 679
Interest expense on employee benefit obligation	2 323 892	1 832 281
	<u>12 617 298</u>	<u>15 175 834</u>
31. Contracted services		
IT Licenses	1 632 921	1 442 412
TMT	2 743 138	2 704 289
Other	1 201 114	1 202 604
	<u>5 577 173</u>	<u>5 349 305</u>
32. Bulk purchases		
Electricity	26 146 241	30 986 472
Water	43 906 364	36 415 847
	<u>70 052 605</u>	<u>67 402 319</u>

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
33. Cash generated from operations		
Surplus	28 622 492	38 611 613
Adjustments for:		
Depreciation and amortisation	48 087 045	48 055 370
Loss on disposal of assets	535 390	-
Fair value adjustments	(1 457 398)	(20 242 176)
(Decrease)/increase in employee benefit obligation	(2 113 441)	2 230 334
Increase in provisions	1 191 512	(18 680 859)
Prior period adjustments	(45 563 734)	(25 415 960)
Changes in working capital:		
Inventories	(732 792)	(79 144)
Trade and other receivables from exchange transactions	(5 883 179)	(4 968 106)
Trade and other receivables from non-exchange transactions	(7 369 129)	(6 780 758)
Trade and other payables from exchange transactions	13 807 782	26 189 276
VAT	2 917 098	6 632 244
Unspent conditional grants and receipts	(1 066 231)	2 663 472
Consumer deposits	(60 729)	83 744
	30 914 686	48 299 050

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
34. Commitments		
Commitments in respect of capital expenditure		
Approved and contracted for		
Infrastructure	15 649 979	2 443 905
This expenditure will be financed from		
MIG	15 649 979	2 443 905
Approved and not contracted for		
Infrastructure	26 167 001	26 425 000
This expenditure will be financed from		
MIG	26 167 001	26 425 000
Operating leases - Municipality as lessee		
Operating Leases : Office equipment	Minimum lease payments	Straight-lined value of minimum lease payments
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
30 June 2014		
Within one year	1 094 804	1 097 887
Within two to five years	1 442 141	1 435 073
Less : Amount due for settlement within 12 months (current portion)	(1 094 804)	(1 097 887)
	1 442 141	1 435 073

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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
34. Commitments (continued)		
There is no restriction imposed on the lease arrangements.		
Operating leases - Municipality as lessor		
Operating leases : Land and buildings	Minimum lease receipts	Straight-lined value of minimum lease payments
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
30 June 2014		
Within one year	400 433	392 420
Within two to five years	669 706	615 562
Less : Amount due to settlement within 12 months (current portion)	(400 433)	(392 420)
	669 706	615 562

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.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

2015	2014
R	R

35. Contingencies

Contingent liabilities

Previous years claims

Request for representation from legal counsel regarding litigations and claims:

- Mr C.J Van Vuuren – Water meter leakages damaged his electronic gate – (R16 300.00) (December 2012).
- Mr P. Du Preez – Electrical damages to appliances – (R44 000.00) (January 2013).
- Mr C. Steyn – Car hit porthole –(R33 644.00) (January 2014).
- Ms C. Crathorne – Leg injuries whilst walking on Municipal pavement – (R550 000.00) (February 2014).
- Mr R. Ali – Porthole damage to vehicle – (R18 043.00) (February 2014).
- Mr Burger – TLB damaged security fence – (R10 000.00) (April 2014).
- C Mafulako and others vs Maquassi Hills Local Municipality, the case is pending. The cost is currently unknown.
- Mr Manele – TLB damaged wall fence – (R64 800.92) (April 2014).
- BUILD-IT – Vehicle got damaged whilst being tested for roadworthiness at Traffic Dept. – (R11 388.83) (May 2014).

Year under review 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. Mmoledi – 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).

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.

37. Comparative figures

Where necessary, comparative figures have been restated for prior period error adjustments 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 2015

Notes to the Financial Statements

	2015 R	2014 R
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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.

	2015	2014
Payables from exchange transactions	121 030 873	107 223 091
Short term portion on long term liabilities	5 585 596	6 352 015
Bank overdraft	2 432 684	2 857 740
	<u>129 049 153</u>	<u>116 432 846</u>

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, derivative financial instruments and trade debtors. The Municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

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 municipality. The utilisation of credit limits is regularly monitored.

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:

Financial instrument	2015	2014
Cash and cash equivalents	16 105 649	16 912 805
Short term investment deposits	732 318	714 861
Trade and other receivables from exchange and non-exchange transactions	44 169 041	30 916 733
	<u>61 007 008</u>	<u>48 544 399</u>

Interest rate risk

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

Deposits 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 2015

Notes to the Financial Statements

	2015 R	2014 R
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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):

	2015	2014
Cash/cost coverage ratio (in months)	0.5	0.4
Current ratio	0.45	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	337 224 850	322 866 832
Current year unauthorised expenditure *	31 178 343	14 358 018
Total unauthorised expenditure	368 403 193	337 224 850

* The current year unauthorised expenditure relates to depreciation and finance costs which exceeded budgeted amounts.

42. Fruitless and wasteful expenditure

Opening balance	22 417 426	15 072 910
Interest, penalties and late payments to creditors	7 297 989	5 583 666
Legal fees	197 858	1 265 401
Arbitration award	-	87 606
Insurance policy non compliance	-	35 838
Acting allowances	-	231 720
Employees not attending work	-	140 285
Fruitless and wasteful expenditure awaiting condonement	29 913 273	22 417 426

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
43. Irregular expenditure		
Opening balance	92 937 753	68 566 912
Contracts awarded to suppliers in the services of the state	-	3 582 603
Bid documents not submitted / No contracts in place	4 939 892	8 725 548
SCM and Tender process not followed	435 523	11 570 445
No declaration in the service of the state	-	492 245
Irregular expenditure awaiting ratification and condonement	98 313 168	92 937 753
44. In-kind donations and assistance		
In-kind donations and assistance:		
• The firm JBFE was appointed to perform the unbundling of the infrastructure assets.		
• The firm TM Consulting was appointed to assist with the review of the Annual Financial Statements.		
45. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscriptions - SALGA	582 159	610 990
Skills development levy		
Opening balance	429 971	-
Amount paid - current year	518 431	429 970
	948 402	429 970
Audit fees		
Opening balance	1 785 476	6 844
Current year audit fee (excl VAT)	1 931 046	2 331 152
Amount paid - current year (excl VAT)	-	(552 520)
	3 716 522	1 785 476
PAYE and UIF		
Current year payroll deductions and council contributions	8 267 333	6 362 659
Amount paid - current year	(8 267 333)	(6 362 659)
	-	-
Pension and Medical Aid Deductions		
Current year payroll deductions and council contributions	13 199 172	10 631 464
Amount paid - current year	(13 199 172)	(10 631 464)
	-	-
VAT		
VAT receivable	18 709 529	21 626 628

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

All VAT returns were submitted by the due date throughout the year.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

2015	2014
R	R

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding at 30 June 2015:

30 June 2015

	Total
	R
G V Kgabi	2 622
K G Mojela	7 358
D K Mohadi	6 755
M D Serectsi	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/>

30 June 2014

	Total
	R
G V Kgabi	9 359
N L Tshingilane	2 802
K G Mojela	9 326
D K Mohadi	4 876
B J Muhumapelo	22 841
N W Ntane	738
M D Seretsi	46 032
K Kgaodi	21 874
M E Motaung	6 072
M S Sejeso	9 470
K S Seakane	67 763
	<hr/>
	201 153
	<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. These deviations have also been reported to Council.

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

None of the current year deviations were reported to Council at year end.

From a total expenditure of R305 540 662 deviations were R1 816 422 being 0.59% of the total expenditure.

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
46. Distribution losses		
Electricity losses		
Electricity units (kWh) purchased from Eskom	42 424 054	46 064 513
Electricity units (kWh) sold to consumers	(41 263 539)	(43 909 703)
	<u>1 160 515</u>	<u>2 154 810</u>

Electricity losses for the financial year is 2.73% (2014:4.68%). The Rand value of the electricity losses for the current financial year is R115 112 (2014: R 1 620 407)

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

Water losses		
Water (KL) purchased	5 524 373	5 335 842
Water (KL) sold to consumers	(2 249 859)	(3 207 384)
	<u>3 274 514</u>	<u>2 128 458</u>

Water losses for the financial year is 59.27% (2014:40%). The Rand value of water losses for the current financial year is R40 407 503 (2014: R 24 136 714).

The selling price rate per kilolitre for the current financial year is R12.34 (2014:R 11.34).

47. Auditors' remuneration

Fees	<u>1 931 046</u>	<u>2 331 152</u>
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Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
48. Prior period errors		
The correction of the error(s) results in adjustments as follows:		
Statement of financial position		
Property, plant and equipment at cost		
Balance previously reported		1 140 580 329
Correction of prior period error 2013/2014		<u>323 527 357</u>
Restated balance		<u>1 464 107 686</u>
Property, plant and equipment - accumulated depreciation		
Balance previously reported		(486 686 123)
Correction of prior period error 2013/2014		<u>(140 716 200)</u>
Restated balance		<u>(627 402 323)</u>
The property, plant and equipment prior year balance was restated due to the unbundling of infrastructure assets and correction of other errors identified in the current year.		
Investment property		
Balance previously reported		32 587 374
Correction of opening balance		(18 615 996)
Fair value adjustment 2013/2014		<u>22 017 095</u>
Restated balance		<u>35 988 473</u>
The prior period balance was restated to correct for prior period fair value adjustments.		
Inventories		
Balance previously reported		710 520
Increase in water stock 2013/2014		<u>29 087</u>
Restated balance		<u>739 607</u>
Water stock not accounted for in the 2013/2014 year.		
Trade and other receivables from non-exchange transactions		
Balance previously reported		14 978 355
Reclassification of creditors with a debit balance		476 305
Increase in prepaid expense 2013/2014 year		7 269
Increase in fines debtors 2013/2014 year		1 087 100
Increase in councillor allowance debtors 2013/2014		5 063
Increase in the allowance for fine debtors impairment 2013/2014		(774 805)
Decrease in councillor allowance debtors 2013/2014		(1 460)
Increase in operating lease accrual 2013/2014		5 333
Decrease in prepaid expense 2012/2013		<u>(4 851)</u>
Restated balance		<u>15 778 309</u>

Significant amounts relates to hand written fines and impairment. The hand written fines amounting to R 1 087 100 were not recognised in prior period. Debtors impairment of hand written fines was not recognised in error in the prior period amounting to R 774805

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
48. Prior period errors (continued)		
VAT receivable		
Balance previously reported		21 207 859
Increase in expenditure and accruals 2013/2014		1 104 057
Decrease in expenditure and accruals 2012/2013		(685 288)
Restated balance		21 626 628

Increase in VAT receivables in the 2013/2014 financial year arose when accruals had to be raised under trade and other payables as a result of payments being made in the 2014/2015 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. Decrease in VAT receivables in the 2012/2013 financial year arose as a result of VAT not being raised in error on income earned.

Cash and cash equivalents

Balance previously reported	16 891 150
Increase in fine income ABSA - TMT Account 2013/2014	21 655
Restated balance	16 912 805

Increase in bank is due to fine income not recognised previously.

Trade and other payables from exchange transactions

Balance previously reported	105 952 872
Reclassification of payables with debit balance	476 305
Increase in fuel and oil 2013/2014	7 905
Increase in repairs and maintenance 2013/2014	4 813
Increase in legal fees 2013/2014	94 052
Increase in advertising 2013/2014	2 178
Increase in subscription and publication 2013/2014	6 718
Increase in legal fees 2013/2014	309 445
Increase in VAT receivables 2013/2014	620 491
Increase in repairs and maintenance 2013/2014	624
Increase in legal fees 2013/2014	5 984
Increase in repairs and maintenance 2013/2014	592
Increase in legal fees 2013/2014	9 024
Increase in contracted services - IT licences 2013/2014	103 740
Increase in distribution network - repairs and maintenance 2013/2014	738
Increase in aid allowance and grant 2013/2014	18 000
Increase in VAT payable 2013/2014	(6)
Decrease in bank charges 2013/2014	(1 195)
Increase in sundry expenses 2013/2014	3 781
Increase in water purchases 2013/2014	3 714 982
Increase in legal fees 2012/2013	23 600
Decrease in bank charges 2012/2013	(10 680)
Decrease in legal fees 2012/2013	(80 630)
Decrease in general expenses 2012/2013	(263 501)
Increase in repairs and maintenance 2012/2013	53 547
Increase in grants and subsidies 2012/2013	(683 388)
Increase in other income 2012/2013	(1 756)
Increase in other income 2012/2013	(1 158 331)
Increase in bulk purchases 2012/2013	408 625
Increase in other income 2012/2013	(1 735 293)
Decrease in general expenses 2012/2013	(660 145)
Restated balance	107 223 091

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

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
48. Prior period errors (continued)		
In the prior year it was identified that accruals amounting to R620 491 was incorrectly processed to VAT receivables.		
In the prior year it was identified that invoices amounting to R3 558 500 relating to water purchases was erroneously not raised.		
In the 2012/2013 year it was identified that grants and other income amounting to R3 577 011 was not recognised.		
Current portion of unspent conditional grants and receipts		
Balance previously reported		3 910 618
Conditions met and transferred to revenue 2013/2014		<u>(272 624)</u>
Restated balance		<u>3 637 994</u>
In the prior period revenue relating to Provincial Government Library Grant was not recognised.		
Provision for rehabilitation of landfill sites		
Balance previously reported		62 303 251
Decrease in provision 2012/2013		<u>(20 990 445)</u>
Decrease in discount rate adjustment 2013/2014		<u>(1 285 311)</u>
Restated balance		<u>40 027 495</u>
The provision for rehabilitation of landfill sites was adjusted to correct the discounting factor.		
Statement of Financial Performance		
Fines		
Balance previously disclosed		26 318 845
Increase in fine income 2013/2014		<u>1 108 448</u>
Restated balance		<u>27 427 293</u>
Hand written fines not recognised in 2013/2014.		
Government grant and subsidies		
Balance previously disclosed		115 196 761
Increase in government grants and subsidies 2013/2014		<u>272 624</u>
Restated balance		<u>115 469 385</u>
Library Grant income not recognised in 2013/2014.		
Other income		
Balance previously disclosed		1 448 781
Adjustments		<u>(84 481)</u>
Restated balance		<u>1 364 300</u>
This is mainly due to the recognition of other income inclusive of VAT.		
Rental of facilities and equipment		
Balance previously disclosed		383 483
Decrease in rental of facilities		<u>(4 121)</u>

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
48. Prior period errors (continued)		
Restated balance		<u>379 362</u>
Due to the incorrect treatment of the accounting of straight lining of leases.		
Finance costs		
Balance previously disclosed		16 463 654
Decrease in finance cost		<u>(1 287 818)</u>
Restated balance		<u>15 175 836</u>
General expenses		
Balance previously disclosed		25 062 449
Increase in general expenses 2013/2014		<u>403 484</u>
Restated balance		<u>25 465 933</u>
Due to accruals for expenses not recognised in 2013/2014.		
Remuneration of councilors		
Balance previously disclosed		6 436 993
Increase in remuneration of councilors 2013/2014		<u>1 461</u>
Restated balance		<u>6 438 454</u>
Councillors allowances not recognised in 2013/2014.		
Debt impairment		
Balance previously disclosed		77 682 859
Increase in debt impairment with regards to hand written fines		<u>774 805</u>
Restated balance		<u>78 457 664</u>
Debt impairment on hand written fines not recognised in 2013/2014.		
Contracted services		
Balance previously disclosed		5 265 574
Increase in contracted services		<u>83 731</u>
Restated balance		<u>5 349 305</u>
Accruals not raised in 2013/2014.		
Bulk purchases		
Balance previously reported		64 170 451
Increase in bulk purchases - water 2013/2014		<u>3 231 868</u>
Restated balance		<u>67 402 319</u>
Accruals not raised for all bulk purchases 2013/2014.		

Maquassi Hills Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
48. Prior period errors (continued)		
Repairs and maintenance		
Balance previously reported		2 985 617
Increase and repairs and maintenance		5 936
Restated balance		2 991 553
Accruals not raised for repairs and maintenance costs 2013/2014.		
Fair value adjustment - Investment property		
Correction to prior period error		20 238 803
This relates to the correction of error for investment property.		
Depreciation and amortisation		
Balance previously disclosed		31 629 660
Correction to prior period error 2013/2014		16 425 710
Restated balance		48 055 370
This adjustment is as a consequence of the unbundling of infrastructure assets and other error corrections to property, plant and equipment.		
Statement of Changes in Net Assets		
Effect of prior period adjustments on accumulated surplus		
Balance previously reported		500 892 382
Increase in inventory		29 087
Increase in trade and other receivables from non-exchange transactions		799 954
Increase in VAT receivables		418 769
Increase in cash and cash equivalents		21 655
Increase in property, plant and equipment		182 811 155
Increase in investment property		3 401 099
Increase in trade and other payables from exchange transactions		(1 270 219)
Decrease in unspent unconditional grants and receipts		272 624
Decrease in provision for landfill site rehabilitation		22 275 757
Restated balance at 30 June 2014		709 652 264