MAHIKENG

LOCAL MUNICIPALITY

Diversity. Culture . Heritage.

Mahikeng Local Municipality
Financial statements
for the year ended 30 June 2016

General Information

Nature of business and principal activities	Provision of municipal services in terms of the Municipal Finance Management Act No. 56 of 2003 and the Municipal System Act No. 32 of 2000
Mayoral committee	
Executive Mayor	Cllr Seatlholo GA Cllr Makolemako MC: MMC (Community Services) Cllr Tabane PM: MMC (Corporate Support Services) Cllr Mothupi HR : MMC (Finance) Cllr Mathakathaka KG: MMC (Infrastructure) Cllr Kgwadibane GA: MMC (Local Econimic Development) Cllr Maloisane SSN: MMC (Planning and Development) Cllr Moeti ME: MMC (Public Safety) Cllr Leepile M: MMC (Tourism and Enterprise Development) Cllr Mafete ME: MMC (Traditional Affairs and Stakeholder Relations) Cllr Dintoe MM: MMC (Special Projects) Cllr Diakanyo KB (Speaker) Cllr Nebe T (Single Chief Whip) Cllr Jabanyane MD: Chairperson (MPAC)
Accounting Officer	Mr T Mokwena (Acting)
Chief Finance Officer (CFO)	Mr T Mathe (Acting)
Registered office	Cnr University Drive & Hector Peterson Road Mmabatho 2735
Business address	Cnr University Drive & Hector Peterson Road Mmabatho 2735
Postal address	Private Bag X63 Mmabatho 2735
Bankers	Standard Bank of South Africa Business Centre, Nelson Mandela Drive, Mahikeng, 2745
Auditors	Auditor-General South Africa

Index

The reports and statements set out below comprise the financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The accounting officer certifies that the salaries, allowances and benefits of councillors as disclosed in Note 24 of these financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with the Renumeration of Public Office Bearers Act (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors.

The financial statements set out on pages 4 to 63, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Mr TI Mokwena
Acting Municipal Manager

Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Inventories	7	67,896,742	67,649,683
Receivables from exchange transactions	8	28,572,370	49,530,055
Receivables from non-exchange transactions	9	63,429,117	58,600,404
Consumer Debtors	10	98,599,061	120,893,296
Cash and cash equivalents	11	25,373,256	8,312,867
		283,870,546	**304,986,305**
Non-Current Assets			
Investment property	4	240,961,420	224,705,000
Property, plant and equipment	5	1,245,484,601	1,151,495,798
Intangible assets	3	1,835,246	2,399,989
		1,488,281,267	**1,378,600,787**
Total Assets		**1,772,151,813**	**1,683,587,092**
Liabilities			
Current Liabilities			
Other financial liabilities	13	12,594,783	5,202,713
Finance lease obligation	46	36,364,151	-
Payables from exchange transactions	15	338,794,816	305,875,442
VAT Payable	16	36,483,759	29,444,060
Consumer deposits	17	8,134,948	6,972,548
Unspent conditional grants and receipts	12	2,223,169	3,804,972
Bank overdraft	11	-	4,007,613
		434,595,626	**355,307,348**
Non-Current Liabilities			
Other financial liabilities	13	8,600,629	20,765,539
Finance lease obligation	46	53,963,781	-
Employee benefit obligation	6	265,017,000	248,910,000
Provisions	14	99,325,207	99,181,869
		426,906,617	**368,857,408**
Total Liabilities		**861,502,243**	**724,164,756**
Net Assets		**910,649,570**	**959,422,336**
Accumulated surplus		910,649,570	959,422,336

* See Note 38

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service Charges	20	158,382,015	133,277,015
Rental of Facilities and Equipment	31	5,150,095	1,059,230
Interest Received - Trading		52,228,304	41,624,123
Licences and Permits		4,274,901	4,537,076
Fees Earned		2,082,632	2,533,291
Commissions Received		496,909	413,997
Recoveries		1,545,922	177,068
Other Income		963,245	1,167,087
Interest Received - Investment	26	1,571,707	1,782,517
Total revenue from exchange transactions		**226,695,730**	**186,571,404**
Revenue from non-exchange transactions			
Taxation revenue			
Property Rates	19	171,125,804	142,189,789
Transfer revenue			
Government Grants & Subsidies	21	286,436,866	194,137,298
Fines, Penalties and Forfeits		7,749,753	22,997,387
Total revenue from non-exchange transactions		**465,312,423**	**359,324,474**
Total revenue	18	**692,008,153**	**545,895,878**
Expenditure			
Personnel Costs	23	(243,552,484)	(200,299,037)
Remuneration of Councillors	24	(22,155,663)	(19,339,890)
Depreciation and Amortisation	27	(86,860,866)	(91,624,431)
Impairment loss/ Reversal of impairments		(10,726,665)	(74,692,480)
Finance Costs	29	(6,680,565)	(6,764,159)
Lease rentals on operating lease		(6,251,053)	(1,333,082)
Debt Impairment	25	(156,156,756)	(166,382,712)
Collection Costs		(1,692,893)	(965,207)
Repairs and Maintenance	28	(27,216,536)	(31,330,720)
Bulk Purchases	33	(65,682,335)	(78,557,399)
Contracted Services	32	(24,947,016)	(23,724,205)
General Expenses	22	(82,347,634)	(102,038,545)
Total expenditure		**(734,270,466)**	**(797,051,867)**
Operating deficit		**(42,262,313)**	**(251,155,989)**
Loss on disposal of assets and liabilities		-	(592,550)
Fair value adjustments		(6,510,453)	47,575,597
		(6,510,453)	**46,983,047**
Deficit for the year		**(48,772,766)**	**(204,172,942)**

* See Note 38

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	983,672,803	983,672,803
Adjustments		
Correction of errors	179,922,475	179,922,475
Balance at 01 July 2014 as restated*	**1,163,595,278**	**1,163,595,278**
Changes in net assets		
Previous reported deficit for the year	(221,741,834)	(221,741,834)
Correction of Error	17,568,892	17,568,892
Total changes	(204,172,942)	(204,172,942)
Restated* Balance at 01 July 2015	**959,422,336**	**959,422,336**
Changes in net assets		
Difict for the year	(48,772,766)	(48,772,766)
Total changes	(48,772,766)	(48,772,766)
Balance at 30 June 2016	**910,649,570**	**910,649,570**

Note(s)

* See Note 38

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		369,815,700	301,903,929
Grants		284,855,063	194,228,001
Interest income		53,800,011	43,406,640
Other receipts		5,284,763	9,059,033
		713,755,537	548,597,603
Payments			
Employee costs		(250,380,613)	(180,265,039)
Suppliers		(333,207,044)	(312,043,335)
Finance costs		(6,680,866)	(6,584,335)
		(590,268,523)	(498,892,709)
Net cash flows from operating activities	34	**123,487,014**	**49,704,894**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(97,646,172)	(62,210,475)
Proceeds from sale of property, plant and equipment	5	-	2,558,360
Purchase of other intangible assets	3	-	(2,136,603)
Net cash flows from investing activities		**(97,646,172)**	**(61,788,718)**
Cash flows from financing activities			
Repayment of other financial liabilities		(4,772,840)	(14,454,140)
Net cash flows from financing activities		**(4,772,840)**	**(14,454,140)**
Net increase/(decrease) in cash and cash equivalents		**21,068,002**	**(26,537,964)**
Cash and cash equivalents at the beginning of the year		4,305,254	30,843,218
Cash and cash equivalents at the end of the year	11	**25,373,256**	**4,305,254**

* See Note 38

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	129,820,796	9,974,411	**139,795,207**	158,382,015	**18,586,808**	48
Rental of facilities and equipment	1,604,280	4,222,638	**5,826,918**	5,150,095	**(676,823)**	48
Interest earned - outstanding debtors	35,627,244	14,300,871	**49,928,115**	52,228,304	**2,300,189**	48
Licences and permits	2,943,160	41,000	**2,984,160**	4,274,901	**1,290,741**	48
Fees earned	332,838	(76,178)	**256,660**	2,082,632	**1,825,972**	
Commissions received	127,200	-	**127,200**	496,909	**369,709**	
Recoveries	-	-	**-**	1,545,922	**1,545,922**	
Other income	3,550,995	2,676,016	**6,227,011**	963,245	**(5,263,766)**	48
Interest received - investment	2,120,000	380,000	**2,500,000**	1,571,707	**(928,293)**	
Total revenue from exchange transactions	**176,126,513**	**31,518,758**	**207,645,271**	**226,695,730**	**19,050,459**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	148,009,741	(5,819,952)	**142,189,789**	171,125,804	**28,936,015**	48
Transfer revenue						
Government grants & subsidies	256,970,000	1,130,000	**258,100,000**	286,436,866	**28,336,866**	48
Fines, Penalties and Forfeits	635,137	37,072	**672,209**	7,749,753	**7,077,544**	48
Total revenue from non-exchange transactions	**405,614,878**	**(4,652,880)**	**400,961,998**	**465,312,423**	**64,350,425**	
Total revenue	**581,741,391**	**26,865,878**	**608,607,269**	**692,008,153**	**83,400,884**	
Expenditure						
Personnel	(217,399,872)	(708,609)	**(218,108,481)**	(243,552,484)	**(25,444,003)**	48
Remuneration of councillors	(22,068,900)	(1,052,870)	**(23,121,770)**	(22,155,663)	**966,107**	
Depreciation and amortisation	(57,423,873)	(35,365,000)	**(92,788,873)**	(86,860,866)	**5,928,007**	
Impairment loss/ Reversal of impairments	-	-	**-**	(10,726,665)	**(10,726,665)**	48
Finance costs	(3,242,100)	-	**(3,242,100)**	(6,680,565)	**(3,438,465)**	48
Lease rentals on operating lease	(561,811)	(4,198,998)	**(4,760,809)**	(6,251,053)	**(1,490,244)**	48
Debt impairment	(68,996,994)	-	**(68,996,994)**	(156,156,756)	**(87,159,762)**	48
Collection costs	(1,000,000)	(214,299)	**(1,214,299)**	(1,692,893)	**(478,594)**	
Repairs and maintenance	(25,733,000)	-	**(25,733,000)**	(27,216,536)	**(1,483,536)**	
Bulk purchases	(80,340,000)	-	**(80,340,000)**	(65,682,335)	**14,657,665**	48
Contracted Services	(17,692,480)	(22,172,301)	**(39,864,781)**	(24,947,016)	**14,917,765**	48
General Expenses	(118,174,651)	(31,092,485)	**(149,267,136)**	(82,347,634)	**66,919,502**	48
Total expenditure	**(612,633,681)**	**(94,804,562)**	**(707,438,243)**	**(734,270,466)**	**(26,832,223)**	
Operating deficit	**(30,892,290)**	**(67,938,684)**	**(98,830,974)**	**(42,262,313)**	**56,568,661**	
Fair value adjustments	-	-	**-**	(6,510,453)	**(6,510,453)**	
Deficit for the year	**(30,892,290)**	**(67,938,684)**	**(98,830,974)**	**(48,772,766)**	**50,058,208**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(30,892,290)**	**(67,938,684)**	**(98,830,974)**	**(48,772,766)**	**50,058,208**	

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.

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Allowance for slow moving, damaged and obsolete stock

An allowance / provision to write down stock to the lower of cost or net realisable value is made. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance.

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 [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible 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. In addition, goodwill is tested on an annual basis for impairment. 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 goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their conditions will be at that time. It is a subjective estimate based on management's experience.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Allowance for doubtful debts

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

The impairment for trade receivables is calculated based on an assessment of the extent to which trade receivables have defaulted on payments already due, and an assessment of their ability to make payments based on the history of payments made for municipal services over the last twelve months. This was performed per significant trade receivables first and then for all classes of trade receivables.

1.4 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.

Investment property is held at fair value.

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

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

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

Costs include costs incurred initially 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.

1.4 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 whilst provisional amounts reflect the amounts determined using a reasonable basis such as the valuation roll.

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.

The fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses or fair value where assets have been acquired by grant or donation. Similarly, land is not depreciated as it is deemed to have an indefinite life.

Where items of Property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

Subsequent expenditure relating to Property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery capabilities of the assets are enhanced in excess of the originally assessed standard of performance. If the expenditure only restores the originally assessed standard of performance, it is regarded as repairs and maintenance, and is expensed.

The municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residua values are determined other than for motor vehicles.

The gain or loss arising from the disposal or retirement of an item of Property, plant and equipment is determined as the difference between the sales proceeds and the carrying value, and is recognised in the Statement of Financial Performance.

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

Assets held under finance leases are depreciated over their useful lives on the same basis as owned assets or, where appropriate, the terms of the relevant lease, and the depreciation are recognised in the Statement of Financial Performance.

Accounting Policies

1.5 Property, plant and equipment (continued)

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use.

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

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

Item	Depreciation method	Average useful life
Buildings	Straight line	5 - 100
Furniture and fixtures	Straight line	7
Motor vehicles	Straight line	7
Office equipment	Straight line	7
IT equipment	Straight line	5

Property,plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying value does not exceed the carrying value that would have been determined had no impairment been recognised. A reversal of impairment is recognised in the Statement of Financial Performance.

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

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

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

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

1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

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

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

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

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

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

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

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

Item	Useful life
Licenses	Indefinite
Computer software, other	Indefinite

Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

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

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

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

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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

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

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

1.8 Financial instruments (continued)

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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

Classification

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

Class	Category
Receivables from Exchange Transactions	Financial asset measured at cost
Receivables from Non-Exchange Transactions	Financial asset measured at cost
Consumer Debtors	Financial asset measured at cost
Money Market Investments	Financial asset measured at fair value
Cash and Cash Equivalents	Financial asset measured at fair value

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

Class	Category
Other financial Liabilities	Financial liability measured at amortised cost
Trade and Other Payables	Financial liability measured at cost
VAT Payable	Financial liability measured at cost
Consumer Deposits	Financial liability measured at cost
Retirement Benefit Obligation	Financial liability measured at fair value

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess 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 cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

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

Financial liabilities

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

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

Presentation

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

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

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

1.9 Leases

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

Finance leases - lessee

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

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

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

Any contingent rents are expensed in the period in which they are incurred.

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - 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.

1.10 Inventories

Inventories consist of raw materials, work in progress, consumables, finished goods and unsold properties.

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value as at date of acquisition. Cost is generally using the first-in-first-out principle except where stated otherwise.

Unsold properties are measured at the lower of cost and net realisable value. Cost is primarily determined by reference to the valuation roll values as at the date of initial recognition or total cost of servicing the land. Net realisable values are based on the latest valuation roll values less estimated cost to sell.

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, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

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

1.11 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality:
- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

1.11 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

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

Accounting Policies

1.12 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

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

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

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

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

1.12 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.12 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

Where 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. The unwinding of the discount is recognised as a finance cost.

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.

1.13 Provisions and contingencies (continued)

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.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Site Restoration, Onerous contracts, Reimbursements, Restructuring, Long Service Award

Site Restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of landfill sites is recognised when the land is contaminated. The related expense is capitalised against the cost of the landfill sites.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the municipality from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract.

Reimbursements

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

Restructuring

A provision for restructuring is recognised when the municipality has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced as publicly.

Long Service Award

In terms of the Collective Bargaining Agreement, employees who achieve a certain predetermined milestone of service within the municipality are entitled to leave days or cash equivalent. A provision is made at the end of each balance sheet date based on the estimated number of employees who are likely to achieve the milestones in the future .The provision is discounted using a reasonable discounting rate.

1.14 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 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.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

Service Charges

Service charges relating to distribution of water are based on consumption. Meters are read on a regular basis consumption is recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made on a monthly basis when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property receiving services. Tariffs are determined per category of property and are levied monthly based on the type of property not taking into consideration the number of refuse containers.

Service charges from sewerage and sanitation services are based on the type of service not taking into consideration the number of sewer connections on all developed property, using the tariffs approved by Council. Revenue is recognised on a monthly basis.

1.15 Revenue from exchange transactions (continued)

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

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

Interest earned and rentals received

Interest income is recognised in surplus or deficit as it accrues, using the effective interest method. Interest earned on unutilised conditional grants is recognised as an unspent conditional grants liability if the grant conditions indicate that interest is payable to the grantor.

Rental income from operating leases is recognised on a straight line basis over the lease term.

Tariff charges

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

Housing rental and installments

Finance income from the sale of housing by way of installment sales agreements or finance leases is recognised as it accrues in surplus or deficit using the effective interest method.

1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

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

Recognition

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

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

Accounting Policies

1.16 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 the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

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

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

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

Fines

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 collecting entity.

Gifts and donations, including goods in-kind

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

1.17 Investment income and expenses

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

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in surplus or deficit, using the effective interest method. Dividend income is recognised in surplus or deficit on the date that the municipality's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets through profit or loss and impairment losses recognised on financial assets.

Borrowing costs are recognised in surplus or deficit using the effective interest method.

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

Accounting Policies

1.19 Comparative figures (continued)

When the presentation or classification of items in the annual financial statements are amended, comparative amounts are reclassified. The nature and amounts of reclassifications as well as the reasons are disclosed in the notes to the financial statements.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

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.

1.21 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is 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.

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.

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

Accounting Policies

1.22 Irregular expenditure (continued)

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

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

1.23 Housing development fund

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

1.24 Net reserves

Net reserves are a residual interest in the assets of an municipality after deducting all of its liabilities from the total municipal assets.

1.25 Tax

Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

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

1.26 Budget information

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

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

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

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

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

Accounting Policies

1.26 Budget information (continued)

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.27 Related parties

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

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

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

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

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. 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 municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Consumer Deposits

Consumer deposits are charged when new water and/or electricity accounts are opened except for owner occupied proportions. The amounts vary per type of consumer and are approved by Council as part of the tariff structure.

1.30 Capital Commitments

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

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 2016 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 20: Related parties	**01 April 2016**	**The impact of the amendment is not material**
GRAP 32: Service Concession Arrangements: Grantor	**01 April 2016**	**The impact of the amendment is not material**
GRAP 108: Statutory Receivables	**01 April 2016**	**The impact of the amendment is not material**
IGRAP 17: Service Conession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	**01 April 2016**	**The impact of the amendment is not material**
DIRECTIVE 11: Change in measurement bases following the initial adoption of Standards of GRAP	**01 April 2016**	**The impact of the amendment is not material**

3. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3,625,329	(1,790,083)	1,835,246	3,625,329	(1,225,340)	2,399,989

Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software, other	2,399,989	(564,743)	1,835,246

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software, other	1,483,376	2,136,603	(423,727)	(796,263)	2,399,989

4. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	240,961,420	-	240,961,420	224,705,000	-	224,705,000

Figures in Rand	2016	2015

4. Investment property (continued)

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	224,705,000	16,256,420	240,961,420

Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Investment property	155,636,530	69,068,470	224,705,000

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.

Valuations are performed as at statement of financial position date by professional valuers who hold recognised and relevant qualifications. These valuations form the basis of the carrying amounts in the financial statements. Investment property that is being redeveloped for continuing use as investment property for which the market has become less active continues to be measured at fair value.

5. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	27,694,650	-	27,694,650	27,694,650	-	27,694,650
Buildings	123,664,034	(84,543,373)	39,120,661	123,664,034	(77,697,250)	45,966,784
Plant and machinery	110,513	-	110,513	59,332	-	59,332
Furniture and fixtures	8,419,938	(7,336,679)	1,083,259	8,372,385	(6,194,128)	2,178,257
Motor vehicles	30,431,383	(19,733,332)	10,698,051	30,431,383	(16,280,177)	14,151,206
Office equipment	546,854	(458,565)	88,289	546,854	(371,780)	175,074
IT equipment	3,458,797	(2,428,884)	1,029,913	2,908,806	(1,978,922)	929,884
Bridges	5,733,856	(2,605,003)	3,128,853	5,144,810	(2,255,285)	2,889,525
Community Buildings	93,400,342	(64,940,098)	28,460,244	81,588,299	(59,740,373)	21,847,926
Other Assets	668,471	(687,103)	(18,632)	668,471	(610,193)	58,278
Roads, Storm Drains & Pavements	1,559,153,556	(725,363,825)	833,789,731	1,508,690,329	(652,801,153)	855,889,176
Capital Spares	2,809,006	(1,304,627)	1,504,379	2,809,006	(1,242,205)	1,566,801
Capital work in progress	63,532,137	-	63,532,137	70,570,794	-	70,570,794
Emergency Equipment	1,720,709	(1,621,937)	98,772	1,719,656	(1,321,324)	398,332
Finance Leased Assets	124,837,871	-	124,837,871	-	-	-
High Mast Lights	110,890,593	(36,507,075)	74,383,518	104,229,799	(34,048,117)	70,181,682
Recreational Facilities	21,612,122	(13,277,388)	8,334,734	21,612,122	(12,281,683)	9,330,439
Landfill Site	30,773,702	(3,166,044)	27,607,658	30,773,702	(3,166,044)	27,607,658
Total	**2,209,458,534**	**(963,973,933)**	**1,245,484,601**	**2,021,484,432**	**(869,988,634)**	**1,151,495,798**

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Land	27,694,650	-	-	-	-	27,694,650
Buildings	45,966,784	-	-	(6,846,123)	-	39,120,661
Plant and machinery	59,332	51,181	-	-	-	110,513
Furniture and fixtures	2,178,257	47,553	-	(1,142,551)	-	1,083,259
Motor vehicles	14,151,206	-	-	(3,453,155)	-	10,698,051
Office equipment	175,074	-	-	(86,785)	-	88,289
IT equipment	929,884	549,991	-	(449,962)	-	1,029,913
Bridges	2,889,525	589,046	-	(114,100)	(235,618)	3,128,853
Community Buildings	21,847,926	-	11,812,044	(5,199,132)	(594)	28,460,244
Roads, Storm Drains & Pavements	855,889,176	50,463,227	-	(62,072,219)	(10,490,453)	833,789,731
Capital Spares	1,566,801	-	-	(62,422)	-	1,504,379
Emergency equipment	398,332	1,053	-	(300,613)	-	98,772
High Mast and Street Lights	70,181,682	6,660,795	-	(2,458,959)	-	74,383,518
Finance Leased Assets	-	124,837,871	-	-	-	124,837,871
Recreational Facilities	9,330,439	-	-	(995,705)	-	8,334,734
Landfill Site	27,607,658	-	-	-	-	27,607,658
Capital work in progress	70,570,794	62,486,454	(69,525,111)	-	-	63,532,137
Other Assets	58,278	-	-	(76,910)	-	(18,632)
	1,151,495,798	**245,687,171**	**(57,713,067)**	**(83,258,636)**	**(10,726,665)**	**1,245,484,601**

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	30,247,360	-	-	(2,552,710)	-	27,694,650
Buildings	56,485,792	-	-	(3,523,487)	(6,995,521)	45,966,784
Plant and machinery	-	59,332	-	-	-	59,332
Furniture and fixtures	3,273,256	47,553	-	-	(1,142,552)	2,178,257
Motor vehicles	20,736,401	-	(3,132,039)	-	(3,453,156)	14,151,206
Office equipment	155,384	106,474	-	-	(86,784)	175,074
IT equipment	829,854	549,991	-	-	(449,961)	929,884
Bridges	2,983,990	-	-	-	(94,465)	2,889,525
Community Buildings	43,004,415	-	-	(15,416,676)	(5,739,813)	21,847,926
Roads, Storm Drains & Pavements	890,606,763	-	-	29,640,251	(64,357,838)	855,889,176
Capital Spares	1,629,223	-	-	-	(62,422)	1,566,801
Emergency equipment	701,334	1,053	(3,441)	-	(300,614)	398,332
High Mast and Street Lights	50,068,966	1,103,991	-	20,997,391	(1,988,666)	70,181,682
Recreational Facilities	10,328,251	-	-	-	(997,812)	9,330,439
Landfill Site	1,077,439	28,942,057	-	-	(2,411,838)	27,607,658
Capital work in progress	68,315,539	57,039,241	-	(54,783,986)	-	70,570,794
Other Assets	150,618	-	(15,430)	-	(76,910)	58,278
	1,180,594,585	**87,849,692**	**(3,150,910)**	**(25,639,217)**	**(88,158,352)**	**1,151,495,798**

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.

Figures in Rand	2016	2015

6. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2016 by M Sithole, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method

Defined benefit pension fund

The Mafikeng City Council Pension Fund ("the Fund") is a defined benefit pension fund that commenced on 1 March 1983. It provides, amongst other benefits, a pension that is defined as a percentage of pensionable salary at the retirement date.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 30 June 2016 by M Sithole, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Method

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

Carrying value		
Present value of the defined benefit obligation unfunded	(24,669,000)	(22,003,000)
Present value of the defined benefit obligation funded	(240,348,000)	(226,907,000)
	(265,017,000)	**(248,910,000)**

Net expense recognised in the statement of financial performance

Current service cost	1,128,000	1,097,000
Interest cost	2,185,000	1,851,000
Actuarial (gains) losses	(571,000)	(931,000)
Benefit payment	(76,000)	(58,000)
	2,666,000	**1,959,000**

Key Financial Assumptions

The principal assumptions used for the purposes of the actuarial valuation on 30 June 2016:

Assumptions used at the reporting date:

Discount rates used	9.47 %	9.46 %
Medical inflation	9.02 %	8.89 %
Salary inflation	8.52 %	8.39 %

Figures in Rand	2016	2015

6. Employee benefit obligations (continued)

Other assumptions

The following are the key demographic assumptions used:

Age difference are the key demographic assumptions used:	Husbands 4 years older than wives
Pre-retirement mortality foe all medical aid members	PA(90) - 2 Ultimate
Valuation interest rate	Withdrawal/ III-health retirement
Proportion of active medical aid members who remain married 90% at retirement	Effect on the aggregate of the service cost and interest cost
Proportion of members who continue on medical aid once they 40% retired	Effect on the aggregate of the service cost and interest cost
Effect on the aggregate of the service cost and interest cost	Effect on the aggregate of the service cost and interest cost

Allowance has been made for withdrawal and ill-health pre-retirement decrements in the valuation, whereas in the prior year, these decrements were applied only in the valuation of the long service awards.

7. Inventories

Land	63,393,491	63,884,551
Consumable stores	3,996,614	2,550,012
Other	172,409	133,144
Fuel (Diesel, Petrol)	334,228	1,081,976
	67,896,742	**67,649,683**

Inventory pledged as security

There were no security pledges made against inventory during the current and prior financial period.

8. Receivables from exchange transactions

Lease prepayments	1,272,369	-
Expenditure credits	3,086,490	(1)
Salary error suspense	-	20,336,922
Other debtors	7,631,867	7,882,173
Councilors salary overpayments	2,932,783	1,962,458
Staff Contra	-	3,432,245
Sundry debtors	5,560,262	7,856,068
Provision for bad debts	(5,560,262)	(5,274,449)
Sundry debtors - Fines	19,112,956	21,783,404
Provision for bad debts - Fines	(5,464,095)	(8,448,765)
	28,572,370	**49,530,055**

Refer to prior period note on the Councillors' salary overpayment debt.

9. Receivables from non-exchange transactions

Property rates	280,938,303	244,236,161
Provision for bad debts	(217,509,186)	(185,635,757)
	63,429,117	**58,600,404**

Notes to the Financial Statements

Figures in Rand	2016	2015

10. Consumer debtors

Gross balances		
Water	219,909,428	164,674,574
Sewerage	61,842,304	64,231,914
Refuse	65,676,426	65,041,651
Interest Levied (on Consumer Debtors)	244,757,280	203,555,598
	592,185,438	**497,503,737**
Less: Allowance for impairment		
Water	(186,983,864)	(120,564,666)
Sewerage	(53,192,241)	(46,934,596)
Refuse	(57,039,797)	(47,234,545)
Interest Levied (on Consumer Debtors)	(196,370,475)	(161,876,634)
	(493,586,377)	**(376,610,441)**
Net balance		
Water	32,925,564	44,109,908
Sewerage	8,650,063	17,297,318
Refuse	8,636,629	17,807,106
Interest Levied (on Consumer Debtors)	48,386,805	41,678,964
	98,599,061	**120,893,296**
Water		
Current (0 -30 days)	11,281,463	12,966,833
31 - 60 days	9,194,909	6,434,896
61 - 90 days	8,074,565	5,831,059
91 - 120 days	191,358,489	139,441,786
Impairment	(186,983,862)	(120,564,666)
	32,925,564	**44,109,908**
Sewerage		
Current (0 -30 days)	2,228,863	2,131,988
31 - 60 days	1,656,838	1,651,893
61 - 90 days	1,483,110	1,451,496
91 - 120 days	56,473,494	58,996,538
Impairment	(53,192,242)	(46,934,597)
	8,650,063	**17,297,318**
Refuse		
Current (0 -30 days)	2,629,054	2,577,849
31 - 60 days	2,072,472	2,165,998
61 - 90 days	1,910,237	1,976,936
91 - 120 days	59,064,662	58,320,868
> 365 days	(57,039,796)	(47,234,545)
	8,636,629	**17,807,106**
Interest Levied (On Consumer debtors)		
Current (0 -30 days)	5,946,319	3,905,816
31 - 60 days	5,655,438	3,776,019
61 - 90 days	5,210,901	3,837,144
91 - 120 days	227,944,622	192,036,619
> 365 days	(196,370,475)	(161,876,634)
	48,386,805	**41,678,964**

Figures in Rand	2016	2015

10. Consumer debtors (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(376,610,441)	(269,541,968)
Contributions to allowance	(116,975,936)	(107,068,473)
	(493,586,377)	**(376,610,441)**

Debtors by customer classification

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Summary of debtors by customer classification

Residential		
Current (0 - 30 days)	11,864,512	10,800,320
31 - 60 days	9,950,639	8,627,024
61 - 90 days	8,405,175	6,536,739
> 91 days	263,813,470	325,011,885
	294,033,796	350,975,968
Less: Allowance for impairment	(292,364,173)	(209,589,602)
	1,669,623	**141,386,366**
Business		
Current (0 - 30 days)	5,146,949	10,997,399
31 - 60 days	3,542,576	4,408,531
61 - 90 days	3,408,127	3,041,759
> 91 days	116,389,489	79,073,333
	128,487,141	97,521,022
Less: Allowance for impairment	(109,496,791)	(58,235,874)
	18,990,348	**39,285,148**
Agriculture		
Current (0 - 30 days)	66,952	142,357
31 - 60 days	67,753	138,279
61 - 90 days	48,515	211,505
> 90 days	3,473,324	3,575,919
	3,656,544	4,068,060
Less: Allowance for impairment	(3,636,800)	(2,429,291)
	19,744	**1,638,768**
Government		
Current (0 - 30 days)	5,007,289	4,646,073
31 - 60 days	5,018,689	3,443,183
61 - 90 days	4,816,997	4,012,864
> 90 days	151,164,984	165,999,680
	166,007,959	178,101,800
Less: Allowance for impairment	(88,088,613)	(106,355,673)
	77,919,346	**71,746,127**

Consumer debtors past due but not impaired

The ageing of amounts past due but not impaired is as follows:

Notes to the Financial Statements

Figures in Rand	2016	2015

10. Consumer debtors (continued)

2 month past due	3,304,533	8,984,193
3 months past due	3,118,182	8,107,476

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	20,944	15,196
Bank balances	108,901	-
Short-term deposits	25,243,411	8,297,671
Bank overdraft	-	(4,007,613)
	25,373,256	**4,305,254**

Current assets	25,373,256	8,312,867
Current liabilities	-	(4,007,613)
	25,373,256	**4,305,254**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
Standard Bank - Current Account - Account number 30852595	1,069,686	5,483,316	1,315,335	-	(4,007,613)	(1,274,159)
Petty Cash	-	-	-	-	15,196	7,794
Nedbank - Call Account - 03/7881034459/0000020	369,850	1,121,850	2,041,850	-	1,121,850	2,041,850
Standard Bank - Call Account - 238650863/014	136,300	995,392	20,760,471	-	995,392	20,760,471
Standard Bank - Call Account - 238650863/025	281,578	253,284	240,626	-	253,284	240,626
Standard Bank - Call Account - 238650863/030	39,065	5,006,005	4,957,189	-	5,006,005	4,957,189
Standard Bank - Call Account - 238650863/032	-	-	3,347,942	-	-	3,347,942
Standard Bank - Call Account - 238650863/033	26,587	95,170	-	-	95,170	-
Total	**1,923,066**	**12,955,017**	**32,663,413**	**-**	**3,479,284**	**30,081,713**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	(1)	(1)
Finance Management Grant (FMG)	-	-
Municipal System Improvement Grant (MSIG)	-	-
Library Grant	-	-
Expended Public Works Grant (EPWP)	-	-
National Lottery Grant	251,509	251,509
Electricity Demand Management	-	132,305
Satelite: Fire Ottoshoop	1,971,661	3,421,159
	2,223,169	**3,804,972**

See note 21 for reconciliation of grants from National/Provincial Government.

Notes to the Financial Statements

Figures in Rand	2016	2015

13. Other financial liabilities

At amortised cost		
DBSA Loans	8,094,136	11,564,792
The loans carry interest at 5% per annum. Loan account number 61000715 and 61000717 are repayable over a period of 10 years. These loans were used to fund the municipality's infrastructure assets. The loans are secured over the rental income from one of the municipality's investment property.		
INCA Loans	13,101,276	14,403,460
Loan, Acc No: MAFI-00-0001/ Deal no. 118115, carry interest at 12.78% per annum rapayble over a period of 20 years. This loan was used to fund the municipality's infrastructure assets. The loan is secured by the municipality's income from assessment rates.		
	21,195,412	**25,968,252**
Total other financial liabilities	**21,195,412**	**25,968,252**
Non-current liabilities		
At amortised cost	8,600,629	20,765,539
Current liabilities		
At amortised cost	12,594,783	5,202,713

Figures in Rand	2016	2015

14. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation - Landfil Site	84,949,041	-	-	-	(1,483,981)	83,465,060
Training Fund Reserve	620,681	-	-	(620,681)	-	-
Long Service Award	13,612,147	3,693,000	(1,445,000)	-	-	15,860,147
	99,181,869	**3,693,000**	**(1,445,000)**	**(620,681)**	**(1,483,981)**	**99,325,207**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation- Landfill Site	51,854,063	-	4,152,921	-	28,942,057	84,949,041
Training Fund Reserve	604,010	16,671	-	-	-	620,681
Long Service Award	12,184,147	3,010,000	-	(1,582,000)	-	13,612,147
	64,642,220	**3,026,671**	**4,152,921**	**(1,582,000)**	**28,942,057**	**99,181,869**

Environmental rehabilitation - Landfill Site

This provision was raised in order to determine the closure and rehabilitation costs for the waste disposal site in accordance with the Minimum Requirements (Second Edition, 1998) from the Department of Water Affairs and Forestry (DWAF)

The following assumptions were made to provide an estimation of the rehabilitation site:

- The remaining site life as at 30 June 2016 is 25 years.

Figures in Rand	2016	2015

14. Provisions (continued)

Long Service Awards

The municipal employees, excluding those with fixed term contract, who have been with the employer for a certain period of time are entitled to additional leave days (in accordance with normal leave) as recognition for service at the same employer. The additional leave (long service awards) is paid out when the employee has reached the required continued period of service.

The employee agreement prescribes the following bonus leave days for each milestone:

- After 10 years of service - 10 working days
- After 15 years of service - 20 working days
- After 20 years of service - 30 working days
- After 25 years of service - 30 working days
- After 30 years of service - 30 working days
- After 35 years of service - 30 working days
- After 40 years of service - 30 working days
- After 45 years of service - 30 working days

The following key assumptions were used in the valuation.

Discount rate (%)	9.47	9.46
Salary inflation(%)	8.52	8.39

Movements in the present value of the Defined Benefit Obligation were as follows:		
Balance at the beginning of the year	13,612,000	12,184,000
Current service cost	979,000	827,000
Interest cost	1,314,000	1,054,000
Benefit payments	(1,445,000)	(1,582,000)
Actuarial losses / (gains)	1,400,000	1,129,000
Present Value of Fund Obligation at the end of the year	**15,860,000**	**13,612,000**

The amount recognised in the Statement of Financial Position are as follows:		
Present value of unfunded obligations	15,860,000	13,612,000

The amount recognised in the Statement of Financial Performance are as follows:		
Current service cost	979,000	827,000
Interest cost	1,314,000	1,054,000
Actuarial losses / (gains)	1,400,000	1,129,000
Total Post-retirement Benefit included in Employee Related Costs	**3,693,000**	**3,010,000**

15. Payables from exchange transactions

Trade payables	231,367,993	221,969,393
Salary Suspense	10,018,956	-
Accrued leave pay	14,629,700	15,781,637
Debtors with credit balances	35,644,722	28,593,456
Thirteenth Cheque Accrual	5,771,077	5,541,944
Retention	13,871,630	6,893,615
Unallocated deposits	5,007,721	4,796,501
Sundry creditors	22,483,017	22,298,896
	338,794,816	**305,875,442**

Notes to the Financial Statements

Figures in Rand	2016	2015

16. VAT payable

Balance due	36,483,759	29,444,060

VAT 201 is submitted on a monthly on a cash basis

17. Consumer deposits

Other deposits	5,640,270	4,984,212
Water	2,494,678	1,988,336
	8,134,948	**6,972,548**

Other deposits include bulding deposits and rental of facilities.

18. Revenue

Service charges	158,382,015	133,277,015
Rental of facilities and equipment	5,150,095	1,059,230
Interest received (trading)	52,228,304	41,624,123
Licences and permits	4,274,901	4,537,076
Fees earned	2,082,632	2,533,291
Commissions received	496,909	413,997
Recoveries	1,545,922	177,068
Other income	963,245	1,167,087
Interest received - investment	1,571,707	1,782,517
Property rates	171,125,804	142,189,789
Government grants & subsidies	286,436,866	194,137,298
Fines, Penalties and Forfeits	7,749,753	22,997,387
	692,008,153	**545,895,878**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	158,382,015	133,277,015
Rental of facilities and equipment	5,150,095	1,059,230
Interest received (trading)	52,228,304	41,624,123
Licences and permits	4,274,901	4,537,076
Fees earned	2,082,632	2,533,291
Commissions received	496,909	413,997
Recoveries	1,545,922	177,068
Other income	963,245	1,167,087
Interest received - investment	1,571,707	1,782,517
	226,695,730	**186,571,404**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	171,125,804	142,189,789
Transfer revenue		
Government grants & subsidies	286,436,866	194,137,298
Fines, Penalties and Forfeits	7,749,753	22,997,387
	465,312,423	**359,324,474**

Notes to the Financial Statements

Figures in Rand	2016	2015

19. Property rates

Rates received

General Assessment Rates	227,326,961	188,176,785
Less: Income forgone	(56,201,157)	(45,986,996)
	171,125,804	**142,189,789**

The following general rates have been approved by Council:

Differentiated rate were applied as follows.Impermissable rate for residential was first R40 000 for all residential properties

	Description	Rate	Discount %	Rebate
(1)	Residential	0,006413		R15 000
(2)	RDP	0,006413	100%	R15 000
(3)	Pensioners	0,006413	80%	R15 000
(4)	Agricultural Residential	0,001604	-	-
(5)	Farms	0,001604	-	-
(6)	Government (Parks)	0,046000	100%	-
(7)	Church	0,022956	100%	-
(8)	Business	0,022956	-	-
(9)	Creche	0,022956	-	-
(10)	Industrial	0,022956	40%	-
(11)	Guesthouse 1	0,022956	40%	-
(12)	Guesthouse 2	0,022956	25%	-
(13)	Guesthouse 3	0,022956	-	-
(14)	Municipal	0,046000	100%	-.

20. Service charges

Sale of water	99,729,000	80,028,973
Sewerage and sanitation charges	26,652,479	24,011,922
Refuse removal	32,000,536	29,236,120
	158,382,015	**133,277,015**

21. Government grants and subsidies

Operating grants		
Equitable share	191,184,000	127,332,000
Expended Public Works Grant (EPWP)	2,646,000	2,291,000
Library Grant	670,000	670,000
Municipal System Improvement Grant (MSIG)	940,000	934,000
Finance Management Grant (FMG)	1,675,000	1,600,000
National Lottery Grant	-	-
	197,115,000	132,827,000
Capital grants		
Municipal Infrastructure Grant (MIG)	59,184,000	46,801,000
Firestation Grant	1,449,498	-
Electricity Demand Management	3,132,305	2,909,298
Provincial Infrastructure Grant	2,356,063	11,600,000
	66,121,866	61,310,298
	263,236,866	**194,137,298**

Figures in Rand	2016	2015

21. Government grants and subsidies (continued)

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and for the running of the municipality's operations.

All registered indigent consumers receive a subsidy of 6 kilolitres of water per month which is funded from the grant.

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	(1)	(1)
Current-year receipts	59,184,000	56,801,000
Conditions met - transferred to revenue	(59,184,000)	(10,000,000)
	-	(46,801,000)
	(1)	**(1)**

The grant was used to fund infrastructure related projects (mainly as part of the service delivery). Capitalised projects funded by this grant are included in property,plant and equipment whilst the unspent portion of the grant is included in current liabilities(see note 13)

Expanded Public Works Program (EPWP)

Current-year receipts	2,646,000	2,291,000
Conditions met - transferred to revenue	(2,646,000)	(2,291,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

The grant is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the Expanded Public Works Programme guidelines: road maintenance and the maintenance of buildings; low traffic volume roads and rural roads; basic services infrastructure, including water and sewer reticulation,sanitation, pipelines (excluding bulk infrastructure); other economic and social infrastructure; tourism and cultural industries; waste management; parks and beautification; sustainable land-based livelihoods; social services programmes; health service programmes; and community safety
programmes.

Library grant

Current-year receipts	670,000	670,000
Conditions met - transferred to revenue	(670,000)	(670,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

The grant is used to transform urban and rural community library infrastructure, facilities and services(primarily targeting previously disadvantaged communities).

Figures in Rand	2016	2015

21. Government grants and subsidies (continued)

Finance Management Grant (FMG)

Current-year receipts	1,675,000	1,600,000
Conditions met - transferred to revenue	(1,675,000)	(1,600,000)
	-	**-**

The grant is mainly used for promoting and supporting reforms in financial management by building capacity in the municipality to implement the Municipal Finance Management Act and progressive financial reporting..

Conditions still to be met - remain liabilities (see note 12).

Municipal System Improvement Grant (MSIG)

Current-year receipts	940,000	934,000
Conditions met - transferred to revenue	(940,000)	(934,000)
	-	**-**

The grant is meant to assist the municipality in the improvement of system related transactions.

Conditions still to be met - remain liabilities (see note 12).

National Lottery Grant

Balance unspent at beginning of year	251,509	251,509

This grant is mainly used in assisting the municipality in delivering sports development projects.

Conditions still to be met - remain liabilities (see note 12).

Electricity Demand Management Grant

Balance unspent at beginning of year	132,305	41,602
Current-year receipts	3,000,000	3,000,000
Conditions met - transferred to revenue	(3,132,305)	(2,909,297)
	-	**132,305**

This fund has been granted by the Department of Energy to the municipality to be used in electricity efficiency usage program.

Conditions still to be met - remain liabilities (see note 12).

Firestation Grant

Balance unspent at beginning of year	3,421,159	3,421,159
Conditions met - transferred to revenue	(1,449,498)	-
	1,971,661	**3,421,159**

Conditions still to be met - remain liabilities (see note 12).

This is mainly used to provide satelite fire station at Ottoshoop.

Figures in Rand	2016	2015

21. Government grants and subsidies (continued)

Premier Project Road Rehabilitation

Balance unspent at beginning of year	-	11,600,000
Current-year receipts	-	(11,600,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

The grant is a susbidy for implementation of the specific projects identified by the Premier for road rehabilitation.

Notes to the Financial Statements

Figures in Rand	2016	2015

22. General expenses

Advertising	670,950	1,617,598
Auditors remuneration	3,570,016	6,742,802
Bank charges	505,306	334,194
Cleaning	172,290	851,600
Consulting and professional fees	12,572,689	13,874,768
Refuse Bin Buckets	1,744,490	1,762,338
Street Lighting and Cleaning	4,950,895	1,719,086
Donations	49,625	55,811
Entertainment	1,404,141	1,318,699
Insurance	698,711	656,162
Local Economic Development Expenses	1,125,305	229,276
System improvement	682,118	1,192,996
Magazines, books and periodicals	78,181	47,146
Medical expenses	111,504	36,882
Disposal site expenditure	2,657,872	2,550,179
Laboratory related costs	46,050	20,317
Fuel and oil	2,967,652	2,535,218
Postage and courier	601,566	175,208
Printing and stationery	1,289,986	2,185,874
Provisions	797,162	56,419
Protective clothing	406,016	1,004,925
Project maintenance costs	2,195,368	3,170,268
Royalties and license fees	233,812	358,594
Library grant	1,255,938	884,900
Staff welfare	-	51,864
Subscriptions and membership fees	3,797,672	3,202,407
Telephone and fax	1,244,270	2,124,749
Training	266,782	524,113
Travel - local	1,558,870	3,055,366
Land inventory write-off	491,060	161,320
Finance Management Grant	2,274,530	1,993,674
Tourism development	134,776	-
Valuation roll	8,070	1,171,271
Disaster management	564,689	207,336
Electricity Efficiency Demand Management	-	2,552,016
Extended public works programme	12,390,860	14,543,647
Licence vehicles	432,832	253,666
Public Participation	1,307,218	1,928,670
Electricity & Water	1,788,162	7,413,907
Ward committee expenses	3,409,189	2,287,314
Chemicals	209,356	556,294
Meter reading	506,942	315,178
Free Basic Water & Electricity	9,725,583	4,952,015
Other expenses	1,059,286	10,958,625
Materials	389,844	403,853
	82,347,634	**102,038,545**

Notes to the Financial Statements

Figures in Rand	2016	2015

23. Personnel Costs

Basic	164,651,838	150,274,026
Bonus	7,139,255	7,742,327
Medical aid - company contributions	7,208,097	7,084,483
UIF	645,317	637,209
Leave pay provision charge	(1,445,000)	4,135,991
Post retirement benefit - Actuarial loss/(gain)	829,000	198,000
Post retirement benefit - Interest	3,499,000	2,905,000
Post retirement benefit - Current service cost	17,107,000	3,621,168
Overtime payments	6,063,602	6,239,096
Allowances locomotion	6,821,188	5,475,107
Housing benefits and allowances	1,221,568	929,505
Pension funds	29,019,972	11,057,125
Other	791,647	-
	243,552,484	**200,299,037**

Remuneration of Municipal Manager

Annual Remuneration	617,101	822,801
Car Allowance	204,297	274,271
	821,398	**1,097,072**

Remuneration of Corporate Service Director

Annual Remuneration	548,920	603,933
Car Allowance	197,699	219,568
Other	181,423	15,072
	928,042	**838,573**

Remuneration of Planning and Development Service Director

Annual Remuneration	365,662	353,022
Car Allowance	218,880	110,089
Other	14,453	304,477
	598,995	**767,588**

Remuneration of Infrastructure Service Director

Annual Remuneration	593,098	593,098
Car Allowance	197,699	197,699
Other	195,838	195,838
	986,635	**986,635**

Remuneration of Community Services Director

Annual Remuneration	258,236	368,730
Car Allowance	105,997	105,997
Other	5,515	359,143
	369,748	**833,870**

Remuneration of Public Safety Director

Annual Remuneration	368,604	353,022
Car Allowance	121,958	110,089

Notes to the Financial Statements

Figures in Rand	2016	2015

23. Personnel Costs (continued)

Other	-	349,988
	490,562	**813,099**

24. Remuneration of councillors

Executive Mayor	861,166	808,989
Mayoral Committee Members	6,124,268	4,692,483
Speaker	693,853	637,448
Councillors	13,892,386	12,682,225
Chief Whip	583,990	518,745
	22,155,663	**19,339,890**

In-kind benefits

The Executive Mayor, Speaker,Chief Whip of Council and Mayoral Committee Members are full-time and are provided office space at the cost of the council. In addition, they are paid travelling allowances for trips outside Mahikeng. The Executive Mayor, Speaker, Chief Whip and Single Whip of Council are also provided with secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties. The Mayor's driver also acts as bodyguard.

25. Debt impairment

Contributions to debt impairment provision	156,134,709	158,099,697
Bad debts written off	22,047	8,283,015
	156,156,756	**166,382,712**

Debtors written off during the year amounted to R22 047 (2015: R8 283 015)

26. Interest received - investment

Interest revenue		
Interest earned (bank and investment accounts)	1,571,707	1,782,517

27. Depreciation and amortisation

Property, plant and equipment	86,296,123	91,200,704
Intangible assets	564,743	423,727
	86,860,866	**91,624,431**

28. Repairs and maintenance

Vehicles	1,193,831	1,653,711
ICT Maintenance rental	1,701,173	914,050
Buildings and land	1,705,592	2,120,478
Roads and bridges	5,291,413	9,475,920
Street lighting	13,757,625	7,800,441
Other	3,276,378	4,410,189
	26,926,012	**26,374,789**

29. Finance costs

Unwinding of landfill site provision	-	4,332,745
Interest paid	6,680,565	2,431,414
	6,680,565	**6,764,159**

Notes to the Financial Statements

Figures in Rand	2016	2015

30. Auditors' remuneration

Auditors' Fees	3,570,016	6,742,802

31. Rental of facilities and equipment

Premises		
Hall	205,465	682,961
Offices	200,772	196,877
Sports grounds	-	2,632
Other	4,743,858	176,760
	5,150,095	**1,059,230**

32. Contracted services

Call Centre	3,535,321	2,132,816
Security services	12,848,267	5,007,814
Street Cleaning	8,027,151	16,200,363
Other Contractors	536,277	383,212
	24,947,016	**23,724,205**

33. Bulk purchases

Water	65,682,335	78,557,399

34. Cash generated from operations

Deficit	(48,772,766)	(204,172,942)
Adjustments for:		
Depreciation and amortisation	83,258,636	88,158,352
Loss on sale of assets and liabilities	-	592,550
Fair value adjustments	(16,256,420)	(70,342,470)
Impairment of assets	10,726,665	796,263
Impairment of debtors	156,156,756	166,382,712
Movements in retirement benefit assets and liabilities	16,107,000	1,959,000
Movements in provisions	143,338	34,539,649
Bonus provisions	229,133	229,133
Amortisation	564,743	423,727
Leave accrual reversal	(1,151,937)	56,419
Changes in working capital:		
Inventories	(247,059)	73,045,734
Consumer debtors	(117,733,549)	(141,978,696)
Payables from exchange transactions	33,842,178	107,074,200
VAT	7,039,699	(8,123,319)
Unspent conditional grants and receipts	(1,581,803)	90,703
Consumer deposits	1,162,400	973,879
	123,487,014	**49,704,894**

Notes to the Financial Statements

Figures in Rand	2016	2015

35. Commitments

Capital Commitments

Approved and Contracted		
• Roads	79,443,332	68,095,671
• Recreational facilities	11,025,967	10,533,339
• High Mast	17,597,497	4,101,510
• Community Buildings	2,004,651	-
	110,071,447	**82,730,520**

Total capital commitments		
Approved and Contracted	110,071,447	82,730,520

This committed expenditure relates to property and will be financed by externally generated funds being the Municipal Infrastructure Grant and the Electricity Demand Management Grant as per DORA allocations

Figures in Rand	2016	2015

36. Contingent liabilities

Cases		
Service provider cases	10,427,876	8,146,141
Department of Human Settlements unspent tranche payments	-	7,263,734
Property Loss/ Damage Cases	3,510,652	3,550,796
Malicious Proceedings	100,000	100,000
	14,038,528	**19,060,671**

Service provider cases

Famate brought a claim for damages to the amount of R1 725 000 00 in that they were awarded a tender for provision of incentive scheme.

Cancelation of or breach of contract claim brought against the municipality by Sizanane Consulting for R7 500 000.

This is a civil claim against the Municipality for an outstanding amount arising from a tender. The amount claimed is R360 000. The Municipality's defense is that Africanism Building & Civils have not completed their work.

Britelec was appointed to service the street lights as per tender no SCM/MLM/14/10/2009. The applicant brought a claim of R842 876.16 that the municipality had not paid all for services rendered. Municipality brought a counter claim for over payment of R1 592 266.40.

Property loss/ damage cases

This is a civil litigation matter wherein Mr Pestana's claim is that the Municipality was negligent in preventing fire to damage his property by failing to attend to emergency call in time, his damages is to the amount of R1 486 033.20

This is a civil litigation matter wherein Mr Gutta claim is that the Municipality was negligent in preventing fire to damage his property by failing to attend to emergency call in time and he alleges that the fire was caused by the Municipality's cleaning campaign which took place next to his property. His damages is to the amount of R2 000 000.

Malicious proceedings

This is a civil claim of R100 000 against the municipality and three of its employees for an unlawful arrest and detention of a community member; Contravention of Council By-Laws by Mr T Smith; Lawsuit by Pule Morobi; Dispute over the municipality house rented to the family of Newson and possible eviction of property; Application to compel MM to give true copies and proper statements of account together with substantial documents/ list of imposed issues, rates and taxes; Standing Rules & Orders.

Department of Human Settlements unspent tranche payments

The dispute to the value of R7 263 734 arose from Human Settlement tranche payment, this payment was reduced by an amount of R3 470 046 which was disclosed as Housing Development Fund in the prior years. The remaining amount of R 3 793 688 remains under dispute because the money was spent to build RDP houses.

Figures in Rand	2016	2015

37. Related parties

The municipality has various processes in place to identify and note any related party transactions with regards to this matter. These range from disclosure by bidders on the bid documents (MB4) to maintenance of a conflict of interest register. For councillors, this is kept in the Office of the Speaker whilst for the other senior managers it is kept by the Corporate Services Directorate.

Related party balances

Related party transactions

Grants and Subsidies received from State Organs		
National Treasury: Equitable Share Grant	191,184,000	127,332,000
North West Department of Public Works: EPWP	2,646,000	2,291,000
Department of Culture, Arts and Traditional Affairs: Library Grant	1,654,931	670,000
COGTA: MIG	59,184,000	46,801,000

Remuneration of management

Refer to Employee Related Costs Note above, Note 25, for full disclosure of remuneration of management.

38. Prior period errors

The correction of the errors results in adjustments as follows:

	2015	2014
	R	R
Prior year correction note:		
1. Inventory	-	-
During the financial year, land inventory which did not belong the municipality was written of in the prior period, 2014. These properties are not registered in the name of the municipality and/or has not legal right and control over these assets.	-	-
Decrease of inventory	16,142,032	16,142,032
Decrease of accumulate surplus in the prior periods	16,142,032	16,142,032
2. Receivables from exchange transactions	-	-
Councilor overpayment was raised for amounts that exceeded the upper limits of remuneration as well as over provision of fines in 2015	-	-
Increase of receivables from exchange transactions for councilor overpayments	1,962,458	-
Decrease of receivables form exchange transactions for fines over provision	13,454,300	-
Decrease of councilor remuneration from councilor overpayment	1,962,458	-
Increase in Fines Income due to overprovision in 2015 year	13,454,300	-
3. Investment properties, property, plant equipment	-	-
Changes to investment property relates to investment property written off and fair value adjustment for investment property, while properties was reclassified to property plant and equipment as well as correction of balances for PPE	47,575,597	9,787,258
Increase in investment property due to fair value adjustment	47,575,597	-
Increase in investment property due re-classification from PPE	9,787,258	9,787,258
Decrease in PPE due re-classification to Investment Property	9,787,258	9,787,258
Increase in fair value adjustment	47,575,597	-
Increase in PPE due to corrections on the register	17,186,473	17,186,473
Decrease in PPE due depreciation corrections	2,581,006	-
Increase in depreciation due to the effect of corrections	2,581,006	-
4. Employee benefits recognised not previously disclosed	-	-
Pension fund for municipal staff was never recognised in the financial statements	-	-
Increase in employee benefits	2,727,313	221,590,000
Increase in Accumulated surplus	-	221,590,000
Decrease in employee cost	2,727,313	-
5. Government grants not previous recognised	-	-
Government grant not recognised for provincial infrastructure grant was not recognised as income while the expenditure was already recognised	-	-
Increase in grant revenue	11,600,000	-
Decrease on the unspent conditional grants	11,600,000	-
6. Payables not raised in the applicable year	-	-
Payables and transactions not raised in the applicable year, now included	-	-
Increase in payables	56,625,911	-
Finance costs	179,824	-
Lease rental on operating lease	135,965	-
Collection costs	78,052	-
Repairs and maintenance	4,955,931	-
Bulk purchases	11,100,606	-
Contracted services	10,527,408	-
General expenses	29,648,125	-
Decrease in VAT	-	(915,348)
Increase in retained income	-	(57,541,259)
Decrease in net deficiency for the year / decrease in accumulated surplus	17,568,892	162,353,583
7. Irregular expenditure	-	-
Irregular expenditure has been assessed from 2010/11 resulting in the increase of irregular expenditure in 2013/14 and 2014/15 financial year.	37,685,398	132,715,509

39. Comparative figures

Certain comparative figures have been reclassified.

Figures in Rand	2016	2015

39. Comparative figures (continued)

The effects of the reclassification are as follows:

Reclassification of balances

	Comparative figures previously reported	Reclassification	After reclassification
1. Reclassification of money market investment to cash and bank	-	-	-
Money market investment was re-classified as cash and cash equivalents for the 2016 and 2015 as the nature of the money market as short-term and form part of cash and cash equivalent reserves. The effect of the movement is as follows	-	-	-
Decrease of Money Market Investment	825,972	(825,972)	-
Increase of cash and cash equivalents	-	825,972	825,972
2. Reclassification of non-material income items to other income	-	-	-
Block drain charges, building plans fees have been re-classified to other income as these income items are not material and classified with other income	-	-	-
Decrease in License and permits	466,919	(466,919)	-
Decrease in Blick drains charge	44,177	(44,177)	-
Decrease in building plans fees	458,651	(458,651)	-
Increase in other income	-	969,747	969,747
Total	**1,795,719**	**-**	**1,795,719**

40. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.Risk management is carried out by the municipality under policies approved by the accounting officer.

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.

40. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing.

Trade receivables comprise a widespread customer base. The municipality cannot, however, limit the rate at which it can offer services to its stakeholders as it has a constitutional mandate to offer these services. Credit control measures are therefore implemented within the approved municipal policies and relevant acts governing municipal operations.

Cash and cash equivalents

The municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act,94 of 1990 operating in South Africa

Investments

It is the municipality's practice to limit its credit risk by only investing in registered banks in terms of the Banks Act, 94 of 1990.Given the high credit ratings of these financial institutions the municipality does not expect any counterparty to fail to met its obligation.

41. Events after the reporting date

There were no events after reporting date identified in the current financial period.

42. Unauthorised expenditure

Opening balance	443,769,042	217,384,305
Current year	29,781,228	226,384,737
	473,550,270	**443,769,042**

Unauthorised expenditure for the current year/prior year relates to the following expenditure votes		
Over-expenditure of votes	29,781,229	217,776,820

43. Fruitless and wasteful expenditure

Opening balance	7,161,435	6,186,710
Current year	370,769	974,725
	7,532,204	**7,161,435**

Details of incidents occurred		
Interest charged on overdue accounts	173,375	722,838
Penalties charged on late submission to SARS and Department of Safety	197,394	251,887
	370,769	**974,725**

Expenditure incurred during the year resulted from interest paid on overdue accounts and penalties charged for non-compliance with statutory requirements. The matters are currently under investigation, no disciplinary steps taken to date.

44. Irregular expenditure

Opening balance	350,877,704	145,507,910
Prior year correction - restating opening balance	-	132,715,509
Add: Irregular Expenditure - current year	133,584,146	72,654,285
	484,461,850	**350,877,704**

44. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Tax and SCM Regulations	Currently being investigated - No action taken	123,018,876
Procurement process not followed	Currently being investigated - No action taken	10,294,778
Limitation SCM compliance	Currently being investigated - No action taken	270,492
		133,584,146

Details of irregular expenditure – prior year

Tax and SCM Regulations	Currently being investigated - No action taken	66,348,877
Procurement process not followed	Currently being investigated - No action taken	5,923,200
Limitation SCM compliance	Currently being investigated - No action taken	382,209
		72,654,286

Management has reviewed all transactions from 2010/11 to 2015/16 financial year that relates to transactions where a procurement process should have been under taken. Procurement contracts, originating from the prior year, which was classified as irregular, resulted in increase of irregular expenditure in the current year as these payments will be deemed irregular for the entire contract period until the contract is approved as not irregular or written-off. The current year balance of R133,584,146 consist therefore of contracts for the current and prior periods.

45. Additional disclosure in terms of Municipal Finance Management Act

Water Losses

Kl bought	11,447,341	11,039,036
Kl Sold	(11,063,717)	(7,512,467)
Units lost in distribution	**383,624**	**3,526,569**
Unit loss in distribution	383,624	3,526,569
Average cost per Kl Sold	6	6
Monetary Loss in distribution	**2,485,884**	**21,159,414**

The municipality purchases water from local water service authority and sells to its residents. During the current year the municipality bought 11 447 341 kilolitres (2015: 11 039 036), sold 11 063 717 kilolitres (2015: 7 512 467) and this resulted in water losses of 383 624 kilolitres. The losses are attributable to unmetered consumptions especially in low cost housing development, illegal connections and burst pipes not timeously attended to.

Audit fees

Opening balance	3,618,200	2,285,807
Current year subscription / fee	3,779,895	3,721,715
Amount paid - current year	(3,570,016)	(2,389,322)
	3,828,079	**3,618,200**

PAYE and UIF

Opening balance	2,367,078	1,886,887
Current year subscription / fee	34,067,609	28,371,161
Amount paid - current year	(34,067,609)	(27,890,970)
	2,367,078	**2,367,078**

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

Pension and Medical Aid Deductions

Opening balance	2,194,157	-
Current year subscription / fee	57,142,451	36,700,632
Amount paid - current year	(57,142,472)	(34,506,475)
	2,194,136	**2,194,157**

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Ngqobe M	6,370	70,069	76,439
Councillor Tabane PM	1,717	8,449	10,166
	8,087	**78,518**	**86,605**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Mmono CD	480	-	480
Councillor Mtunzi D	823	657	1,480
Councillor Ngqobe M	4,077	70,941	75,018
	5,380	**71,598**	**76,978**

46. Finance lease obligation

Minimum lease payments due		
- within one year	36,364,151	-
- in second to fifth year inclusive	53,963,781	-
Present value of minimum lease payments	**90,327,932**	**-**
Non-current liabilities	53,963,781	-
Current liabilities	36,364,151	-
	90,327,932	**-**

It is municipality policy to lease certain property, plant and equipment under finance leases.

The finance lease is secured over yellow fleet to the value of R124 837 870 included in property, plant and equipment. The finance lease is over 36 month, with a minimum lease payments of R4 028 166 at an effective interest rate of 10%.

47. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At amortised cost	Total

. Financial instruments disclosure (continued)

Trade and other receivables from exchange transactions	28,572,370	28,572,370
Other receivables from non-exchange transactions	63,429,117	63,429,117
Consumer debtors	98,599,061	98,599,061
Cash and cash equivalents	25,373,256	25,373,256
	215,973,804	**215,973,804**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	21,195,412	21,195,412
Trade and other payables from exchange transactions	338,794,816	338,794,816
Finance lease obligation	90,327,932	90,327,932
	450,318,160	**450,318,160**

2015

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	49,530,055	49,530,055
Other receivables from non-exchange transactions	58,600,404	58,600,404
Consumer debtors	120,893,296	120,893,296
Cash and cash equivalents	8,312,867	8,312,867
	237,336,622	**237,336,622**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	25,968,252	25,968,252
Trade and other payables from exchange transactions	305,875,442	305,875,442
Bank overdraft	4,007,613	4,007,613
	335,851,307	**335,851,307**

48. Budget differences

Material differences between budget and actual amounts

48.1 Service charges - Service charges increase relates to increase consumption by consumers which was not anticipated during the budget process..

48.2 Other income - Other income budget was estimated on past performance which did not materialise in the currrent year. These activities are difficult to accurately estimate as such items are adhoc income and not driven by a spesific revenue driver..

48.3 Property rates - Property rates increase results from additionial interim valuation performed during the year, which reuslted in additional property rates being levied to rate payers

48.4 Government grants and subsidies - Project were completed earlier than budget estimated resulting in an increase project grants revenue being recognised

48.5 Fines, Penalities and Forfeits - The basis of fines are not inline with the iGRAP requirement, which results in the over reporting on the budget amount

48. Budget differences (continued)

48.6 Personel costs - Employee costs increase due to the recognition of employee benefits not included in the prior year. Additional two senior officials contracts were terminated earlier that had to be settled in full as part of an agreement.

48.7 Impairment loss - No impairment loss were budgeted for as the municpality was not estimating that such matters will arise during the financial year. During the verificatoins, it was later required to make such impairment for these assets.

48.8 Debt impairment - The debt impairment increased due to the increased consumption. These consumers did not meet their obligations for payment of services, which resulted in the increase of impairment. Furthuremore, certain government debtors was also impair due to the foreseable situation that it might never bee recovered in the next 12 months.

48.9 Bulk purchases - Bulk purchases basis for budget was the average consumption over the last few years. The estimate budget was over estimated resulting in a saving

48.10 Contract services - During the adjusted budget, it was estimated that the newly fleet maangement programme would be treated as a opearting lease. However, the yellow fleet was later treated as a finance lease instead of an operating lease. This resulted that a saving was reliased on the contract services.

48.11 General expenditure - The implement of cost containment measures resulted in the realisation of a saving on the general expenditure budget vote.