



Mamusa Local Municipality
Annual Financial Statements
for the year ended June 30, 2016

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

General Information

Nature of business and principal activities

Provision of municipal services to communities within Schweizer - Reneke, Amalia, Glaudinah and surrounding areas.

Mayoral committee

Mayor

A Motswana

Councillors

R OM Stephen

LR GG Mosebetsi

SDJ Strydom

J D Modisapudi

K M Setshameko

L D Motlapele

K M Mere

MY Moyake

PM Maine

NG Masilo

TM Sepato

BT Thekiso

CP Herbst

S M V Lee

Grading of local authority

3

Accounting Officer

R R Gincane

Chief Finance Officer (CFO)

S Mini

Registered office

28 Schweizer Street
Schweizer-Reneke
2780

Postal address

P O Box 05
Schweizer-Reneke
2780

Bankers

First National Bank

Auditors

Auditor General of South Africa

Telephone

053 963 1331

Fax

053 963 2474

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
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

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Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the 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 annual 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 June 30, 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.

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

The annual financial statements set out on pages 7 to 62, which have been prepared on the going concern basis, were approved by the accounting officer on Aug 31, 2016 and were signed on its behalf by:

Accounting Officer

Mamusa Local Municipality

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Accounting Officer's Report

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

1. Review of activities

2. Going concern

We draw attention to the fact that at June 30, 2016, the municipality had accumulated surplus of R 358,932,415 and that the municipality's total assets exceed its liabilities by R 358,932,415.

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

3. Auditors

Auditor General South Africa will continue in office for the next financial period.

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Statement of Financial Position as at June 30, 2016

Figures in Rand	Note(s)	2016	2015
Assets			
Current Assets			
Inventories	7	50,781,983	50,426,545
Receivables from exchange transactions	8&11	2,454,394	18,455,007
Receivables from exchange and non-exchange transactions	9&11	13,223,636	9,905,582
VAT receivable	10	39,451,418	14,271,211
Cash and cash equivalents	12	1,118,736	383,511
		107,030,167	93,441,856
Non-Current Assets			
Investment property	3	24,270,000	25,557,702
Property, plant and equipment	4	368,085,937	356,807,289
Intangible assets	5	1,425,860	919,809
		393,781,797	383,284,800
		393,781,797	383,284,800
		107,030,167	93,441,856
Total Assets		500,811,964	476,726,656
Liabilities			
Current Liabilities			
Finance lease obligation	14	128,825	315,888
Payables from exchange transactions	18	73,201,678	41,370,545
Income received in advance	19	869,667	674,292
VAT payable	20	22,951,324	16,521,712
Consumer deposits	21	556,803	570,876
Employee benefit obligation	6&16	795,000	657,000
Unspent conditional grants and receipts	15	711,303	6,932,099
Provisions	16	5,554,597	5,461,981
Other liability	17	15,580,349	15,580,349
		120,349,546	88,084,742
Non-Current Liabilities			
Finance lease obligation	14	208,506	454,566
Employee benefit obligation	6&16	16,568,001	14,574,001
Provisions	16	4,753,496	3,957,986
		21,530,003	18,986,553
Non-Current Liabilities		21,530,003	18,986,553
Current Liabilities		120,349,546	88,084,742
Total Liabilities		141,879,549	107,071,295
Assets		500,811,964	476,726,656
Liabilities		(141,879,549)	(107,071,295)
Net Assets		358,932,415	369,655,361
Accumulated surplus	13	358,932,415	369,655,361

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Annual Financial Statements for the year ended June 30, 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015
Revenue			
Revenue from exchange transactions			
Service charges	25	54,357,365	56,351,632
Rental of facilities and equipment	38	208,628	1,017,937
Licences and permits		3,394,772	2,712,291
Other income	28	1,539,311	965,901
Interest earned	33	15,621,283	14,255,701
Total revenue from exchange transactions		75,121,359	75,303,462
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	11,304,042	12,867,781
Transfer revenue			
Government grants & subsidies	26	87,121,358	76,820,294
Fines		672,146	300,610
Total revenue from non-exchange transactions		99,097,546	89,988,685
		75,121,359	75,303,462
		99,097,546	89,988,685
Total revenue	23	174,218,905	165,292,147
Expenditure			
Employee related costs	30	(52,330,714)	(45,155,484)
Remuneration of councillors	31	(4,739,182)	(4,560,661)
Depreciation and amortization	35	(23,445,236)	(26,594,817)
Finance costs	36	(3,468,680)	(2,681,966)
Rental equipment		(547,791)	(648,807)
Bad debts written off	32	(20,264,321)	(9,682,239)
Indigent subsidy		(7,544,872)	(6,498,513)
Repairs and maintenance		(5,535,813)	(5,374,968)
Bulk purchases	40	(25,203,651)	(23,093,457)
Contracted services	39	(2,756,015)	(2,217,205)
General Expenses	29	(53,297,100)	(50,656,517)
Total expenditure		(199,133,375)	(177,164,634)
Total revenue		174,218,905	165,292,147
Total expenditure		(199,133,375)	(177,164,634)
Operating deficit		(24,914,470)	(11,872,487)
Fair value adjustments	34	(1,287,702)	5,267,688
Operating surplus/deficit		(1,287,702)	5,267,688
Deficit before taxation		(26,202,172)	(6,604,799)
Taxation		-	-
Deficit for the year		(26,202,172)	(6,604,799)

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2014	376,260,160	376,260,160
Changes in net assets		
Deficit for the year	(6,604,799)	(6,604,799)
Total changes	(6,604,799)	(6,604,799)
Opening balance as previously reported	355,304,335	355,304,335
Adjustments		
Prior year adjustments	15,091,017	15,091,017
Balance at July 01, 2015 as restated*	370,395,352	370,395,352
Changes in net assets		
Prior period error	14,739,235	14,739,235
Net income (losses) recognised directly in net assets	14,739,235	14,739,235
Surplus for the year	(26,202,172)	(26,202,172)
Total recognised income and expenses for the year	(11,462,937)	(11,462,937)
Total changes	(11,462,937)	(11,462,937)
Balance at June 30, 2016	358,932,415	358,932,415
Note(s)		

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Cash Flow Statement

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Property rates		7,761,441	8,145,899
Services charges		31,396,054	31,745,630
Other receipts		23,891,525	13,283,750
Interest income		848,756	14,255,701
Grants - Operational		54,474,618	42,073,261
Grants - Capital	26	19,736,000	26,529,000
		<u>138,108,394</u>	<u>136,033,241</u>
Payments			
Employee costs		(57,069,891)	(49,716,143)
Suppliers		(36,008,404)	(100,036,861)
Finance costs		(3,436,969)	(2,490,680)
Other cash item		(5,004,630)	38,672,996
		<u>(101,519,894)</u>	<u>(113,570,688)</u>
Total receipts		138,108,394	136,033,241
Total payments		(101,519,894)	(113,570,688)
Net cash flows from operating activities	41	<u>36,588,500</u>	<u>22,462,553</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(34,728,341)	(22,158,852)
Purchase of other intangible assets	5	(660,100)	(38,051)
Net cash flows from investing activities		<u>(35,388,441)</u>	<u>(22,196,903)</u>
Cash flows from financing activities			
Finance lease payments		(464,834)	-
Net increase/(decrease) in cash and cash equivalents		735,225	265,650
Cash and cash equivalents at the beginning of the year		383,511	117,861
Cash and cash equivalents at the end of the year	12	<u>1,118,736</u>	<u>383,511</u>

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Annual Financial Statements for the year ended June 30, 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	61,447,000	-	61,447,000	54,357,365	(7,089,635)	
Rental of facilities and equipment	372,068	10,000	382,068	208,628	(173,440)	
Licences and permits	2,772,000	874,000	3,646,000	3,394,772	(251,228)	
Other income - (rollup)	1,401,000	382,000	1,783,000	1,539,311	(243,689)	
Interest received	14,555,000	2,900,000	17,455,000	15,621,283	(1,833,717)	
Total revenue from exchange transactions	80,547,068	4,166,000	84,713,068	75,121,359	(9,591,709)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	8,726,000	-	8,726,000	11,304,042	2,578,042	
Transfer revenue						
Government grants & subsidies	65,900,000	23,227,000	89,127,000	87,121,358	(2,005,642)	
Fines	864,000	(74,000)	790,000	672,146	(117,854)	
Total revenue from non-exchange transactions	75,490,000	23,153,000	98,643,000	99,097,546	454,546	
'Total revenue from exchange transactions'	80,547,068	4,166,000	84,713,068	75,121,359	(9,591,709)	
'Total revenue from non-exchange transactions'	75,490,000	23,153,000	98,643,000	99,097,546	454,546	
Total revenue	156,037,068	27,319,000	183,356,068	174,218,905	(9,137,163)	
Expenditure						
Personnel	(43,527,000)	(7,074,000)	(50,601,000)	(52,330,714)	(1,729,714)	Less than 10%
Remuneration of councillors	(5,000,000)	(38,000)	(5,038,000)	(4,739,182)	298,818	
Depreciation and amortisation	(10,325,000)	(17,579,000)	(27,904,000)	(23,445,236)	4,458,764	
Finance costs	(500,000)	(1,000,000)	(1,500,000)	(3,468,680)	(1,968,680)	Interest incurred due to late payments
Bad debts written off	(30,777,000)	(9,719,000)	(40,496,000)	(20,264,321)	20,231,679	
Indigent subsidy	-	(8,184,335)	(8,184,335)	(7,544,872)	639,463	
Repairs and maintenance	(3,156,000)	(1,748,000)	(4,904,000)	(5,535,813)	(631,813)	Old infrastructure being repaired
Bulk purchases	(28,001,000)	1,598,000	(26,403,000)	(25,203,651)	1,199,349	
Contracted services	(5,568,000)	(2,830,000)	(8,398,000)	(2,756,015)	5,641,985	
General Expenses	(11,773,000)	(3,100,000)	(14,873,000)	(53,844,891)	(38,971,891)	Increase due to the movement in the provision for bad debts
Total expenditure	(138,627,000)	(49,674,335)	(188,301,335)	(199,133,375)	(10,832,040)	
	156,037,068	27,319,000	183,356,068	174,218,905	(9,137,163)	
	(138,627,000)	(49,674,335)	(188,301,335)	(199,133,375)	(10,832,040)	
Operating deficit	17,410,068	(22,355,335)	(4,945,267)	(24,914,470)	(19,969,203)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Fair value adjustments	-	-	-	(1,287,702)	(1,287,702)	
	17,410,068	(22,355,335)	(4,945,267)	(24,914,470)	(19,969,203)	
	-	-	-	(1,287,702)	(1,287,702)	
Deficit before taxation	17,410,068	(22,355,335)	(4,945,267)	(26,202,172)	(21,256,905)	
Surplus before taxation	17,410,068	(22,355,335)	(4,945,267)	(26,202,172)	(21,256,905)	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	17,410,068	(22,355,335)	(4,945,267)	(26,202,172)	(21,256,905)	
Reconciliation						

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1. Presentation of Annual Financial Statements

The annual 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).

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

1.1 Presentation currency

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

1.2 Going concern assumption

These annual 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 annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual 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 annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes 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 on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives

Post retirement benefits

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

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

The cost of post - employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future medical fund contributions increases and mortality rates. Due to the long - term nature of these plans, such estimates are subject to significant uncertainty.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

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.

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

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

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

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

Costs include costs incurred initially 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.

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

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.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

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

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

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.5 Property, plant and equipment (continued)

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 except for investment property which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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 years
Plant and equipment	Straight line	5 - 20 years
Infrastructure electricity	Straight line	10 - 50 years
Infrastructure roads	Straight line	5 - 100 years

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

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.6 Site restoration and dismantling cost

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

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1.6 Site restoration and dismantling cost (continued)

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.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software	10 years
Website	10 years

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1.8 Financial instruments

Classification

The municipality classifies financial assets into the following categories:

Class	Category
Investments	Financial assets measured at amortised cost
Consumer debtors	Financial assets measured at amortised cost
Receivables from exchange transaction	Financial assets measured at amortised cost
Receivables from non-exchange transactions	Financial assets measured at amortised cost
Cash and cash equivalents	Financial assets measured at amortised cost
Inventory	Financial assets measured at amortised cost

The municipality classifies financial assets into the following categories:

Class	Category
Consumer deposits	Financial liability measured at amortised cost
Trade payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost

Initial recognition and measurement

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Regular way purchases of financial assets are accounted for at trade date.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

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

Cash and cash equivalents

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

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Accounting Policies

1.8 Financial instruments (continued)

Bank overdraft and borrowings

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

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.

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

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.

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 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.

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Accounting Policies

1.10 Inventories (continued)

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

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

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

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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).

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.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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.

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.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, 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.

Mamusa Local Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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.

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Accounting Policies

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.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.13 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.

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1.13 Employee benefits (continued)

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.

1.14 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.

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

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

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

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

Provisions are not recognised for future operating surplus.

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

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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1.14 Provisions and contingencies (continued)

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

1.15 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.

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

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1.16 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.17 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.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

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1.17 Revenue from non-exchange transactions (continued)

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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.

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.

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

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

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.

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

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.21 Fruitless and wasteful expenditure (continued)

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 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 Budget information

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury.

The approved budget covers the fiscal period from 01/07/2016 to 30/06/2017.

The annual 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. The comparable information includes the following: the approved and final budget amounts, actual amounts and final budget amounts. The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

1.24 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 national 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.

1.25 Events after reporting date

Events after reporting date that are classified as adjusting events have been accounted for in the financial statements

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

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Accounting Policies

1.26 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus reserve in the statement of changes in net assets.

1.27 Value-Added Tax

The municipality applies the payment basis for VAT purpose as per Value-Added Tax Act. Output tax is payable as and when the purchase consideration are received and input will be claimed as and when payment is made.

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

3. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	24,270,000	-	24,270,000	25,557,702	-	25,557,702

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	25,557,702	(1,287,702)	24,270,000

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	25,557,702	25,557,702

4. 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 and building	240,050,461	(104,325,541)	135,724,920	231,005,694	(97,662,936)	133,342,758
Other assets	16,649,106	(12,338,580)	4,310,526	15,820,376	(10,554,533)	5,265,843
Infrastructure	365,143,913	(161,439,602)	203,704,311	350,270,552	(148,907,018)	201,363,534
Work in process	24,346,180	-	24,346,180	16,835,154	-	16,835,154
Total	646,189,660	(278,103,723)	368,085,937	613,931,776	(257,124,487)	356,807,289

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	133,342,758	-	11,515,225	(537,603)	(7,289,802)	(1,305,658)	135,724,920
Other assets	5,265,843	828,729	-	439,027	(2,223,073)	-	4,310,526
Infrastructure	201,363,534	848,502	14,024,859	6,860	(12,539,444)	-	203,704,311
Work in process	16,835,154	33,051,110	(25,540,084)	-	-	-	24,346,180
Total	356,807,289	34,728,341	-	(91,716)	(22,052,319)	(1,305,658)	368,085,937

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land and building	138,195,507	-	6,934,664	(2,592,829)	(9,194,584)	133,342,758
Other assets	5,633,530	287,059	-	1,130,177	(1,784,923)	5,265,843
Infrastructure	117,958,817	-	20,879,628	78,545,149	(16,020,060)	201,363,534
Work in progress	21,792,169	21,871,793	(27,814,292)	-	985,484	16,835,154
	283,580,023	22,158,852	-	77,082,497	(26,014,083)	356,807,289

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

5. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,929,838	(503,978)	1,425,860	1,269,738	(349,929)	919,809

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	919,809	660,100	(154,049)	1,425,860

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	1,005,878	38,051	(124,120)	919,809

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

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 infunded 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 Mr Neil Fourie, 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.

Members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service members (Employees)	150	140
Continuation members (Retirees, widowers and orphans)	16	15
	166	155

The liability in respect of the Past

In-service members	-	50,862
Continuous Members	-	365,381
	-	416,243

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Key Health
- Bonitas
- Fed Health
- Samwumed
- Hosmed

The amounts recognized in the statement of Financial Position are as follows:

Carrying value

Present value of defined benefit obligation - Partly or wholly funded	15,322,000	12,602,001
Non-current liabilities	14,673,000	12,101,001
Current liabilities	649,000	501,000
	15,322,000	12,602,001

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	12,602,000	11,753,000
Benefits paid	(501,000)	(476,000)
Net expense recognised in the statement of financial performance	3,221,000	1,325,000
	15,322,000	12,602,000

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
6. Employee benefit obligations (continued)		
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	9.83 %	8.94 %
Consumer Price Inflation	7.96 %	7.05 %
Medical Aid Contribution Inflation	8.96 %	8.05 %
Net Effective Discount Rate	0.80 %	0.82 %
Retirement Age		
Average Retirement Age	60	63
Normal Retirement Age	63	65
	123	128
7. Inventories		
Maintenance materials	1,179,233	601,473
Unsold property held for resale	49,370,937	49,370,937
Prepaid electricity	64,171	294,132
Water	167,642	160,003
	50,781,983	50,426,545
No Inventory was pledged as security for liabilities.		
8. Receivables from exchange transactions		
Sundry debtors	44,703	-
Other debtors	22,697	472,860
Salary deduction control	2,458,072	-
Consumer debtors - Electricity	9,785,443	8,549,055
Consumer debtors - Water	25,007,952	25,977,365
Consumer debtors - Sewerage	30,374,715	29,695,578
Consumer debtors - Refuse (Filtered)	21,114,198	19,694,944
Consumer debtors - Debtors interest	61,497,477	54,125,891
Other consumer debtors	16,199,690	17,146,035
Debt impairment	(164,050,553)	(137,206,721)
	2,454,394	18,455,007
Trade and other receivables pledged as security		
No Trade and other receivable were pledged as security by the municipality.		
9. Receivables from non-exchange transactions		
Traffic debtor	547,569	94,519
Property rates	12,676,067	9,811,063
	13,223,636	9,905,582
10. VAT receivable		
VAT	39,451,418	14,271,211

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Electricity	9,785,443	8,647,141
Consumer debtors - Water	25,007,952	25,999,720
Consumer debtors - Sewerage	30,374,715	29,711,943
Consumer debtors - Refuse (Filtered)	21,114,198	19,703,650
Consumer debtors - Interest	61,497,477	54,127,842
Consumer debtors - Other	16,561,750	15,495,459
	164,341,535	153,685,755
Less: Allowance for impairment		
Consumer debtors - Electricity	(9,068,631)	(7,254,877)
Consumer debtors - Water	(23,176,048)	(21,813,541)
Consumer debtors - Sewerage	(28,149,680)	(24,928,064)
Consumer debtors - Refuse	(19,567,522)	(16,531,192)
Consumer debtors - Interest	(56,992,610)	(45,412,793)
Consumer debtors - Other	(15,348,554)	(13,000,556)
	(152,303,045)	(128,941,023)
Net balance		
Consumer debtors - Electricity	716,812	1,392,264
Consumer debtors - Water	1,831,904	4,186,179
Consumer debtors - Sewerage	2,225,035	4,783,879
Consumer debtors - Refuse (Filtered)	1,546,676	3,172,458
Consumer debtors - Interest	4,504,867	8,715,049
Consumer debtors - Other	1,213,196	2,494,903
	12,038,490	24,744,732
Rates		
Current (0 -30 days)	571,756	837,146
31 - 60 days	258,334	2,246,947
61 - 90 days	192,485	251,936
91 - 120 days	151,203	225,282
121 - 365 days	11,502,289	6,502,345
	12,676,067	10,063,656
Electricity		
Current (0 -30 days)	1,725,406	1,827,141
31 - 60 days	831,495	698,663
61 - 90 days	431,745	347,301
91 - 120 days	347,301	594,899
>365 days	6,449,496	5,136,512
	9,785,443	8,604,516
Water		
Current (0 -30 days)	504,532	1,067,323
31 - 60 days	454,849	668,836
61 - 90 days	235,257	736,951
91 - 120 days	211,109	640,166
>365 days	23,602,205	22,886,444
	25,007,952	25,999,720

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Consumer debtors disclosure (continued)		
Sewerage		
Current (0 -30 days)	732,785	858,341
31 - 60 days	653,046	1,059,383
61 - 90 days	308,091	867,320
91 - 120 days	284,467	696,919
>365 days	28,396,326	26,229,980
	30,374,715	29,711,943
Refuse		
Current (0 -30 days)	496,340	542,151
31 - 60 days	450,341	484,765
61 - 90 days	425,671	451,273
91 - 120 days	409,026	415,717
>365 days	19,332,820	17,809,744
	21,114,198	19,703,650
Ageing as per class of debtors		
Organs of state		
Current (0 -30 days)	241,414	252,923
31 - 60 days	282,120	152,099
61 - 90 days	152,099	76,438
91 - 120 days	6,456	57,055
>365 days	1,927,024	3,254,224
	2,609,113	3,792,739
Commercial		
Current (0 -30 days)	891,241	1,074,018
31 - 60 days	492,328	371,689
61 - 90 days	218,162	215,578
91 - 120 days	128,320	157,881
>365 days	3,949,419	2,783,862
	5,679,470	4,603,028
Households		
Current (0 -30 days)	4,404,177	5,312,649
31 - 60 days	3,632,479	3,904,072
61 - 90 days	3,128,659	3,049,382
91 - 120 days	2,998,420	3,390,776
>365 days	147,960,346	133,405,189
	162,124,081	149,062,068
Other consumer debtors		
Current (0 -30 days)	417,941	899,542
31 - 60 days	(129,835)	2,385,710
61 - 90 days	(358,183)	1,012,770
91 - 120 days	(199,188)	483,939
>365 days	6,874,203	1,300,678
	6,604,938	6,082,639

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Consumer debtors disclosure (continued)		
Property rate		
Gross balance	12,676,067	9,811,063
Less: Allowance for impairment	(11,747,509)	(8,233,456)
	928,558	1,577,607

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	98	17
Bank balances	1,067,394	335,251
FNB Investment accounts	50,494	48,243
Cash float	750	-
	1,118,736	383,511

The management of the municipality is of the opinion that the carrying value of Cash and Cash equivalents recorded at amortised costs costs in the Annual Financial Statements approximate their fair values.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2016	June 30, 2015	June 30, 2014
FNB Demand deposit (Human Settlement) 62033415771	8,507	9,173	9,803	8,508	9,173	9,803
FNB Demand deposit (Library) 62299708506	21,512	20,000	3,238,560	21,515	20,003	3,238,562
FNB Demand deposit (MIG) 6224577050	20,476	19,067	488,987	20,476	19,067	488,987
FNB Cheque account 53630018381	835,101	230,684	(3,878,076)	1,067,394	335,250	(3,623,573)
Total	885,596	278,924	(140,726)	1,117,893	383,493	113,779

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
13. Accumulated surplus		
14. Finance lease obligation		
Minimum lease payments due		
- within one year	225,147	322,330
- in second to fifth year inclusive	132,256	51,299
	<u>357,403</u>	<u>373,629</u>
less: future finance charges	(20,073)	(13,136)
Present value of minimum lease payments	<u>337,330</u>	<u>360,493</u>
Present value of minimum lease payments due		
- within one year	208,505	310,335
- in second to fifth year inclusive	128,825	50,157
	<u>337,330</u>	<u>360,492</u>
Non-current liabilities	208,506	454,566
Current liabilities	128,825	315,888
	<u>337,331</u>	<u>770,454</u>
15. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure grant	-	3,600,091
Library	590,233	3,254,041
Boineelo	28,897	77,967
National electricity infrastructure grant	9,976	-
EPWP	82,197	-
Unspent grants 16	-	-
	<u>711,303</u>	<u>6,932,099</u>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

16. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Provision for Landfill site	3,957,986	795,510	4,753,496
Leave provision	5,259,011	66,562	5,325,573
Provision for traffic debtor	202,970	26,054	229,024
	9,419,967	888,126	10,308,093

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Provision for landfill site	9,034,387	(5,076,401)	3,957,986
Leave provision	4,951,574	307,437	5,259,011
Other provisions	-	202,970	202,970
	13,985,961	(4,565,994)	9,419,967

Non-current liabilities	4,753,496	3,957,986
Current liabilities	5,554,597	5,461,981
	10,308,093	9,419,967

Long Service Award

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable to employees after 10 years of continuous service, and every 5 years of continuous service from 10 years of service to 45 years of service. The provision is an estimate of the long service based on historical staff turnover. Additional cash/gifts are awarded to employees for levels of past service per the LSA policy.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried at 30 June 2015 by Mr Niel Fourie, 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.

	2016	2015
Balance at the beginning of the year	2,629,000	1,720,000
Service cost	289,000	164,000
Finance cost	249,000	135,000
Benefits paid	(156,000)	(104,000)
Acturial gain / (loss)	(970,000)	714,000
	2,041,000	2,629,000

	2016	2015
Non current liability	1,895,000	2,473,000
Current liability	146,000	156,000
	2,041,000	2,629,000

17. Other liability

The Department of Human Settlement indicated to the Municipality in 2014 that the Municipality is indebted to the Department the amount of R15 580 349 for a project of 2006 in Mareezing farm.

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
18. Payables from exchange transactions		
Trade payables	65,665,062	36,450,219
Other payables	736,079	60,798
Community hall deposits	56,076	51,664
Accrued bonuses	1,091,199	1,084,712
Salary deduction control	93,054	14,386
Debtors with credit balances	266,654	197,015
Retentions	2,805,177	1,607,895
Accruals	2,488,377	1,903,856
	73,201,678	41,370,545

19. Income received in advance

Erf deposits	869,667	674,292
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Income received in advance consists of stands deposits for Erfs that have been sold by the municipality

20. VAT payable

Tax refunds payables	22,951,324	16,521,712
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21. Consumer deposits

Electricity	556,803	570,876
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Consumer deposits consists of deposits for new electricity connections.

22. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	3,101,453	3,101,453
Other receivables from non-exchange transactions	-	13,223,636	13,223,636
Cash and cash equivalents	1,118,736	-	1,118,736
	1,118,736	16,325,089	17,443,825

Financial liabilities

	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	60,491,381	-	60,491,381
Bank overdraft	-	15,580,349	15,580,349
Finance lease obligation	337,331	-	337,331
Employee benefit obligation	17,363,001	-	17,363,001
	78,191,713	15,580,349	93,772,062

2015

Financial assets

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

Financial instruments disclosure (continued)

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	40,468,865	40,468,865
Other receivables from non-exchange transactions	-	9,811,063	9,811,063
Cash and cash equivalents	1,215,437	-	1,215,437
	1,215,437	50,279,928	51,495,365

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	38,021,868	38,021,868

23. Revenue

Service charges	54,357,365	56,351,632
Rental of facilities and equipment	208,628	1,017,937
Licences and permits	3,394,772	2,712,291
Other income - (rollup)	1,539,311	965,901
Interest received - investment	15,621,283	14,255,701
Property rates	11,304,042	12,867,781
Government grants & subsidies	87,121,358	76,820,294
Fines, Penalties and Forfeits	672,146	300,610
	174,218,905	165,292,147

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	54,357,365	56,351,632
Rental of facilities and equipment	208,628	1,017,937
Licences and permits	3,394,772	2,712,291
Other income - (rollup)	1,539,311	965,901
Interest received - investment	15,621,283	14,255,701
	75,121,359	75,303,462

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	11,304,042	12,867,781
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Transfer revenue

Government grants & subsidies	87,121,358	76,820,294
Fines, Penalties and Forfeits	672,146	300,610
	99,097,546	89,988,685

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
24. Property rates		
Rates received		
Agricultural	2,390,382	475,483
Business	4,513,429	2,983,730
Government property	1,635,812	1,654,687
Industrial	325	-
Residential	4,327,833	2,475,162
Exempt from assessment	-	3,809
	12,867,781	7,592,871
Valuations		
25. Service charges		
Sale of electricity	30,508,974	28,521,762
Sale of water	7,704,532	11,610,591
Sewerage and sanitation charges	9,308,577	10,142,614
Refuse removal	6,835,282	6,076,665
	54,357,365	56,351,632

Mamusa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
26. Government grants and subsidies		
Operating grants		
Equitable share	59,070,000	48,162,000
Financial Management Grant	1,875,000	1,800,000
EPWP	1,086,803	1,386,000
Municipal Systems Improvement Grant	930,000	934,000
District Municipality Grant	-	430,219
LG Seta Grant	172,618	90,037
Library Grant	550,000	550,000
Boineelo	47,014	319,400
	63,731,435	53,671,656
Capital grants		
Municipal Infrastructure Grant	15,306,091	20,182,679
Intergrated National Electricity Grant	1,990,024	-
Library Grant	6,093,808	2,965,959
	23,389,923	23,148,638
	87,121,358	76,820,294

Equitable Share

This grant is an unconditional grant and it is partially utilised for the provision of indigent support through basic services.

All registered indigents receive a rebate of 100% on assesment rates and are subsidised for other services. This grant is made up of allocations from National Treasury 2016: R43 070 000; 2015: R37 162 000 and Dr Ruth Segomotsi Mompati District Municipality 2016: R16 000 000; 2015:R11 000 000 for water and sanitation for indigents.

Municipal Infrastructure Grant

Balance unspent at beginning of year	3,592,091	3,749,770
Current-year receipts	11,714,000	25,309,000
Conditions met - transferred to revenue	(15,306,091)	(20,182,679)
Amount withheld	-	(5,284,000)
	-	3,592,091

Conditions still to be met - remain liabilities (see note 15)

This grant was used to construct basic municipal infrastructure to provide basic services for the benefit of poor house holds.

Boineelo

Balance unspent at beginning of year	77,568	396,968
Conditions met - transferred to revenue	(47,014)	(319,400)
	30,554	77,568

Conditions still to be met - remain liabilities (see note 15).

Boineelo Grant was received by the municipality to assist in the dailly operations of the NGOs.

District Municipal Grants

Balance unspent at beginning of year	-	430,219
Conditions met - transferred to revenue	-	(430,219)
	-	-

Conditions still to be met - remain liabilities (see note 15)

Mamusa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
26. Government grants and subsidies (continued)		
District Municipality Grant was used to renovate Wentzel Dam.		
LG SETA Grant		
Balance unspent at beginning of year	-	58,776
Current-year receipts	172,618	31,261
Conditions met - transferred to revenue	(172,618)	(90,037)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 15) This grant is for skills development in the municipal area.		
Library Grant - Capital		
Balance unspent at beginning of year	3,254,041	5,000,000
Current-year receipts	2,430,000	1,220,000
Conditions met - transferred to revenue	(5,328,994)	(2,965,959)
	<u>355,047</u>	<u>3,254,041</u>
Conditions still to be met - remain liabilities (see note 15). The grant was received from the Department of Sports, Arts, Culture and Recreation to assist with the building of the library.		
Expanded Public Works Programs		
Current-year receipts	1,169,000	1,507,000
Conditions met - transferred to revenue	(1,086,803)	(1,507,000)
	<u>82,197</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 15). EPWP is a job creation project in previously disadvantaged areas		
Financial Management Grant		
Current-year receipts	1,875,000	1,800,000
Conditions met - transferred to revenue	(1,875,000)	(1,800,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 15). The FMG is paid by National Treasury to medium capacity municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (eg salary costs of the Financial Management Interns).		
Municipal Systems Improvement Grant		
Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 15). The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems, paid by National Treasury.		

Mamusa Local Municipality

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Figures in Rand	2016	2015
26. Government grants and subsidies (continued)		
Library grant - Operational		
Current-year receipts	550,000	550,000
Conditions met - transferred to revenue	(550,000)	(550,000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
The grant was received from the Department of Sports, Arts, Culture and Recreation to assist with the daily operations of the library.		
Intergrated National Electricity Grant		
Current-year receipts	2,000,000	-
Conditions met - transferred to revenue	(1,990,024)	-
	9,976	-
Conditions still to be met - remain liabilities (see note 15).		
The grant was received from the Department of Energy for the refurbishments of the aged electricity network for Mamusa local municipality.		
27. Other revenue		
Other income - (rollup)	1,539,311	965,901
28. Other income		
Bid documents	143,332	78,111
Camping & fishing	5,869	10,175
Cemetery fees	287,331	258,732
Commission auctions	98,422	100,981
Connection fees	1,855	1,876
Discount received	303	303
Electricity fines	15,716	18,437
Entereence fees	181,801	229,688
Insurance income	209,052	82,867
Plan fees	27,629	55,171
Private works	42,831	42,517
Reconnection fees	27,709	80,136
Sundry income-library	5,000	4,384
Valuation and clearance certificates	3,932	2,523
Test of meters	166	-
Sundry income	488,363	-
	1,539,311	965,901

Mamusa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
29. General expenses		
Advertising	129,213	192,362
Accommodation	38,480	65,226
Auditors remuneration	2,621,946	2,271,631
Assets expensed	5,593	3,098
Bank charges	347,862	366,641
Billing charges	151,109	151,109
Chemicals	2,788,733	2,503,649
Consulting and professional fees	3,340,640	1,480,197
Community development and training	154,918	232,919
Conferences and seminars	21,500	82,402
Consumables	299,893	259,438
Donations	170,923	494,137
Electricity	3,390,661	2,644,959
Fuel and oil	1,117,518	1,146,174
Insurance	1,715,576	1,830,007
Magazines, books and periodicals	253,172	95,966
Other expenses	2,065,636	3,423,692
Provision for bad debts movement	26,843,832	25,114,782
Postage and courier	557,333	562,039
Protective clothing	284,379	30,316
Licenses	183,001	228,461
Refreshments and meals	165,396	248,040
Software expenses	1,409,981	1,221,452
Subscriptions and membership fees	420,108	679,230
Telephone and fax	828,945	867,304
Training	926,206	338,108
Travel - local	2,263,289	3,139,017
Projects	91,269	949,582
Electricity deposit movements	-	20,979
Landfill expense	709,988	-
Venue expenses	-	13,600
	53,297,100	50,656,517

Mamusa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
30. Employee related costs		
Basic	29,130,596	23,847,304
Bonus	2,177,628	953,947
Medical aid - company contributions	6,193,988	4,560,443
UIF	325,767	290,451
SDL	424,781	389,633
Leave pay provision charge	484,246	113,709
Other allowances	1,035,020	945,523
Pension fund contribution	4,239,384	3,732,208
Travel, motor car, accommodation, subsistence and other allowances	3,460,724	3,352,935
Overtime payments	3,587,694	4,098,353
Long-service awards	(474,198)	1,024,628
Acting allowances	337,971	447,150
Housing benefits and allowances	917,433	910,060
Telephone allowance	199,901	227,874
Group insurance	272,624	245,901
Bargaining council	17,155	15,365
	52,330,714	45,155,484
Remuneration of the Municipal Manager		
Annual Remuneration	687,799	781,233
Travel allowance	187,058	249,411
Housing allowance	78,980	-
Telephone allowance	12,000	1,785
Contributions to UIF, Medical aid, Pension fund and SDL	10,435	-
	976,272	1,032,429
Remuneration of Chief Finance Officer		
Annual Remuneration	593,750	639,714
Travel allowance	154,377	205,836
Housing allowance	59,913	-
Telephone allowance	10,800	10,981
Contributions to UIF, Medical aid, Pension fund and SDL	27,734	-
	846,574	856,531
Remuneration of the Corporate Services Director		
Annual Remuneration	581,169	1,250,602
Travel allowance	154,377	411,673
Housing allowance	55,237	-
Telephone allowance	10,800	24,380
Contributions to UIF, Medical aid, Pension funds and SDL	51,633	-
	853,216	1,686,655
Remuneration of the Technical Services Director		
Annual Remuneration	603,787	625,301
Travel allowance	154,377	205,837
Housing allowances	65,181	-
Contributions to UIF, Medical and Pension Funds	9,964	12,190
	833,309	843,328
Acting Community Services Director		

Mamusa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
30. Employee related costs (continued)		
Annual Remuneration	171,681	409,435
Car Allowance	48,049	114,147
Contributions to UIF, Medical and Pension Funds	56,841	36,068
	276,571	559,650
31. Remuneration of councillors		
Mayor's basic salary	441,021	373,240
Mayor's Travel allowance	177,929	169,457
Mayor's Housing allowance	45,781	45,686
Mayor's Telephone allowance	22,308	22,308
Mayor's contribution to UIF, Medical and Pension fund	101,575	89,444
Councillors basic salary	2,053,472	1,825,668
Councillors Travel allowance	838,046	897,074
Councillors Housing allowance	224,940	223,037
Councillors Telephone allowance	312,312	427,585
Contributions to UIF, Medical and Pension fund	521,798	487,163
	4,739,182	4,560,662
32. Debt impairment		
Bad debts written off	20,264,321	9,682,239
33. Interest earned		
Interest revenue		
Bank	41,433	169,071
Interest charged on trade and other receivables	15,579,850	14,086,630
	15,621,283	14,255,701
	-	-
	15,621,283	14,255,701
34. Fair value adjustments		
Landfill site fair value adjustment	(1,287,702)	5,267,688
35. Depreciation and amortisation		
Property, plant and equipment	21,985,527	26,470,697
Intangible assets	1,459,709	124,120
	23,445,236	26,594,817
36. Finance costs		
Trade and other payables	3,351,447	2,452,869
Finance leases	31,711	36,787
Bank	-	1,023
Landfill site provision interest charge	85,522	191,287
	3,468,680	2,681,966
37. Auditors' remuneration		
Fees	2,621,946	2,271,631

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
38. Rental of facilities and equipment		
Rental of townhalls	33,063	28,299
Rental of townlands	154,210	981,888
Rental of machinery & equipment	21,355	7,750
	208,628	1,017,937
39. Contracted services		
Security services	2,756,015	2,217,205
40. Bulk purchases		
Electricity	25,145,237	23,041,568
Water	58,414	51,889
	25,203,651	23,093,457
41. Cash generated from operations		
Deficit	(26,202,172)	(6,604,799)
Adjustments for:		
Depreciation and amortisation	23,445,236	26,594,817
Fair value adjustments	1,287,702	(5,267,688)
Finance costs - Finance leases	31,711	36,787
Bad debts	20,264,321	9,682,239
Movements in retirement benefit assets and liabilities	2,132,000	1,758,001
Movements in provisions	888,126	(4,565,994)
Other non-cash items	(5,004,630)	38,672,996
Changes in working capital:		
Inventories	(355,438)	(34,062,340)
Receivables from exchange transactions	2,962,486	1,098,122
Other receivables from non-exchange transactions	9,358,013	(3,523,371)
Payables from exchange transactions	32,571,234	1,000,524
VAT	(18,750,595)	(791,313)
Taxes and transfers payable (non exchange)	195,375	376,649
Unspent conditional grants and receipts	(6,220,796)	(1,964,033)
Consumer deposits	(14,073)	21,956
	36,588,500	22,462,553
42. Commitments		
Authorised capital expenditure		
Approved and contracted for		
• Infrastructure	9,678,699	13,210,596
Total capital commitments		
Already contracted for but not completed	9,678,699	13,210,596
43. Contingencies		
Contingent Liabilities		
There is a litigation between the municipality and Mr. Z D Tsebe (represented by legal wise) where he alleged that his pregnant cow was electricuted by a municipality's electric wire, there is a 30% probability that the municipality might incur costs relating to the litigaton to the value of R20 000.		

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

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Figures in Rand				2016	2015
44. Related parties					
Official	Name of spouse/ partner or associate	Associate company	Supplier business done with	2016	2015
Coetzee R	S O Maruping	Rona re fitlhile	Marups Trading Enterprise	3,137,766	3,003,109
Chelechele D T	OP Ramatolo	Relosika Mining Supply and Projects	Uncle paul Distributors	24,500	18,000
Sepato TM	JK Leroux	supatsela project management	Agang General Dealer	5,000	223,409
Chelechele DT	KR Motete	Jegra Construction and projects	Maatla a rona Flowers and catering	-	5,100
Mtshamba SH	IP maine	Ipelegeng res Club	OI Makame Construction	-	14,690
Morolong IK	TG madevu	kemogo Trading Enterprise	Madevu's trading Enterprise	138,000	357,212
Medupe ES	BM Lesekele	Ipelegeng Primary logistics	O Tla disa Catering	-	9,750
Mtshamba SH	H Mokwene	Ipelegeng res Club	Herman Mokwene	28,850	52,000
Khasu MP	RA Leroux	baruakgomo rhino farm	L Roux Logistics and projects	14,808	6,480
Magan S Sirwe SD	Maine TA	Magan MD	Hansjees Tshwaela Trading and projects	5,000 53,900	33,747 -
Dr Ruth Segomotsi Mompoti District Municipality	N/A		N/A	16,000,000	11,000,000
Subtotal	-	-	-	19,407,824	14,723,497
				19,407,824	14,723,497

Management is regarded as a related party and comprises of Councillors. The Mayor, Mayoral committee members, Municipal manager and directors. Refer to note 31, 30, and the General information page. Refer to note 43 for councillors areas accounts

Transactions with Councillors and Directors

	Billing	Payments received	Oustanding balance
Herbst CP	24,032	(21,615)	2,417
Maine C	809	(875)	(66)
Modisapudi TJ	-	(158)	(158)
Motlapele E	2,781	(2,771)	10
Moyake MI	3,694	(3,600)	94
Setshameko KM	630	(804)	(174)
Strydom SDJ	29,679	(29,679)	-
Lee MV	3,742	(2,008)	1,734
Masilo NG	2,438	(2,671)	(233)
Mosebetsi GG	20,846	(22,530)	(1,684)
Motswana A	1,088	(1,276)	(188)
Sepato TM	2,209	(2,455)	(246)
Stephen OM	2,455	(2,739)	(284)
Thekiso SJ	2,208	(2,504)	(296)

Mamusa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
44. Related parties (continued)		
Mini S	18,025	(17,221)
Mothibi GJ	2,980	(3,251)
	117,616	(116,157)
		1,459

45. Prior period errors

The following prior period error corrections were done for the 2014/15 financial year:

Para 44

Subject to paragraph .45, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

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

Disclosure of prior period errors

Para 51

In applying paragraph 44, an entity shall disclose the following:

- (a) the nature of the prior period error;
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- (c) the amount of the correction at the beginning of the earliest prior period presented; and
- (d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

Financial statements of subsequent periods need not repeat these disclosures.

For each and every correction. I suggest you use the example below. Para 44

Subject to paragraph .45, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:

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

Disclosure of prior period errors

Para 51

In applying paragraph 44, an entity shall disclose the following:

- (a) the nature of the prior period error;
- (b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- (c) the amount of the correction at the beginning of the earliest prior period presented; and

Mamusa Local Municipality

Annual Financial Statements for the year ended June 30, 2016

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45. Prior period errors (continued)

(d) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

The correction of the error(s) results in adjustments as follows:

Mamusa Local Municipality

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45. Prior period errors (continued)

Statement of Financial Performance

	As previously reported in 2015	Amount of correction	Restated 2015
Unsold property held for sale was not recognised in the previous period	-	-	-
Increase in unsold property	-	49,370,937	49,370,937
Accumulated surplus	-	(49,370,937)	(49,370,937)
Repairs and maintenance to the value of R8 791.70 and Travel and subsistence to the value of R1 708.30 were recorded in the wrong financial year. This correction Decreased Repairs and maintenance and General expenses by R8 791.70, R1 708.30 and decreased Accumulated surplus by R10 500	-	-	-
Decrease in Repairs and Maintenance	4,728,197	(8,792)	4,719,405
Decrease in Travel and Subsistence	3,140,724	(1,708)	3,139,016
Accumulated surplus	-	10,500	10,500
Water inventory was not recognised in the previous financial year	-	-	-
Water inventory	-	160,003	160,003
Chemicals	2,663,652	(160,003)	2,503,649
The Provision for bad debts was understated by R22 714 554 and our bad debt expense was also understated by R22 714 554 as we calculated the provision incorrectly and excluded indigents in our calculation. This is now separately disclosed as Contributions to provisions	-	-	-
Increase in bad debt expense	9,330,869	22,714,554	32,045,423
Errors were made when corrections to the opening balances of Accumulated depreciation were made, This decreased Accumulated depreciation by net amount of R3 756 037.39 and increased accumulated depreciation by R3 756 037.39	-	-	-
Decrease in accumulated depreciation - Land and building	(75,537,852)	3,756,037	(71,781,815)
Salary deduction control - Debtors of R598 407 and Salary control - Creditors to the amount of R969 965 were written off to accumulated surplus as it consisted of unsupported Salary control balances	-	-	-
Decrease in Salary deduction control - Debtors	598,407	(598,407)	-
Decrease in Salary deduction control - Creditors	(969,965)	969,965	-
No adjustments were made in the 2014/15 financial statements for Post retirement benefit, this brought an increase to the Employee benefit obligation of R1 595 257 and an increase in the Remuneration of employees of R1 595 257.	-	-	-
Increase in Employee benefit obligation	(11,006,744)	(1,595,257)	(12,602,001)
Provision for Long service award was not adjusted for in the 2014/15 financial statements, correction of this brought an increase in the Remuneration of employees and an increase in the provision of R909 000. it was wrongly classified as Provisions, it has been reclassified as Employee benefit obligation	-	-	-
Increase in the provision	(11,273,184)	(909,000)	(12,182,184)
Increase in Employee related cost	44,288,716	2,504,257	46,792,973
PPE - Computer equipment items were wrongly classified as Tools of trade under General expenditure, the correction of this led to an increase in computer equipment of R97 600 and a decrease in General expenses of R97 600	-	-	-
Decrease in IT expenses	191,287	(97,600)	93,687

Mamusa Local Municipality

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45. Prior period errors (continued)

Vat payable was understated as there were PPE - Computer equipment that was not charged vat amounting to R1 816.32, also, there was an electricity expense that Vat was not charged on amounting to R9 400. Vat was understated by R11 216.32, Expenditure overstated by R9 400 and PPE - Computer equipment overstated by R1 816.32.	-	-	-
Increase in Computer equipment	600,823	94,161	694,984
Decrease in electricity expense	2,654,359	(9,400)	2,644,959
Increase in vat payable	(2,371,487)	(11,216)	(2,382,703)
Accumulated depreciation was understated by R11 474 as there was a WIP project that was capitalized in the wrong financial year, this decreased Accumulated surplus by R11 474.	-	-	-
Increase in accumulated depreciation	(155,724,440)	(11,474)	(155,735,914)
Intangible assets were wrongly classified as PPE - Computer equipment, correction of this caused an increase in Intangible assets of R1 622.81 and a decrease in PPE - Computer equipment of R1 622.81	-	-	-
Increase in Intangible assets	1,696,397	1,623	1,698,020
The Provision for landfill site had a fair value adjustment of R5 267 688 which was incorrectly recorded in the 2014/15 Annual Financial Statements as Sundry income. This has been corrected and is now reflected below Fair value adjustments under Operating Suplus / (Deficit) in the Statement of Financial Performance.	-	-	-
Decrease in sundry income	(5,272,072)	5,267,688	(4,384)
Increase in Fair value adjustment - Landfill site	-	(5,267,688)	(5,267,688)
Sales of Erf were wrongly classified as income instead of Income received in advance. R21 930	-	-	-
Increase in income received in advance	(848,082)	(21,930)	(870,012)
Decrease in Sales of Erf	(21,930)	21,930	-
Bonus Accrual was understated by R212 020 as certain employees were not accrued for, this now corrected	-	-	-
Increase in bonus accrual	(872,692)	(212,020)	(1,084,712)
Increase in annual bonus	2,353,228	212,020	2,565,248
Receivables from exchange decreased by R38 509 written off to accumulated surplus as they were unsupported.	-	-	-
Decrease in trade and other receivables from exchange transactions	60,791	(38,509)	22,282
Accumulated surplus	-	38,509	38,509
Other income was overstated with transaction that belonged to the previous financial year. i.e. Bid document fees R423, Commission from auction R27 223, Entrance fees R105 and Insurance income R188 657.89, these were written off to accumulated surplus.	-	-	-
Decrease in Other income - Bid documents	(78,534)	423	(78,111)
Decrease in other income - commission	(128,204)	27,223	(100,981)
Decrease in other income - Entrance fees	(229,793)	105	(229,688)
Decrease in other income - Insurance	(271,525)	188,658	(82,867)
Accumulated surplus	-	(216,409)	(216,409)
Accruals were wrongly accounted for as vat inclusive amounts this came to a correction of R113 268.02	-	-	-
Decrease in Accruals	(1,183,455)	(93,313)	(1,276,768)
Trade payables was mapped together with debtors with credit balances which is an unsupported amount written off to accumulated surplus amounting to R48 938.	-	-	-
Decrease in trade payables	(36,499,156)	48,938	(36,450,218)
Cash and cash equivalents were overstated by R746 918, an unsupported balance written off to accumulated surplus	-	-	-
Decrease on Cash and cash equivalents - Bank	1,082,169	(746,918)	335,251
Increase in PPE - Computer equipment	722,836	431,781	1,154,617

Mamusa Local Municipality

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45. Prior period errors (continued)

Finance lease liability was understated as there were leased assets that was not recognised as part of finance leases in the 2014/15 financial year, this came to a net difference of R43 315, accumulated depreciation was understated in this regard by R386 338	-	-	-
Increase in finance lease liability	(727,139)	(43,315)	(770,454)
Increase in PPE - Cost	1,149,965	431,781	1,581,746
Increase in accumulated depreciation	(472,572)	(386,338)	(858,910)
Debt impairment	(114,492,167)	(22,714,554)	(137,206,721)
Consumer debtors was understated by R197 015 which were consumer debtors with credit balances now disclosed separately	-	-	-
Consumer debtors	39,695,794	197,015	39,892,809
Adjustments made to other consumer debtors	17,177,535	1,255,219	18,432,754
Unspent conditional grants were understated by the amount of R8 000 due to a rounding off error	-	-	-
Unspent conditional grants	(6,924,099)	(8,000)	(6,932,099)
Consumer debtors were understated the billing of the last ten (10) days after billing was done before year end, the estimate for the last ten days brought an increase in service charges - electricity and water of an amount of R479 692 R167 403 respectively	-	-	-
Increase in service charges - electricity	(28,042,070)	(479,692)	(28,521,762)
Increase in service charges - water	(11,443,188)	(167,403)	(11,610,591)
Income - Grants and subsidies were overstated R5 292 000, this was an erroneous journal, it was written off to accumulated surplus	-	-	-
Decrease in government grants	(82,112,294)	5,292,000	(76,820,294)
Basic salaries were overstated by an amount of R35 699, a wrong percentage was used when calculating increases on their salaries, they have been raised as debtors.	-	-	-
Decrease in employee basic salary	23,872,734	(35,699)	23,837,035
Decrease in bonus	2,353,228	(1,399,281)	953,947
Decrease in medical aid contribution	2,965,185	1,595,258	4,560,443
Long service awards	115,629	909,000	1,024,629
Remuneration of councilors	45,379,165	(10,901)	45,368,264
Depreciation and amortization was understated with a net amount of R220 531	-	-	-
Increase in depreciation and amortisation	27,483,327	220,531	27,703,858
Finance lease interest was overstated in the previous financial year by an amount of R4 995	-	-	-
Decrease in finance cost	2,686,960	(4,995)	2,681,965
Decrease in repairs and maintenance	4,728,197	(93,329)	4,634,868
Rental equipment decreased by an amount of R63934 due to finance leases not recorded in the previous financial year	-	-	-
Decrease in rental equipment	24,333	(63,934)	(39,601)
Insurance was accrued for as a vat inclusive amount of R1 092	-	-	-
Decrease in insurance expense	1,831,099	(1,092)	1,830,007
Books and publications were accounted for as vat inclusive amounts, vat was corrected to the amount of R 868	-	-	-
Decrease in Magazines, books and publication	96,833	(868)	95,965
Software expenses incorrectly classified as Intangible assets R100 063	-	-	-
Decrease in software expenses	1,121,388	100,064	1,221,452
Expense was recognised in the wrong financial year	-	-	-
Decrease in Travel - local	3,140,724	(1,707)	3,139,017
Investment property was understated in the previous financial year	-	-	-
Investment property	20,740,958	4,816,744	25,557,702
Accumulated surplus	-	(4,816,744)	(4,816,744)
Property, plant and equipment was understated in the previous financial year	-	-	-
Property, plant and equipment	366,325,251	1,760,686	368,085,937

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45. Prior period errors (continued)

Intangible assets were not correctly amortised in the previous financial year.	-	-	-
Decrease in intangibles	1,070,294	(150,485)	919,809
Section 56 managers were raised as debtors in the previous financial year for incorrect scale used on increases	-	-	-
Increase in other receivables	97,597	375,263	472,860
Corrections were made on Retention	-	-	-
Decrease in retention	1,184,189	423,706	1,607,895
Corrections were made to accruals	-	-	-
Accruals	1,183,455	(123,313)	1,060,142
Basic salary decreased due to debtors raised	-	-	-
Decrease in basic salary	23,872,734	(25,430)	23,847,304
	115,906,385	13,298,918	129,205,303

46. Comparative figures

Certain comparative figures have been reclassified

The effects of the reclassification are as follows:

Statement of financial position - extract

	Comparative figures previously reported	Reclassification on	After reclassification
Long service award was wrongly disclosed as a Provision, this is now corrected by disclosing it under Employee benefit obligation.	-	-	-
Provisions	(12,182,184)	2,629,000	(9,553,184)
Employee benefit obligation	(12,602,001)	(2,629,000)	(15,231,001)
Sundry debtors are now Other debtors	-	-	-
Sundry debtors	22,282	(22,282)	-
Other debtors	-	22,282	22,282
Stand deposits are now disclosed as income received in advance	-	-	-
Income received in advance	(870,012)	(375,156)	(1,245,168)
Payables from exchange - Stand depositors	(375,156)	375,156	-
Consumer deposits are no longer disclosed under income received in advance	-	-	-
Consumer deposits	-	(570,876)	(570,876)
Income received in advance	(1,245,168)	570,876	(674,292)
Retention amount was understated by R117 729 PPE - WIP was understated by the same amount.	-	-	-
Increase in payable from exchange transaction - retention	(1,184,189)	(117,729)	(1,301,918)
Increase in PPE -WIP	-	117,729	117,729
Private telephone was reclassified to Other payables R29 234	-	-	-
Private telephone accounts	(29,234)	29,234	-
Other payables	(31,564)	(29,234)	(60,798)
Interest on the landfill site was incorrectly classified under General expenses, it is now correctly classified as Finance cost R191 287	-	-	-
Debtors with credit balances	-	(197,015)	(197,015)
Consumer debtors	-	197,015	197,015
Total	(28,497,226)	-	(28,497,226)

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46. Comparative figures (continued)

Statement of financial performance - extract

	Comparative figures previously reported	Reclassificati on	After reclassificatio n
Bad debts incorrectly classified as General expenses	-	-	-
General expenses - Bad debts written off	43,769,838	(9,330,869)	34,438,969
Bad debt written off	-	9,330,869	9,330,869
Telephone expenses for council was wrongly mapped to General expenses together with Telephone allowances for employees, this was corrected and mapped to remuneration of councillors and employee remuneration R677 766	-	-	-
General expenses - Telephone	1,545,071	(449,893)	1,095,178
Remuneration of councillors	4,110,768	449,893	4,560,661
Employee remuneration	3,352,934	-	3,352,934
Indigent subsidy was mapped together with Traffic debt written off amounting to R351 370, this was corrected and is now mapped to Bad debts written off together with Consumer bad debts written off.	-	-	-
Indigent subsidy	6,849,883	(351,370)	6,498,513
Bad debts written off	9,330,869	351,370	9,682,239
General expenses were overstated by R2 452 869 which was classified as Fines and penalties in under General expenses instead of Finance cost.	-	-	-
General expenses - Fines and penalties	2,452,869	(2,452,869)	-
Finance cost	42,804	2,452,869	2,495,673
Interest on landfill site was incorrectly classified as IT expenses	-	-	-
General expenses - IT expense	191,287	(191,287)	-
Finance cost	2,495,673	191,287	2,686,960
Consulting and professional fees were wrongly disclosed as Other expense	-	-	-
Consulting and professional fees	534,594	945,603	1,480,197
Other expenses	4,576,591	(945,603)	3,630,988
Total	79,253,181	-	79,253,181

47. 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.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

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47. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

48. Unauthorised expenditure

Unauthorised expenditure - Opening Balance	80,670,079	74,976,774
Current year	1,571,297	5,693,305
Closing balance - awaiting condonement	82,241,376	80,670,079

This is due to actual expenditure exceeding the approved budget and this is to be presented to the council in the 2015/16 financial year.

49. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	4,657,106	2,314,555
Current year	3,351,447	2,342,551
Closing balance - awaiting condonement	8,008,553	4,657,106

These are Penalties and interest that arose due to late payment to service providers.

50. Irregular expenditure

Opening balance	65,797,622	49,103,868
Add: Irregular Expenditure - current year	22,316,227	16,693,754
Closing balance - awaiting condonement	88,113,849	65,797,622

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Opening balance	692,730	500,000
Current year subscription / fee	101,392	225,730
Amount paid - current year	(374,014)	(33,000)
Closing balance	420,108	692,730

Material losses

Water (kl)	583,839	1,501,271
Electricity	6,319,715	3,968,528
Total	6,903,554	5,469,799

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

Audit fees

Opening balance	3,918,758	3,021,078
Current year subscription / fee	2,419,714	2,897,680
Amount paid - current year	(4,240,035)	(2,000,000)
	2,098,437	3,918,758

PAYE and UIF

Amount paid - current year	5,282,587	5,425,223
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Pension and Medical Aid Deductions

Amount paid - current year	13,504,532	10,910,798
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VAT

VAT receivable	39,451,418	14,271,211
VAT payable	22,951,324	16,521,712
	62,402,742	30,792,923

VAT output payables and VAT input receivables are shown in note 20.

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

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

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
Sepato TM	44	-	44
Masilo NG	57	-	57
Herbst CP	1,796	-	1,796
Setshameko KM	69	-	69
Strydom SDJ	3,259	-	3,259
Motlapele LD	79	-	79
Lee MV	956	1,663	2,619
	6,260	1,663	7,923

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Masilo NG	207	-	207
Sepato TM	21	-	21
Mere MR	1,554	-	1,554
Thekiso SJ	22	-	22
Motswana AK	26	-	26
Lee MV	382	708	1,090
Stephen OM	187	-	187
Herbst CP	1,804	-	1,804
Strydom SDJ	3,665	-	3,665
	7,868	708	8,576