



**MHLONTLO LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

General Information

Legal form of entity

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no. 117 of 1998).

Nature of business and principal activities

Mhlontlo Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)The municipality's operations are governed by:- Municipal Finance Management act 56 of 2003- Municipal Structure Act 117 of 1998- Municipal Systems Act 32 of 2000 and various other acts and regulations

Jurisdiction

The Mhlontlo Local Municipality includes the following areas:
Qumbu
Tsolo

Grading of local authority

Low capacity municipality

Accounting Officer

S G Sotshongaye

Registered office

96 LG Mabindla Avenue
Qumbu

MEMBERS OF COUNCIL

Mayor	Cllr. R. M. Giyose
Speaker	Cllr. X.D. Nkompela
Chief Whip	Cllr. N.M. Mvanyashe
Exco Councillor	Cllr. N.Mtwazi
Exco Councillor	Cllr. N.Konza
Exco Councillor	Cllr. M.Mabono
Exco Councillor	Cllr. E.Pula
Exco Councillor	Cllr. N.Magodla
Exco Councillor	Cllr. X.Mpatane
Exco Councillor	Cllr. N.Dywili
Exco Councillor	Cllr. M.G.Jara
Exco Councillor	Cllr. Z.Nondaka

Councillor	M. Ncokotwana	Councillor	M. S. Mathe
Councillor	S.N. Matanzima	Councillor	N. Nodlela
Councillor	L.L. Mkhondwena	Councillor	Z. Feni
Councillor	N. Qhezu	Councillor	N.C. Ncalo
Councillor	X.B. Ngoma	Councillor	N.V. Masangwana
Councillor	V. Mnyanda	Councillor	S.T. Msongelwa
Councillor	L. Hlabiso	Councillor	M.C. Socikwa
Councillor	N. Gcaba	Councillor	N. Songca
Councillor	Y.H. Guqa	Councillor	R. N. Mvamveki
Councillor	Z. Ngoni	Councillor	S. N. Salaze
Councillor	Z.I. Tshungwana	Councillor	N.R. Matomane
Councillor	N.E. Sigwili	Councillor	N.P. Mkontwana
Councillor	Z.W. Nondaka	Councillor	J.M. Jikijela
Councillor	A.M. Dawedi	Councillor	M. Macingwane
Councillor	X. Mswelanto	Councillor	N.T. Ngquke
Councillor	S. Sogxakanxa	Councillor	S.S. Mbangata
Councillor	M. Soyekwa	Councillor	N.R. Ngewu
Councillor	L.H. Ludidi	Councillor	Cllr.Y. Yaso
Councillor	G. Kiviet	Councillor	Cllr.N.Mdwayi
Councillor	M. Mfamela	Councillor	Cllr.Z.Songca

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

General Information

TRADITIONAL LEADERS TO PARTICIPATE IN MHLONTLO MUNICIPALITY COUNCIL

Nkosinathi Matshanda	MAQAKAMBENI T/C
Luyanda Mditshwa	KHETHANI T/C
Sizwe Siyoyo	AMACWERA T/C
Busisiwe Gloria Mcothshana	Masizakhe T/C
Victor Loyiso Majeke	BHELE T/C
Siyanda Madolo	
Vuyani Ephriam Ludidi	HLUBI T/C
Siviwe Mcelu	EBHOTWE T/C
Linda Ngudle	KHAMBI 20 T/C
K.Hanyisa Ngoni	MBALISWENI T/C

Bankers

FNB - QUMBU

Auditors

Auditor General South Africa
Chartered Accountants

Relevant Legislation

Municipal Finance Management Act (Act no. 56 of 2003)
Division of Revenue Act
Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no. 117 of 1998)
Municipal Systems Act (Act no. 32 of 2000)
Municipal Planning and Performance Management Regulations
Housing Act (Act no. 107 of 1997)
Municipal Property Rates Act (Act no. 6 of 2004)
Electricity Act (Act no. 41 of 1987)
Skills Development Levies Act (Act no. 9 of 1999)
Employment Equity Act (Act no. 55 of 1988)
Unemployment Insurance Act (Act no. 30 of 1966)
Basic Conditions of Employment Act (Act no. 75 of 1997)
Supply Chain Management Regulations, 2011
Collective Agreements
Infrastructure Grants
SALGBC Leave Regulations

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

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

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Abbreviations

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Officer's Responsibilities and Approval

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

The financial statements have been prepared in accordance with International Financial Reporting Standards (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 85, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:


S G Sotshongaye
Municipal Manager

Qumbu
31 August 2015



Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

	Notes	2015 R	2014 Restated* R
Assets			
Current Assets			
Inventories	2	15,953,700	15,963,019
Receivables from non-exchange transactions	3	483,838	483,743
VAT receivable	4	2,606,296	695,048
Consumer debtors	5	2,627,799	2,349,470
Cash and cash equivalents	6	15,376,924	2,375,253
		37,048,557	21,866,533
Non-Current Assets			
Investment property	7	27,111,835	27,111,835
Property, plant and equipment	8	156,278,381	125,167,454
Intangible assets	9	814,819	1,187,159
Heritage assets	10	119,400	119,400
		184,324,435	153,585,848
Total Assets		221,372,992	175,452,381
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	6,520,436	12,259,948
Employee benefit obligation	12	7,028,793	4,838,095
Unspent conditional grants and receipts	13	1,662,192	2,010,663
Provisions	14	5,000,000	3,800,000
		20,211,421	22,908,706
Non-Current Liabilities			
Employee benefit obligation	12	3,132,000	2,807,000
Provisions	14	2,053,480	1,927,200
		5,185,480	4,734,200
Total Liabilities		25,396,901	27,642,906
Net Assets		195,976,091	147,809,475
Accumulated surplus		195,976,091	147,809,475

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

	Notes	2015 R	2014 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	15	572,850	568,071
Rental of facilities and equipment		45,737	69,764
Income from agency services		799,500	806,757
Licences and permits		1,303,861	1,141,491
Actuarial gain	12	227,000	11,000
Other income	16	1,072,953	1,113,221
Interest received	17	1,872,015	2,157,714
Total revenue from exchange transactions		5,893,916	5,868,018
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	9,078,232	7,608,225
Transfer revenue			
Government grants and subsidies	19	190,759,210	159,964,761
Public contributions and donations		8,000	-
Other revenue			
Fines		143,599	183,379
Commission received		151,658	12,350
Total revenue from non-exchange transactions		200,140,699	167,768,715
Total revenue		206,034,615	173,636,733
Expenditure			
Personnel	20	(68,463,598)	(67,546,474)
Remuneration of councillors	21	(15,144,864)	(12,162,551)
Depreciation and amortisation	22	(15,229,009)	(10,566,784)
Finance costs	23	(234,000)	(174,000)
Debt impairment	24	(2,170,170)	(1,885,877)
Repairs and maintenance		(1,863,845)	(5,490,684)
Contracted services	25	(2,926,206)	(2,788,135)
Operating grant expenditure	26	(11,277,285)	(21,953,250)
Loss on disposal of assets	27	(144,583)	(281,055)
General Expenses	28	(39,572,742)	(57,241,007)
Operating leases	28	(714,348)	(714,348)
Interest on landfill	14	(127,356)	(100,121)
Total expenditure		(157,868,006)	(180,904,286)
Operating surplus / (deficit)		48,166,609	(7,267,553)
Surplus / (deficit) for the year		48,166,609	(7,267,553)

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

		Accumulated surplus R	Total net assets R
Opening balance as previously reported		144,521,679	144,521,679
Adjustments			
Correction of errors	36	10,555,349	10,555,349
Balance at 01 July 2013 as restated*		155,077,028	155,077,028
Changes in net assets			
Surplus for the year		(7,267,553)	(7,267,553)
Total changes		(7,267,553)	(7,267,553)
Restated* Balance at 01 July 2014		147,809,482	147,809,482
Changes in net assets			
Surplus for the year		48,166,609	48,166,609
Total changes		48,166,609	48,166,609
Balance at 30 June 2015		195,976,091	195,976,091

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Cash Flow Statement

	Notes	2015 R	2014 Restated* R
Cash flows from operating activities			
Receipts			
Rates and service charges		5,291,335	7,456,658
Grants		190,759,210	159,964,761
Interest income		1,872,015	2,157,714
Other receipts		3,752,308	3,337,957
		<u>201,674,868</u>	<u>172,917,090</u>
Payments			
Employee costs		(79,766,484)	(74,877,031)
Suppliers		(62,560,535)	(89,204,805)
Finance costs		(234,000)	(174,000)
		<u>(142,561,019)</u>	<u>(164,255,836)</u>
Net cash flows from operating activities	30	<u>59,113,849</u>	<u>8,661,254</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(46,113,254)	(41,065,860)
Proceeds from sale of property, plant and equipment	8	-	160,000
Purchase of other intangible assets	9	-	(501,712)
Fair value adjustment on landfill site		1,076	(19,341)
Net cash flows from investing activities		<u>(46,112,178)</u>	<u>(41,426,913)</u>
Net increase/(decrease) in cash and cash equivalents		13,001,671	(32,765,659)
Cash and cash equivalents at the beginning of the year		2,375,253	35,140,912
Cash and cash equivalents at the end of the year	6	<u>15,376,924</u>	<u>2,375,253</u>

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	571,785	-	571,785	572,850	1,065	
Rental of facilities and equipment	44,352	(2,000)	42,352	45,737	3,385	
Income from agency services	792,000	(11,000)	781,000	799,500	18,500	
Licences and permits	1,330,560	(50,560)	1,280,000	1,303,861	23,861	
Actuarial gain	-	-	-	227,000	227,000	45.1
Other income	1,291,792	2,235,208	3,527,000	1,072,953	(2,454,047)	45.2
Interest received	2,608,614	(825,614)	1,783,000	1,872,015	89,015	45.3
Total revenue from exchange transactions	6,639,103	1,346,034	7,985,137	5,893,916	(2,091,221)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7,970,738	2,077,000	10,047,738	9,078,232	(969,506)	45.4
Transfer revenue						
Government grants & subsidies	188,064,987	12,427,013	200,492,000	190,759,210	(9,732,790)	
Public contributions and donations	-	-	-	8,000	8,000	45.5
Fines	163,680	41,320	205,000	143,599	(61,401)	45.6
Commission received	-	-	-	151,658	151,658	45.7
Total revenue from non-exchange transactions	196,199,405	14,545,333	210,744,738	200,140,699	(10,604,039)	
Total revenue	202,838,508	15,891,367	218,729,875	206,034,615	(12,695,260)	
Expenditure						
Personnel	(69,041,332)	3,972,332	(65,069,000)	(68,463,598)	(3,394,598)	
Remuneration of councillors	(23,405,650)	10,165,650	(13,240,000)	(15,144,864)	(1,904,864)	
Depreciation and amortisation	(12,787,000)	-	(12,787,000)	(15,229,009)	(2,442,009)	45.8
Finance costs	-	-	-	(234,000)	(234,000)	45.9
Debt impairment	(19,431,000)	-	(19,431,000)	(2,170,170)	17,260,830	45.10
Repairs and maintenance	(3,256,901)	3,256,901	-	(1,863,845)	(1,863,845)	45.11
Contracted Services	(3,814,229)	(6,066,771)	(9,881,000)	(2,926,206)	6,954,794	45.12
Operating grant expenditure	(12,533,070)	12,533,070	-	(11,277,285)	(11,277,285)	45.13
General Expenses	78,969,171	(143,150,171)	(64,181,000)	(40,414,446)	23,766,554	45.14
Total expenditure	(65,300,011)	(119,288,989)	(184,589,000)	(157,723,423)	26,865,577	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Operating surplus	137,538,497	(103,397,622)	34,140,875	48,311,192	14,170,317	
Loss on disposal of assets	-	-	-	(144,583)	(144,583)	45.15
(Deficit) / Surplus	137,538,497	(103,397,622)	34,140,875	48,166,609	14,025,734	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	468,930	15,593,070	16,062,000	15,953,700	(108,300)	
Receivables from non-exchange transactions	17,651,793	(16,590,793)	1,061,000	483,838	(577,162)	45.16
VAT receivable	-	-	-	2,606,296	2,606,296	45.17
Consumer debtors	7,368,265	(4,316,265)	3,052,000	2,627,799	(424,201)	45.18
Cash and cash equivalents	3,847,736	16,413,264	20,261,000	15,376,924	(4,884,076)	45.19
	29,336,724	11,099,276	40,436,000	37,048,557	(3,387,443)	
Non-Current Assets						
Investment property	21,401,100	6,041,035	27,442,135	27,111,835	(330,300)	
Property, plant and equipment	183,565,194	(32,598,194)	150,967,000	156,278,381	5,311,381	
Intangible assets	1,739,925	(853,925)	886,000	814,819	(71,181)	45.20
Heritage assets	-	-	-	119,400	119,400	45.21
	206,706,219	(27,411,084)	179,295,135	184,324,435	5,029,300	
Total Assets	236,042,943	(16,311,808)	219,731,135	221,372,992	1,641,857	
Liabilities						
Current Liabilities						
Payables from exchange transactions	12,917,548	(1,419,548)	11,498,000	6,520,435	(4,977,565)	45.22
Employee benefit obligation	-	-	-	7,028,793	7,028,793	45.23
Unspent conditional grants and receipts	-	-	-	1,662,193	1,662,193	45.24
Provisions	-	15,411,000	15,411,000	5,000,000	(10,411,000)	45.25
	12,917,548	13,991,452	26,909,000	20,211,421	(6,697,579)	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	3,132,000	3,132,000	45.26
Provisions	-	-	-	2,053,480	2,053,480	45.27
	-	-	-	5,185,480	5,185,480	
Total Liabilities	12,917,548	13,991,452	26,909,000	25,396,901	(1,512,099)	
Net Assets	223,125,395	(30,303,260)	192,822,135	195,976,091	3,153,956	
Net Assets						
Accumulated surplus	223,125,395	(30,303,260)	192,822,135	195,976,091	3,153,956	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Ratepayers and others	9,453,415	9,376,585	18,830,000	6,833,834	(11,996,166)	45.28
Grants	176,695,000	(40,537,000)	136,158,000	190,737,417	54,579,417	
Interest income	1,817,376	(827,376)	990,000	1,872,015	882,015	45.29
Other receipts	-	-	-	3,984,010	3,984,010	45.30
	187,965,791	(31,987,791)	155,978,000	203,427,276	47,449,276	
Payments						
Suppliers and employees	(138,367,661)	19,928,661	(118,439,000)	(141,589,684)	(23,150,684)	
Finance costs	-	-	-	(877,612)	(877,612)	45.31
	(138,367,661)	19,928,661	(118,439,000)	(142,467,296)	(24,028,296)	
Net cash flows from operating activities	49,598,130	(12,059,130)	37,539,000	60,959,980	23,420,980	
Cash flows from investing activities						
Purchase of capital assets	(54,410,378)	6,247,378	(48,163,000)	(47,942,233)	220,767	
Decrease in non-current receivables	664,032	15,634,968	16,299,000	-	(16,299,000)	45.32
Fair value adjustment on landfill site	-	-	-	1,076	1,076	45.32
Net cash flows from investing activities	(53,746,346)	21,882,346	(31,864,000)	(47,941,157)	(16,077,157)	
Net increase/(decrease) in cash and cash equivalents	(4,148,216)	9,823,216	5,675,000	13,018,823	7,343,823	
Cash and cash equivalents at the beginning of the year	6,369,987	(6,721,987)	(352,000)	2,375,253	2,727,253	
Cash and cash equivalents at the end of the year	2,221,771	3,101,229	5,323,000	15,394,076	10,071,076	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Local legislation over companies.

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

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

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

These accounting policies are consistent with the previous year.

1.1 Presentation currency

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

1.2 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

Standard	Description	Effective Date
GRAP 20 (Original – June 2011)	<p>Related Party Disclosure</p> <p>The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	Unknown
GRAP 32 (Original – Aug 2013)	<p>Service Concession Arrangements: Grantor</p> <p>The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.</p> <p>No such transactions or events are expected in the foreseeable future.</p>	Unknown

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

GRAP 108 (Original – Sept 2013)	Statutory Receivables The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables. No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.	Unknown
GRAP 109	Accounting by Principals and Agents The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.	Unknown
IGRAP 17	Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. No significant impact is expected as the Municipality is not party to any service concession arrangements at this stage.	Unknown

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.3 Going concern assumption

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

1.4 Significant judgements and sources of estimation uncertainty

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

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1.4 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables and Loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the 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 and loans and 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.

Impairment testing

In determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes. Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Post retirement and other benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 12.

Effective interest rate

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

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1.4 Significant judgements and sources of estimation uncertainty (continued)

Basis for determination of debt impairment

The impairment of consumer debtors and other trade receivables exists predominantly due to the possibility that these debts will not be recovered. Receivables were assessed individually and grouped together where applicable at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

In determining this allowance estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile. The Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

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

1.5 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.

Cost model

Investment property is carried at cost less accumulated depreciation taking into account any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

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1.5 Investment property (continued)

In the event that the residual value exceeds the carrying value of any item of investment property, depreciation will not be apportioned for that period.

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.6 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 reporting 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 or fair value 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 assets, or a combination of assets 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.

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.

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

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

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

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1.6 Property, plant and equipment (continued)

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	Average useful life
Infrastructure	
• Roads and pavings	10 - 25 years
• Pedestrian malls	10 - 25 years
• Sewerage	10 - 25 years
Community	
• Buildings	30 years
• Recreational facilities	30 years
• Security	30 years
• Halls	30 years
• Libraries	30 years
• Parks and gardens	30 years
• Other assets	30 years
Other property, plant and equipment	
• Specialist vehicles	2 - 15 years
• Other vehicles	2 - 15 years
• Office equipment	2 - 15 years
• Furniture and fittings	2 - 15 years
• Bins and containers	2 - 15 years
• Computer equipment	2 - 15 years
• Other plant and equipment	2 - 15 years
Landfill sites	20 years

The residual value, the useful life and depreciation method of each asset are reviewed at least at 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 or disposal of the asset.

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

Property, plant and equipment 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. These assets are not accounted for as non-current assets held 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.

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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.

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.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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, other	3 - 5 years

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Accounting Policies

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Transitional provision

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in 10. The transitional provision expires on 2015/06/30.

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1.8 Heritage assets (continued)

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where heritage assets was acquired through a transfer of functions, the municipality is not required to measure that heritage assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2015 and heritage assets have accordingly been recognised at provisional amounts, as disclosed in 10.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.9 Financial instruments

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

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

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

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

A financial asset is:

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

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unithised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

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

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1.9 Financial instruments (continued)

Classification

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

Class	Category
Consumer debtors	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Payables from non-exchange transactions	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

1.10 Tax

Value added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.11 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.

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Accounting Policies

1.11 Leases (continued)

Operating leases - lessor

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

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

Income for leases is disclosed under revenue in the 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.

1.12 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.

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

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 is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.13 Impairment of cash-generating assets

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

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

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.

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1.13 Impairment of cash-generating assets (continued)

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.

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.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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.

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1.13 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.

Accounting Policies

1.13 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.

1.14 Impairment of non-cash-generating assets

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.14 Impairment of non-cash-generating assets (continued)

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service 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.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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

Reversal of an impairment loss

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

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service 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 non-cash-generating asset is recognised immediately in surplus or deficit.

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

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

Mhlontlo Local Municipality

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Accounting Policies

1.15 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.

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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

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

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.16 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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Provisions and contingencies (continued)

The municipality recognises a provision for financial guarantees when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

1.17 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.

Measurement

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

Service charges

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.

Interest income

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

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

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

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Rental income

Rental income is recognised on the accrual basis in accordance with the substance of the relevant agreements.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.18 Property rates and Government grants - 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.

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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.18 Property rates and Government grants - Revenue from non-exchange transactions (continued)

Measurement

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

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

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

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

1.19 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.20 Comparative figures

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

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, 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.

The presentation and classification of items in the current year is consistent with prior years, except as otherwise indicated.

The nature and reasons for the reclassifications and restatements are disclosed in note 36 to the financial statements.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.21 Unauthorised expenditure (continued)

- 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.

1.22 Fruitless and wasteful expenditure

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

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

1.23 Irregular expenditure

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

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

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

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

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

1.24 Budget information

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.24 Budget information (continued)

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

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

The budget for the economic entity includes all the entities approved budgets under its control.

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

1.25 Related parties

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – "Related Party Disclosures".

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

As a minimum, the following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person's family is related to the Municipality if that person:
 - has control or joint control over the Municipality.
 - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
 - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
 - both entities are joint ventures of the same third party.
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
 - the entity is controlled or jointly controlled by a person identified in (a).
 - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. As a minimum, a person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an economic entity who has the authority and responsibility for

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Accounting Policies

1.25 Related parties (continued)

- planning, directing and controlling the activities of the entity;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the entity; and
 - (d) the senior management team of the entity, including the chief executive officer or permanent head of the entity, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

1.26 Unpaid conditional government grants and receipts

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met.

The following provisions are set for the creation and utilisation of the grant receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

1.27 Capital commitments

Capital commitments disclosed in the financial statements in accordance with GRAP 17.80 (c) represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015 R	2014 R
2. Inventories		
RDP houses	15,953,700	15,953,700
Consumable stores	-	9,319
	15,953,700	15,963,019

Inventories relate to RDP houses which will be given to members of the community.

3. Receivables from non-exchange transactions

Sundry customers	483,743	483,743
Banking suspense	95	-
	483,838	483,743

The sundry customer account contains overpayments to SALGA that are to be refunded to the municipality.

4. VAT

VAT	2,606,296	695,048
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Vat receivable balance includes the monies due from SARS for the vat periods May 2015 and June 2015 as well as the VAT on the trade debtors' and trade creditors' balances at year end.

An amount of R7 609 753.48 has been received in the current year and therefore recoverability of the amount receivable from SARS is not remote.

5. Consumer debtors

Gross balances

Rates	14,187,621	12,324,005
Refuse	4,559,954	4,026,717
Old balances	5,427,088	5,375,443
	24,174,663	21,726,165

Less: Allowance for impairment

Rates	(11,915,214)	(10,306,203)
Refuse	(4,305,897)	(3,808,775)
Old balances	(5,325,753)	(5,261,717)
	(21,546,864)	(19,376,695)

Net balance

Rates	2,272,407	2,017,802
Refuse	254,057	217,942
Old balances	101,335	113,726
	2,627,799	2,349,470

Included in above is receivables from exchange transactions

Refuse	254,057	217,942
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Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
5. Consumer debtors (continued)		
Included in above is receivables from non-exchange transactions		
Rates	2,272,407	2,017,802
Other - old balances	101,335	113,726
	2,373,742	2,131,528
Net balance	2,627,799	2,349,470
Rates		
Current (0 -30 days)	234,274	168,907
31 - 60 days	110,345	124,444
61 - 90 days	251,984	123,294
91 - 120 days	124,059	122,078
121 - >365 days	13,466,959	11,785,282
Impairment	(11,915,214)	(10,306,203)
	2,272,407	2,017,802
Refuse		
Current (0 -30 days)	106,603	59,401
31 - 60 days	45,074	58,268
61 - 90 days	118,892	58,049
91 - 120 days	58,819	57,619
121 - >365 days	4,230,566	3,793,380
Impairment	(4,305,897)	(3,808,775)
	254,057	217,942
Other - old balances		
Current (0 -30 days)	19,541	20,133
31 - 60 days	584	20,172
61 - 90 days	39,162	20,186
91 - 120 days	19,599	20,183
121 - >365 days	5,348,202	5,294,769
Impairment	(5,325,753)	(5,261,717)
	101,335	113,726
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	186,090	121,224
31 - 60 days	84,072	113,633
61 - 90 days	222,665	112,681
91 - 120 days	109,615	112,236
121 - >365 days	12,943,168	12,129,846
	13,545,610	12,589,620

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R
5. Consumer debtors (continued)		
Industrial/ commercial		
Current (0 -30 days)	165,230	112,386
31 - 60 days	67,773	84,620
61 - 90 days	177,729	84,228
91 - 120 days	88,119	83,421
121 - >365 days	7,754,253	6,743,265
	8,253,104	7,107,920
National and provincial government		
Current (0 -30 days)	9,097	4,830
31 - 60 days	4,159	4,632
61 - 90 days	9,644	4,619
91 - 120 days	4,744	4,223
121 - >365 days	2,348,305	2,000,321
	2,375,949	2,018,625
Total		
Current (0 -30 days)	360,418	248,440
31 - 60 days	156,004	202,885
61 - 90 days	410,038	201,528
91 - 120 days	202,477	199,880
121 - >365 days	23,045,726	20,873,432
	24,174,663	21,726,165
Less: Allowance for impairment	(21,546,864)	(19,376,695)
	2,627,799	2,349,470
Reconciliation of allowance for impairment		
Balance at beginning of the year	(19,376,695)	(17,490,819)
Contributions to allowance	(2,170,169)	(1,885,876)
	(21,546,864)	(19,376,695)

Consumer debtors pledged as security

No consumer debtors have been pledged as security.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
6. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	361	139
Bank balances	5,314,740	13,896
Short-term deposits	10,061,823	2,361,218
	15,376,924	2,375,253

The carrying amount of short term investments approximates fair value because of the short maturity of those instruments.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
BAA1	15,377,479	2,375,253

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015			2014 Restated*		
	R			R		
6. Cash and cash equivalents (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2015	30 June 2014	30 June 2013	30 June 2015	30 June 2014	30 June 2013
FNB - Business Call Account: Revolving Fund - 61399068117	7,201,916	1,470	441,689	7,201,916	1,470	441,689
FNB - Commercial Fixed Maturity Notice: Electrification Prog - 74231136926	532,178	223,935	4,698,886	532,178	223,935	4,698,886
FNB - Business NSTD Call: Equitable Share - 62027945809	282,622	15,950	15,129,368	282,622	15,950	15,129,368
FNB - Public Sector Cheque Account: Gqunu Lots - 62020395390	701,546	1,958	762,801	701,546	1,958	762,801
FNB - Public Sector Cheque Account: MIG - 62170844221	134,916	2,069,530	10,628,342	134,916	2,069,530	10,628,342
FNB - Commercial Money Market Investment: FMG - 62280641244	10,000	11,169	442,150	10,000	11,169	442,150
FNB - Commercial Call Account: Local Economic Dev - 62075571713	395,403	3,681	390,627	395,403	3,681	390,627
FNB - Commercial Call Account: Municipal IDP - 62075570137	1,000	1,000	1,000	1,000	1,000	1,000
FNB - 7 Day Interest Plus: 7 Day Notice - 7466814934	10,000	10,000	10,000	10,000	10,000	10,000
FNB - Commercial Money Market Investment: Housing Project - 62280645345	736,061	12,525	898,446	736,061	12,525	898,446
FNB - Commercial Money Market Investment: MSIG - 62280642416	56,181	10,000	369,037	56,181	10,000	369,037
FNB - Public Sector Cheque Account - 629929800300	5,290,491	11,296	1,363,965	5,314,740	13,896	1,366,435
Total	15,352,314	2,372,514	35,136,311	15,376,563	2,375,114	35,138,781

In line with GRAP 2 paragraph 46 for the purposes of the statement of financial position and the cash flow statement: cash and cash equivalents include cash-on-hand, cash in banks and investments in Money Market instruments net of outstanding bank overdrafts.

In line with GRAP 2 paragraph 49, the municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities & there are no restrictions that have been imposed on the municipality in terms of the utilisation of its Cash and Cash Equivalents.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R

7. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	27,111,835	-	27,111,835	27,111,835	-	27,111,835

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	27,111,835	27,111,835

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	27,111,835	27,111,835

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.

Investment Property is valued at cost price and will not be depreciated as it is land.

In line with paragraph .10 (b) of GRAP 16 the land is currently held for undeterminable future use and therefore has been classified as Investment Property.

In line with paragraph 84(h) of GRAP16, All of the municipality's Investment Property is held under freehold interests and the municipality has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal as per GRAP 16.84(g).

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	330,300	-	330,300	330,300	-	330,300
Buildings	19,169,966	(9,919,411)	9,250,555	19,169,966	(9,279,510)	9,890,456
Infrastructure	156,979,502	(66,308,446)	90,671,056	109,808,883	(55,335,452)	54,473,431
Community assets	11,163,667	(6,633,634)	4,530,033	11,163,667	(6,152,316)	5,011,351
Other assets	24,152,381	(8,769,501)	15,382,880	24,726,749	(6,528,276)	18,198,473
Work-in-progress	35,129,560	-	35,129,560	36,229,170	-	36,229,170
Landfill site	1,323,286	(339,289)	983,997	1,324,362	(290,089)	1,034,273
Total	248,248,662	(91,970,281)	156,278,381	202,753,097	(77,585,643)	125,167,454

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Change in discount rate and estimate	Depreciation	Total
Land	330,300	-	-	-	-	-	330,300
Buildings	9,890,456	-	-	-	-	(639,901)	9,250,555
Infrastructure	54,473,431	-	-	47,170,619	-	(10,972,994)	90,671,056
Community assets	5,011,351	-	-	-	-	(481,318)	4,530,033
Other assets	18,198,473	42,245	(144,582)	-	-	(2,713,256)	15,382,880
Work-in-progress	36,229,170	46,071,009	-	(47,170,619)	-	-	35,129,560
Landfill site	1,034,273	-	-	-	(1,076)	(49,200)	983,997
	125,167,454	46,113,254	(144,582)	-	(1,076)	(14,856,669)	156,278,381

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Change in discount rate and estimate	Depreciation	Total
Land	330,300	-	-	-	-	-	330,300
Buildings	10,544,079	-	(13,723)	-	-	(639,900)	9,890,456
Infrastructure	52,219,115	-	-	9,002,443	-	(6,748,127)	54,473,431
Community assets	5,499,820	-	-	-	-	(488,469)	5,011,351
Other assets	11,783,659	9,227,745	(486,030)	-	-	(2,326,901)	18,198,473
Work-in-progress	13,393,498	31,838,115	-	(9,002,443)	-	-	36,229,170
Landfill site	1,064,183	-	-	-	19,341	(49,251)	1,034,273
	94,834,654	41,065,860	(499,753)	-	19,341	(10,252,648)	125,167,454

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R

8. Property, plant and equipment (continued)

* - Prior period restatement

Refer to Note 36 for detailed breakdown of opening balance adjustments.

The municipality did not pledge any of its assets as security for any liabilities.

Change in Estimate - Useful Life of Property, Plant and Equipment reviewed

In line with GRAP 17 paragraph 87, there was no change in the estimated useful life of various assets of the municipality for the reporting period.

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.

9. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,861,705	(1,046,886)	814,819	1,861,705	(674,546)	1,187,159

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	1,187,159	(372,340)	814,819

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	1,030,808	501,712	(345,361)	1,187,159

Intangible Assets are stated at cost and where there is no cost it will be reflected at replacement values.

The amortisation expense has been included in the line item "Depreciation & Amortisation" in the Statement of Financial Performance.

Amortisation is charged on a straight-line basis over the Intangible Assets useful lives.

Computer Software are issued under licence and are restricted to all conditions under which each licence is issued.

All of the municipality's Intangible Assets are held under freehold and no Intangible Assets had been pledged as security for any liabilities of the municipality.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R

10. Heritage assets

	2015			2014		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	119,400	-	119,400	119,400	-	119,400

Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage assets	119,400	119,400

Reconciliation of heritage assets 2014

	Opening balance	Total
Heritage assets	119,400	119,400

Age and/or condition of heritage assets

The municipality owns the following heritage assets:

The mayoral chain.

The council induction stone.

11. Payables from exchange transactions

Trade payables	617,804	904,258
Payments received in advanced - Consumer debtors	848,112	790,592
Unallocated Deposits	218,178	98,826
Payroll control	3,898,295	2,015,269
Creditors accruals	936,961	8,450,638
Debtors suspense	1,086	365
	6,520,436	12,259,948

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R
12. Employee benefit		
Bonuses		
Bonuses are paid out to all employees, excluding some senior managers, in the month of their birthdays each year and are based on a 13th monthly basic salary.		
Defined Benefit Plan		
Long service awards		
The obligation in respect of the long service awards is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2015 by One Pangaea Financial using the Projected Unit Credit Method.		
Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the municipality's policy which complies with the minimum thresholds per the collective agreement of 21 February 2011, signed by the Bargaining Council. The basis on which this was calculated is as follows:		
- After 5 Continuous Years of Service - 2% of Basic Annual Salary and 5 days accumulative leave		
- After 10 Continuous Years of Service - 4% of Basic Annual Salary and 10 days accumulative leave		
- After 15 Continuous Years of Service - 8% of Basic Annual Salary and 20 days accumulative leave		
- After 20 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave		
- After 25 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave		
- After 30 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave		
- After 35 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave		
- After 40 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave		
- After 45 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave		
The estimated contributions for the next financial year:		
Current service cost	463,000	411,000

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014		
	R	Restated* R		
12. Employee benefit (continued)				
The amounts recognised in the statement of financial position are as follows:				
Carrying value				
Provision for bonus accrual	1,587,984	1,128,474		
Leave pay accrual	5,440,809	3,709,621		
Long service awards	3,132,000	2,807,000		
	10,160,793	7,645,095		
Non-current liabilities	3,132,000	2,807,000		
Current liabilities	7,028,793	4,838,095		
	10,160,793	7,645,095		
Reconciliation of employee benefits - 2015				
	Opening balance	Additions	Utilised during the year	Total
Provision for bonus accrual	1,128,474	1,587,984	(1,128,474)	1,587,984
Leave pay accrual	3,709,621	5,440,809	(3,709,621)	5,440,809
	4,838,095	7,028,793	(4,838,095)	7,028,793
Reconciliation of employee benefits - 2014				
	Opening balance	Additions	Utilised during the year	Total
Provision for bonus accrual	763,048	1,128,474	(763,048)	1,128,474
Leave pay accrual	2,826,515	3,709,621	(2,826,515)	3,709,621
	3,589,563	4,838,095	(3,589,563)	4,838,095
Long service awards				
Changes in the present value of the defined benefit obligation are as follows:				
Opening balance	2,807,000	2,353,000		
Benefits paid	(145,000)	(120,000)		
Net expense recognised in the statement of financial performance	470,000	574,000		
	3,132,000	2,807,000		
Net expense recognised in the statement of financial performance				
Current service cost	463,000	411,000		
Interest cost	234,000	174,000		
Actuarial gains	(227,000)	(11,000)		
	470,000	574,000		

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R

12. Employee benefit (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.50 %	8.56 %
Expected rate of return on assets	6.23 %	6.34 %
Expected rate of return on reimbursement rights	7.23 %	7.34 %
Actual return on reimbursement rights	1.18 %	1.14 %

The SA85-90 mortality table was used.

The normal retirement age is assumed to be 63.

The basis on which the discount rate has been determined is as follows:

Accounting Standard IAS19 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations."

Due to guidance received from the auditing profession, the methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2014 the duration of liabilities was 9.67 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2015 is 8.50% per annum. The assumed discount rate used at the previous valuation, 30 June 2014, was 8.56% per annum.

The following withdrawal assumptions were applicable over the prior and current valuation periods:

Example at stated age	Withdrawal rates %
20	16.50
25	6.60
30	5.10
35	3.60
40	2.60
45	1.80
50	1.10
55+	0.00

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R

12. Employee benefit (continued)

Other assumptions

The valuation bases assume that the salary inflation rate (which manifests itself as the annual increase in employees' salaries which determine the bonuses payable) will be 1.0% more than the corresponding discount rate, in the long term. The effect of a one percent increase and decrease in the salary inflation rates is as follows:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	804,000	726,000
Effect on defined benefit obligation	3,443,000	2,859,000

Amounts for the current and previous four years are as follows:

	2015	2014	2013	2012	2011
	R	R	R	R	R
Defined benefit obligation	3,132,000	2,807,000	2,353,000	1,911,000	-

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MIG	-	37,377
Gqunu lots	1,053,752	1,053,752
Qumbu Pilot Housing	62,525	62,525
LED	15,000	15,000
INEP electrification	530,915	842,009
	1,662,192	2,010,663

Movement during the year

Balance at the beginning of the year	2,010,663	12,697,339
Additions during the year	60,288,386	38,568,085
Income recognition during the year	(60,636,857)	(49,254,761)
	1,662,192	2,010,663

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

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

See note 19 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

			2015	2014			
			R	Restated*	R		
14. Provisions							
Reconciliation of provisions - 2015							
	Opening Balance	Additions	Utilised during the year	Change in discount factor	Unwinding of interest	Change in estimate	Total
Environmental rehabilitation	1,927,200	-	-	(36,003)	127,356	34,927	2,053,480
Legal proceedings	3,800,000	5,000,000	(3,800,000)	-	-	-	5,000,000
	5,727,200	5,000,000	(3,800,000)	(36,003)	127,356	34,927	7,053,480
Reconciliation of provisions - 2014							
	Opening Balance	Additions	Unwinding of interest	Change in estimate	Total		
Environmental rehabilitation	1,807,738	-	100,121	19,341	1,927,200		
Legal proceedings	790,000	3,010,000	-	-	3,800,000		
	2,597,738	3,010,000	100,121	19,341	5,727,200		
Non-current liabilities				2,053,480	1,927,200		
Current liabilities				5,000,000	3,800,000		
				7,053,480	5,727,200		

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 2 053 480 to restore the sites at the end of its useful lifes. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

It must be noted that the values are estimates only, based on previous works by the engineers who undertook the valuation and escalated to current values. It is expected that when tenders are called to undertake the works, that there will be significant variations from the estimated amounts. The estimated values are based on the best current information available.

Environmental rehabilitation provision

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The sites is expected to be closed in 2030, after which rehabilitation will take place over the course of the next 9 to 10 years after which the site is expected to be fully rehabilitated. The landfill sites valuation was performed by Bosch Munitech. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R

14. Provisions (continued)

- The sizes of the landfill sites is estimated to be 1 Ha.
- The CPIX (4.7%, 2014: 6.6%) was used to adjust the cost as it is the only determining factor year on year.
- Where there are no calculated site classifications, an estimate has been assumed for the classification based on local information of waste volumes and leachate. The valuation above assumes a worst case scenario, and assumes the Department of Water Affairs will strictly apply regulations.
- The cost values used are estimates only, based on previous works and escalated to current values.
- All historical and permitting information regarding the landfill sites was provided by the Municipality.

The landfill sites are nearing the end of their useful lives and the ground and ground water on the entire site are thus considered to be contaminated and not just the portions in use, i.e. the provision provides for the cost of rehabilitating the entire site and not just the portions used up to financial year end. The entire site would need to be rehabilitated due to waste distributed across the entire site over the years since opening thereof. Thus, as provided in GRAP 19 where it states that the provision should only be raised to the extent that the costs would need to be incurred, it is considered that the full cost of rehabilitation would need to be incurred to rehabilitate the sites.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

A preliminary study of the landfill site must be undertaken by the Municipality to determine the Remaining Useful Life of the site. This will be determined by matters such as the design of the final landform; the current and future expected rate of waste disposal; population growth; recycling initiatives; waste treatment on disposal etc.

The DWAF Minimum Requirements do not specify the timeframe in which the landfill sites must be rehabilitated after closure.

15. Service charges

Refuse

Industrial / Commercial	117,966	113,087
Consumers	408,445	409,873
National and provincial government	46,439	45,111
	572,850	568,071

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R
16. Other income		
Advertising bill boards	44,774	37,798
Business Licence	53,360	18,035
Cemetery fee - burials	10,439	15,658
Clearance certificate	1,266	1,600
Grazing fees	-	4,291
Overdeposit / banking	3	540
Plan fees	5,214	37,830
Pound fees	270,130	514,008
Pound sales	610,132	266,298
Refund	6,362	13,300
Sale of wood	44	88
Sundry income	-	2,690
Tender fees	71,229	201,085
	1,072,953	1,113,221
17. Interest received		
Interest received		
Interest from investments	1,211,288	1,412,762
Interest charged on trade and other receivables	660,727	744,952
	1,872,015	2,157,714
18. Property rates		
Rates received		
Consumers	495,404	499,442
Industrial / Commercial	1,295,121	1,319,502
National and provincial government	8,309,696	6,811,663
Small holdings and farms	1,359,804	1,359,804
Less: Income forgone - rebates	(2,381,793)	(2,382,186)
	9,078,232	7,608,225

Valuations

Valuations on land and buildings are performed every 4 years. The next general valuation will come into effect on 1 July 2015, based on exemption applied for and approved. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
19. Government grants and subsidies		
Unconditional grants and subsidies		
Equitable share	127,895,000	110,595,000
Training - LGSETA	1,715,738	314,628
Vuna Awards	-	60,000
	<u>129,610,738</u>	<u>110,969,628</u>
Conditional grants		
EPWP - Casual workers	1,221,000	1,025,000
Municipal Finance Management Grant	1,800,000	1,650,000
Electrification program	4,311,095	11,967,104
Library Assistance	170,000	115,000
MIG grant	52,712,377	33,289,837
Gqunu Lots	-	58,192
MSIG grant	934,000	890,000
	<u>61,148,472</u>	<u>48,995,133</u>
	<u>190,759,210</u>	<u>159,964,761</u>

Equitable Share

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

All registered indigents receive a monthly subsidy of R 7,979 (2014: R 7,979), which is funded from the grant.

MIG grant

Balance unspent at beginning of year	37,377	9,706,214
Current-year receipts	52,675,000	25,221,000
Conditions met - transferred to revenue	(52,712,377)	(33,289,837)
Other	-	(1,600,000)
	<u>-</u>	<u>37,377</u>

All the conditions have been met and all funds have been spent, overspending has been financed through equitable share.

The municipality was advanced R12 000 000 on the 26th July 2014 from the 2014/15 allocation. The portion was be deducted from the amount payable in 2014/2015.

Gqunu lots

Balance unspent at beginning of year	1,053,752	1,111,943
Conditions met - transferred to revenue	-	(58,191)
	<u>1,053,752</u>	<u>1,053,752</u>

This is a grant that is actually for community projects, all its expenditure depends on their activities which are also in phases and only the tractor that has been bought in this financial year. There also commitments towards this vote for the purchase of the plot.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R
19. Government grants and subsidies (continued)		
Qumbu Pilot Housing		
Balance unspent at beginning of year	62,525	62,525
The project started in December and some other projects could not continue due to price increases within the suppliers. Qumbu and disaster houses are spent in this grant.		
LED		
Balance unspent at beginning of year	15,000	15,000
Unspent amount relates to Sinakho coffin manufacture project. Prior period figures have been restated.		
FMG		
Current-year receipts	1,800,000	1,650,000
Conditions met - transferred to revenue	(1,800,000)	(1,650,000)
	-	-
MSIG		
Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(934,000)	(890,000)
	-	-
All the conditions have been met and all funds have been spent, overspending has been financed through equitable share.		
Vuna Awards		
Current-year receipts	-	60,000
Conditions met - transferred to revenue	-	(60,000)
	-	-
Library Assistance		
Current-year receipts	170,000	115,000
Conditions met - transferred to revenue	(170,000)	(115,000)
	-	-

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
19. Government grants and subsidies (continued)		
EPWP - Casual workers		
Current-year receipts	1,221,000	1,025,000
Conditions met - transferred to revenue	(1,221,000)	(1,025,000)
	-	-
All the conditions have been met and all funds have been spent, overspending has been financed through equitable share..		
INEP Electrification		
Balance unspent at beginning of year	842,009	1,801,657
Current-year receipts	4,000,000	11,000,000
Conditions met - transferred to revenue	(4,311,094)	(11,967,104)
Other	-	7,456
	530,915	842,009
The balance left is for the retention due, which will be paid after inspections have been done and the necessary period has lapsed.		
20. Employee related costs		
Basic	39,949,686	40,779,458
Acting allowances	36,682	496,628
Back pay	164,346	79,356
Bonus	2,532,166	2,078,086
Medical aid - employer contribution	4,429,596	3,871,747
UIF	399,370	650,536
SDL	653,811	570,405
Other payroll levies	16,482	13,056
Contribution to leave pay provision charge	1,731,188	883,106
Pension Fund - employer contribution	4,972,343	4,012,203
Travel, motor car, accommodation, subsistence and other allowances	6,523,054	7,379,776
Overtime payments	2,273,388	1,850,923
WCA	-	100
Contribution provision for bonus	459,510	365,427
Casual Workers	87,581	(366,000)
Employee related expenses	5,250	23,437
Housing benefits and allowances	2,246,164	1,933,520
Long term leave contribution	318,000	432,159
Leave encashment	504,251	626,305
Nightshift pay	-	82,501
Standby allowance	498,845	1,165,431
Cellphone allowance	661,885	618,314
	68,463,598	67,546,474

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
20. Employee related costs (continued)		
Remuneration of Municipal Manager - Y N Ndimba		
Annual Remuneration	-	597,285
Car Allowance	-	149,321
Contributions to UIF, Medical and Pension Funds	-	159,310
Cellphone Allowance	-	41,814
	-	947,730

The Municipal Manager resigned in October 2013.

Remuneration of Chief Finance Officer - N Ponco

Annual Remuneration	-	147,690
Car Allowance	-	37,521
Contributions to UIF, Medical and Pension Funds	-	18,679
Cellphone Allowance	-	7,200
Leave Encashment	-	114,003
	-	325,093

The Contract of the Chief Financial Officer expired on the 30 September 2013.

Remuneration of Chief Finance Officer - N Boti

Annual Remuneration	461,396	-
Car Allowance	192,248	-
Contributions to UIF, Medical and Pension Funds	1,487	-
Housing Allowance	115,349	-
	770,480	-

The Contract of the new Chief Financial Officer commenced on 1 September 2014.

Remuneration of the Strategic Manager - S G Sotshongaye

Annual Remuneration	619,763	636,886
Car Allowance	191,341	143,507
Contributions to UIF, Medical and Pension Funds	30,732	58,194
Subsistence and backpay	-	28,322
Acting allowance	14,723	61,703
Subsistence allowance	95,109	-
	951,668	928,612

Mr SG Sotshongaye acted as the Municipal Manager from October 2013 to 20 August 2014. He was appointed as Municipal Manager on 1 December 2014.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
20. Employee related costs (continued)		
Remuneration of the Community Manager - Y M Yilo		
Annual Remuneration	578,000	523,650
Car Allowance	144,500	130,912
Contributions to UIF, Medical and Pension Funds	126,805	150,635
Housing Allowance	54,076	24,353
Cellphone Allowance	5,200	31,400
	908,581	860,950
Remuneration of the Technical Manager - TP Mase		
Annual Remuneration	891,260	779,447
Car Allowance	-	35,762
Contributions to UIF, Medical and Pension Funds	24,383	36,478
Housing Allowance	-	7,500
Acting Allowance	-	12,589
Subsistence and Backpay	-	9,036
	915,643	880,812
Mr TP Mase acted as the Municipal Manager for July and August 2013.		
Remuneration of the Acting Chief Finance Officer - T Yengeni		
Annual Remuneration	90,864	362,672
Car Allowance	34,558	151,973
Contributions to UIF, Medical and Pension Funds	3,227	80,424
Housing Allowance	1,848	11,088
Acting Allowance	23,903	111,334
Cellphone Allowance	4,000	24,000
Backpay	7,872	-
	166,272	741,491
Mr Yengeni acted as the Chief financial officer as from October 2013 until the new Chief financial officer was appointed in September 2014.		
Remuneration of the Corporate Services Manager - L Matiwane		
Annual Remuneration	566,558	478,721
Car Allowance	172,399	88,000
Contributions to UIF, Medical and Pension Funds	70,545	91,222
Housing Allowance	71,243	22,905
Cellphone Allowance	5,200	20,800
Acting Allowance	20,855	-
	906,800	701,648

L Matiwane acted as Municipal Manager from 21 August 2014 to 30 November 2014.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R
20. Employee related costs (continued)		
Remuneration of the Local Economic and Rural Development Manager - Z Zipete		
Annual Remuneration	702,591	373,134
Car Allowance	156,674	66,000
Contributions to UIF, Medical and Pension Funds	24,053	9,139
Cellphone Allowance	-	31,400
	883,318	479,673
21. Remuneration of councillors		
Mayor	754,121	617,085
Councillors	14,390,743	11,545,466
	15,144,864	12,162,551
Breakdown of councillors' remuneration		
Mayor's Allowance	754,121	617,085
Speaker's Allowance	639,842	540,652
Chief Whip	581,642	516,336
Councillors Allowance	13,110,527	10,423,546
Contributions to Medical	58,732	64,932
	15,144,864	12,162,551
22. Depreciation and amortisation		
Property, plant and equipment	14,856,668	10,221,423
Intangible assets	372,341	345,361
	15,229,009	10,566,784
23. Finance costs		
Interest on long service awards	234,000	174,000
24. Debt impairment		
Consumer debtors	2,170,170	1,885,877
<p>The prior period payment history has been applied to the outstanding debtors as at year end and this indicated that payment rates have deteriorated in the last year due to economic downturn. In turn this has resulted in an increase in impairment losses associated with consumer debtors.</p>		
25. Contracted services		
Security services	2,926,206	2,788,135

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
26. Operating grant expenditure		
Other subsidies		
Electrification program	3,781,662	10,490,919
EPWP Program	1,381,496	1,342,272
Indigent subsidy	5,786,600	8,988,100
FMG Interns	203,843	843,363
MSIG	123,684	288,596
	11,277,285	21,953,250
27. Loss on disposal of assets		
Proceeds on sale of assets	-	160,000
Net book value of assets disposed of	(144,583)	(441,056)
	(144,583)	(281,056)

Assets that could not be physically verified were written off in the current year.

In the 2013/2014 financial year airconditioners that were replaced were written off and a vehicle was traded in.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R
28. General expenses		
Accounting fees	199,386	554,228
Advertising	248,861	547,955
Animal Feed	57,225	125,321
Auditors remuneration	3,316,465	2,252,694
Bank charges	184,613	208,461
Burials and memorial services	38,900	-
Cleaning	-	139,942
Community development and training	94,200	1,977,533
Conferences and seminars	551,977	1,610,201
Consulting and professional fees	2,058,782	3,229,493
Consumables	525,320	825,550
Contribution for legal fees	7,765,215	13,229,264
Crime prevention	751	240,484
Council meetings	4,500	-
Disaster costs	-	228,763
Donations	-	13,722
Electricity purchase	1,118,061	923,840
Entertainment	53,666	454,375
Fuel and oil	1,709,313	1,778,552
Hiring charges	309,311	453,392
Incorporation costs	500,749	1,015,288
Interest and penalties	37 643,612	27,239
Insurance - general	358,747	2,415,184
Medical expenses	700	92,267
Motor vehicle expenses	185,139	162,522
Packaging	5,054	-
Office expenses	9,738	(74,687)
Postage and courier	5,027	2,601
Pest control	23,500	23,710
Printing and stationery	1,155,429	658,960
Project overhead expenses	-	645,454
Promotions	400,371	647,133
Protective clothing	155,445	424,544
Public participation	184,700	2,468,108
Skills development and equity planning	-	99,103
Project maintenance costs	3,861,759	6,903,458
Subscriptions and membership fees	1,229,609	1,025,341
Survey and planning	224,463	5,157,296
Telephone and fax	3,376,146	1,432,263
Tourism development	7,574	995,600
Training	2,959,694	2,627,323
Underdeposit banking	-	542
Ward committee stipend	6,048,740	1,811,130
Waste management	-	601,206
	39,572,742	57,955,355
29. Auditors' remuneration		
Fees	3,316,465	2,252,694

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R
30. Cash generated from operations		
(Deficit) / surplus	48,166,609	(7,267,553)
Adjustments for:		
Depreciation and amortisation	15,229,009	10,566,784
Gain on sale of assets and liabilities	144,583	281,055
Debt impairment	2,170,170	1,885,877
Increase in employment benefit obligations	2,515,698	1,702,532
Increase in provisions	1,326,280	3,129,462
Donations - Mobile office	-	13,722
Donations - Cages	-	76,200
Changes in working capital:		
Inventories	9,319	(9,319)
Receivables from exchange transactions	-	3,362
Consumer debtors	(2,448,499)	(1,933,750)
Other receivables from non-exchange transactions	(95)	(483,743)
Payables from exchange transactions	(5,739,506)	9,689,173
VAT	(1,911,248)	1,694,128
Unspent conditional grants and receipts	(348,471)	(10,686,676)
	59,113,849	8,661,254

31. Risk management

Financial risk management

A municipality's activities are generally exposed 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.

Below follows a summary of each of the risks and the effect on the municipality.

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 business, 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.

Credit risk

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

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R

31. Risk management (continued)

Receivables are disclosed net after provisions are made for impairment and bad debts. Receivables comprise of a large number of ratepayers, dispersed across different geographical areas. On-going credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to receivables are considered to be high due the remote nature and high uncollectability of rates within the geographical and socio economic area. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges and interest", "demand for payment", and as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Financial assets exposed to credit risk at year end were as follows:

	2015	2014
Financial instrument		
Short term deposits	10,061,823	2,361,218
Receivables from exchange transactions	254,057	228,183
Receivables from non-exchange transactions	2,887,378	2,653,009

Market risk

Interest rate risk

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

Price risk

The municipality is not exposed to price risk as it does not hold commodities on an open market platform.

32. Unauthorised expenditure

Opening balance	57,537,313	38,110,305
Unauthorised expenditure in the current year	18,072,994	19,427,008
	<u>75,610,307</u>	<u>57,537,313</u>

This was due to depreciation being budgeted for under Finance and Administration instead of Road Transport, and legal expenses.

Recoverability of all unauthorised expenditure will be evaluated by council in terms of section 32 of MFMA. No steps have been taken at this stage to recover any monies.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R

32. Unauthorised expenditure (continued)

Detailed breakdown of unauthorised expenditure per Vote - Operating	2015 R (Actual)	2015 R (Budget)	2015 R (Variance)	Unauthorised
Executive and Council	41,303,704	35,185,000	(6,118,704)	(7,100,000)
Finance and Administration	51,938,543	75,799,000	23,860,457	-
Planning and Development	9,933,566	10,849,000	915,434	-
Public Safety	15,785,682	16,234,000	448,318	-
Waste Management	10,962,728	21,591,000	10,628,272	-
Road Transport	31,012,357	24,932,000	(6,080,357)	(10,972,994)
	160,936,580	184,590,000	23,653,420	(18,072,994)

The unauthorised expenditure incurred on the Executive and Council vote is due to the raising of a provision at year end for the estimated legal fees to be incurred on existing legal matters.

The unauthorised expenditure incurred on Road Transport is due to incorrect budget allocation of depreciation. Depreciation on roads infrastructure was budgeted for under the Finance and Administration vote and the actual expenditure was recorded under the Roads Transport vote.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
33. Financial instruments disclosure		
Categories of financial instruments		
2015		
Financial assets		
	At amortised cost	Total
Receivables from non-exchange	513,637	513,637
Consumer debtors	2,627,798	2,627,798
Bank balances	5,315,294	5,315,294
Short term deposits	10,061,822	10,061,822
	18,518,551	18,518,551
Financial liabilities		
	At amortised cost	Total
Payables from non-exchange transactions	6,587,350	6,587,350
2014		
Financial assets		
	At amortised cost	Total
Receivables from non-exchange transactions	514,262	514,262
Consumer debtors	2,366,930	2,366,930
Bank balances	13,896	13,896
Short term deposits	2,361,218	2,361,218
	5,256,306	5,256,306
Financial liabilities		
	At amortised cost	Total
Payables from non-exchange transactions	12,323,085	12,323,085

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
34. Contingent liabilities		
Bank guarantees		135,000
Pending legal claims		3,500,000
		<u>3,635,000</u>

Bank guarantees

Guarantees to the value of R135 000 have been obtained from First National Bank on the FNB Revolving Deposit account 61399068117 concerning the responsibility in terms of the Minerals and Petroleum Resources Development Act of 2002 which is incumbent on Mhlontlo Municipality to execute the environmental management plan in terms of the provisions of the said Act for the rehabilitation of Borrow Pit 1 - Mangezimeni Access Road, Eastern Province. The guarantee is payable to the municipality upon the submission of a claim in writing.

Legal proceedings

Mhlontlo Municipality vs Yolisa Ndima

The matter has since been settled.

Mkhuseli Mathe, High Court Case Number 759/15

In this matter the municipality first suspended Mkhuseli Mathe as a Ward Councilor of ward 21 after failing to appear on several council meetings without any explanation and later he was released on his duties as a Ward Councilor.

Mr Mathe took the matter to High Court, Mthatha under Case No. 759/15 challenging his release from duty and the matter is still pending before the High Court. A Legal opinion was drafted in this matter and served to the Office of Mr Sotshongaye a Municipal Manager for his attention and consideration. An estimation of R600 000.00 (Six Hundred Thousand Rand only) on legal fees will be paid to the legal team of the Municipality. An amount of R200 000.00 (Two Hundred Thousand Rand) will be paid as the Municipality has already lost the case.

Laduma Vuthela, High Court Case Number 3393/14

In this matter Laduma Vuthela and four Others took the Municipality to Court in a matter which was brought to Court on Urgent basis seeking an interim relief against Mhlontlo Local Municipality a Notice to Oppose together and Answering Affidavit was filed but an interim relief was granted and the matter is still pending before the aforesaid Honourable Court.

We are still waiting for a date on an Opposed Motion Court for the matter to be heard and finalized. An estimation of R500 000.00 (Five Hundred Thousand Rand) on legal fees will be paid to the legal team of the Municipality. An amount of R300 000.00 (Three Hundred Thousand Rand) may be incurred by paying the Applicant's legal team if the Municipality may lose the case..

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R

34. Contingent liabilities (continued)

Gqesha Nozolile & 11 Others, High Court Case Number 1616/15

In this matter Mhlontlo Local Municipality instituted an Application for an Interdict against Nozolile Gqesha and 11 Others who were illegally occupying and demarcating structures at Erf 42, Tsolo.

The Municipality was successfully to interdict the illegally invaders of the land whereas a Notice to Oppose and Answering Affidavit were filed by the Respondent's Attorneys. Now the matter is still pending before Court and we are still waiting for a date on an Opposed Motion Court for the matter to be heard and finalized. An estimation of R500 000.00 (Five Hundred Thousand Rand) on legal fees will be paid to the legal team of the Municipality. An amount of R300 000.00 (Three Hundred Thousand Rand) may be incurred by paying the Applicant's legal team if the Municipality may lose the case.

Spampoel Themba, High Court Case Number 1726/14

This is an Application was brought on urgent basis before High Court Mthatha by former Deputy Manager responsible for Supply Management being Themba Spampoel against his suspension and dismissal.

In this matter the Municipality Opposed the Application of Mr Spampoel wherein he was applying for him to be reinstated to his job, and the matter is now pending before the Supreme Court Of Appeals in Bloemfontein after the Municipality lost in High Court in Mthatha. We are off the view that the are prospect of success on our Appeal. An estimation of R1 100 000.00 (One Million Rand Only) on legal fees will be paid to the legal team of the Municipality. An amount of R900 000.00 (Nine Hundred Thousand Rand) may be incurred by paying the applicant's legal team if the Municipality may lose the case.

Mabandla Sokwanda and 10 Others, High Court Case Number 3407/14, Mavuso Kholiswa and 2 Others, High Court Case Number 3434/14, Siseko Landule and 3 Others, High Court Case Number 3412/14 and Mxhasa Nokuphumla and 3 Others, High Court Case Number 3424/14

In all this matters an urgent Application was brought by various Applicant's against Mhlontlo Local Municipality seeking an urgent interdict against the Municipality in respect of a land which is situated at Tsolo under Erf 42. These applications were made before the High Court in Mthatha on the 27th day of November 2014.

A Notice to Oppose together with Answering Affidavit was filed and the matter was argued later application was dismissed. A Notice for Leave to Appeal was filed by the Applicant's and a Leave to Appeal was argued and also dismissed.

They later file a Notice for Leave to Appeal in Supreme Court of Appeals and a Notice to Oppose together with Supporting affidavit was filed by the Municipality and now we are still waiting for a date to argue the matter in the Supreme Court of Appeals in Bloemfontein. We still believe that Judgment was granted at High Court, Mthatha on our favour we still maintain it even in Supreme Court of Appeal, An estimation of R2 300 000.00 (Two Million Three Hundred Thousand Rand Only) in legal fees being fees paid to legal team of the municipality. An amount of R2 000 000.00 (Two Million Rand) may be incurred by paying the applicant's legal team if the Municipality may lose the case.

This report was sought by client as an update in all the above matters which are proceeding in the aforesaid mentioned courts.

There is no possibility of re-imburement for the above amounts.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R
35. Related parties		
Relationships		
Mayor	R M Giyose	
Speaker	X D Nkompela	
Chief Whip	N M Mvanyashe	
Exco Councillor	N Mtwazi	
Exco Councillor	N Konza	
Exco Councillor	M Mabono	
Exco Councillor	E Pula	
Exco Councillor	N Magodla	
Exco Councillor	X Mpatane	
Exco Councillor	N Dywili	
Exco Councillor	M G Jara	
Exco Councillor	Z Nondaka	
Councillor	S N Matanzima	
Councillor	L L Mkhondwena	
Councillor	N Qhezu	
Councillor	X B Ngoma	
Councillor	V Mnyanda	
Councillor	L Hlabiso	
Councillor	N Gcaba	
Councillor	Y H Guqa	
Councillor	Z Ngoni	
Councillor	Z I Tshungwana	
Councillor	N E Sigwili	
Councillor	Z W Nondaka	
Councillor	A M Dawedi	
Councillor	X Mswelanto	
Councillor	S Sogaxakanxa	
Councillor	M Soyekwa	
Councillor	L H Ludidi	
Councillor	G Kiviet	
Councillor	M Mfamela	
Councillor	M S Mathe	
Councillor	N Nodlela	
Councillor	Z Feni	
Councillor	N C Ncalo	
Councillor	N V Masangwana	
Councillor	S T Msongelwa	
Councillor	M C Socikwa	
Councillor	N Songca	
Councillor	R N Mvamveki	
Councillor	S N Salaze	
Councillor	N R Matomane	
Councillor	N P Mkontwana	
Councillor	J M Jikijela	
Councillor	M Macingwane	
Councillor	N T Ngquka	
Councillor	S S Mbangata	
Councillor	N R Ngewu	
Councillor	Y Yaso	

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R

36. Prior period errors

2014 Opening balances

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Receivables from non-exchange transactions	801,911	(801,911)	-	1
Consumer debtors	2,319,055	(17,458)	2,301,597	2
VAT receivable	1,517,788	871,388	2,389,176	3
Inventories	-	15,953,700	15,953,700	4
Property, Plant and Equipment	99,888,871	(5,054,217)	94,834,654	5
Investment property	27,442,135	(330,300)	27,111,835	6
Payables from non-exchange transactions	2,570,774	(2,570,774)	-	7
Payables from exchange transactions	-	2,570,774	2,570,774	7
Provisions	(4,094,884)	2,287,147	(1,807,737)	8
Employee benefits	-	(2,353,000)	(2,353,000)	9
Accumulated surplus	(144,521,679)	(10,555,349)	(155,077,028)	
	(14,076,029)	-	(14,076,029)	

The opening balances for 2014 have been restated as follows:

- 1.1 The reconciliation of the payroll debtor was reperformed and the balance as well as the balance of the related impairment was corrected retrospectively.
- 1.2 The balance of the debtors suspense account and the related impairment was written off as no movement had occurred for several years and there was no supporting documentation for the balance.
2. Correction of billing of an indigent debtor.
3. The VAT reconciliation was reperformed and the errors were corrected retrospectively.
4. RDP houses given to the municipality to hand over to members of the community were recognised as non-current assets held for sale.
5. During the initial implementation of GRAP, the requirements of GRAP 17 regarding application and review of residual values, review of useful lives and assessment of assets for indicators of impairment were not complied with. During the previous financial period the existence of assets on the asset register was not confirmed by physical verification of all assets. During the current financial period these requirements were met and In addition, the property, plant and equipment, investment property and intangible asset registers were reconstructed. The effects of the prior period errors were corrected retrospectively.
6. The land on which the municipal offices in Qumbu is situated was reclassified as Property, plant and equipment.
7. Trade payables, accrued expenses, payroll control, payments received in advance, unallocated deposits and refunds payable were reclassified from payables from non-exchange to payables from exchange transactions.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R
35. Related parties (continued)		
Councillor		N Mdwayi
Councillor		S Songca
Traditional leaders to participate in Mhlontlo Municipality Council		N Matshanda
Traditional leaders to participate in Mhlontlo Municipality Council		L Mditshwa
Traditional leaders to participate in Mhlontlo Municipality Council		S Siyoyo
Traditional leaders to participate in Mhlontlo Municipality Council		B G Mcotshana
Traditional leaders to participate in Mhlontlo Municipality Council		V L Majeke
Traditional leaders to participate in Mhlontlo Municipality Council		S Madolo
Traditional leaders to participate in Mhlontlo Municipality Council		V E Ludidi
Traditional leaders to participate in Mhlontlo Municipality Council		S Mcelu
Traditional leaders to participate in Mhlontlo Municipality Council		L Ngudle
Traditional leaders to participate in Mhlontlo Municipality Council		K H Ngoni
Former Municipal Manager		Y Ndimu
Former Chief Financial Officer		N Ponco
Chief Financial Officer		N Boti
Municipal Manager		S G Sotshongaye
Community Manager		Y M Yilo
Technical Manager		T P Mase
Corporate Services Manager		L Matiwane
Local Economic and Rural Development Manager		Z Zipete
District Municipality that Mhlontlo forms part of		O R Tambo District Municipality
Close family member of key management		None

Transactions with related parties were concluded at arm's length

Apart from remuneration, no further transactions occurred with councillors and section 57 managers.

Refer to note 21 for a breakdown of councillors' remuneration.

Refer to note 20 for a breakdown of amounts paid to section 57 managers.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R

36. Prior period errors (continued)

8. Furthermore, the calculation for the provision of landfill rehabilitation was performed by experts and the annual financial statements were adjusted accordingly.

9. The calculation of the provision for long service awards was performed by an actuary and recognised retrospectively.

Current year comparatives

Statement of Financial Performance	Previously Stated	Adjustments	Restated 2014	Reference
Income				
Actuarial gain	-	(11,000)	(11,000)	10
Expenditure				
Personnel costs	60,980,840	6,564,634	67,545,474	11
Remuneration of councillors	13,630,791	(1,468,241)	12,162,550	11
Debt impairment	1,719,939	165,938	1,885,877	12
Depreciation and amortisation	15,779,889	(5,213,105)	10,566,784	13
Finance costs	30,239	171,000	201,239	14
Repairs and maintenance	5,893,971	(403,187)	5,490,784	15
Grants and subsidies paid	22,551,889	(598,639)	21,953,250	15
General expenses	58,041,461	829,986	58,871,447	15
Interest on landfill	226,794	(126,673)	100,121	16
Loss on disposal of assets	161,053	120,002	281,055	17
	179,016,866	30,715	179,047,581	
Statement of Financial Position	Previously stated	Adjustments	Restated 2014	Reference
Assets				
Cash and cash equivalents	2,631,357	13,896	2,645,253	18
Consumer debtors	2,532,868	(183,398)	2,349,470	19
Receivables from non-exchange transactions	6,992,338	(6,508,960)	483,378	20
Inventories	-	15,963,019	15,963,019	21
VAT receivable	727,498	(32,450)	695,048	22
Investment property	27,442,135	(330,300)	27,111,835	23
Property, plant and equipment	126,050,242	(882,788)	125,167,454	24
Intangible assets	1,308,352	(121,193)	1,187,159	25
Liabilities				
Payables from exchange transactions	-	(12,259,583)	(12,259,583)	26
Payables from non-exchange transactions	(16,689,960)	16,689,960	-	26
VAT payable	-	-	-	21
Bank overdraft	(352,104)	352,104	-	17
Employee benefit obligation - current	(4,710,922)	(127,173)	(4,838,095)	27
Employee benefit obligation - non-current	-	(2,807,000)	(2,807,000)	28
Provisions - non-current	(4,344,672)	2,417,472	(1,927,200)	29
Accumulated surplus	(135,625,869)	(12,183,606)	(147,809,475)	30
	5,961,263	-	5,961,263	

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R

36. Prior period errors (continued)

The comparative figures for 2014 have been restated as a result of -

Actuarial gain

10. The calculation of the provision for long service awards was performed by an actuary and the provision and related expenditure were recognised retrospectively.

Personnel costs and remuneration of councillors

11.1 The reconciliations of the payroll debtor and payroll control accounts were reperformed. The payroll debtor, the related impairment, the payroll control accounts and the related personnel costs were corrected retrospectively.

11.2 The June 2014 salary run was duplicated. The duplication has been reversed.

Debt impairment.

12.1 The reconciliation of the consumer debtors impairment was reperformed.

12.2 The reconciliation of the payroll debtor was reperformed. The payroll debtor, the related impairment and the related personnel costs were corrected retrospectively.

Depreciation and amortisation

13. The fixed asset and intangible asset registers were recompiled and depreciation was recalculated. All errors were corrected retrospectively.

Finance costs

14. The provision for long service awards was calculated by an actuary and the interest on long service awards was recognised in accordance with the actuary's report.

Repairs and maintenance, Grants and subsidies, General expenses

15. The fixed asset and intangible asset registers were recompiled. Assets incorrectly capitalised were expensed and assets incorrectly expensed were capitalised.

Interest on Landfill

16. The provision for landfill sites was recalculated in accordance with GRAP 19.

Loss on disposal of assets

17. Derecognition of air conditioners that were replaced.

Cash and cash equivalents, Bank overdraft

18. Invalid reconciling items on the main bank account were reversed.

Consumer debtors,

19. The impairment of consumer debtors calculation was reperformed and the provision for impairment was adjusted.

Receivables from non-exchange transactions

20. The debtors suspense account and the related impairment were written off retrospectively as there has been no movement since 2012 and these amounts do not relate to financial instruments as there is no contractual obligation to receive the funds.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R
36. Prior period errors (continued)		
Inventories		
21.1 The municipality received RDP houses to the value of R15 953 700 that they are to donate to members of the community.		
21.2 The incorrect expensing of consumable stores on hand at year end was reversed.		
VAT receivable		
22. The VAT was reconciled to the SARS statements and all errors discovered were corrected retrospectively.		
Investment property		
23. The land on which the municipal offices are situated was removed from Investment property and reclassified as Property, plant and equipment.		
Property, plant and equipment		
24.1 The asset registers were recompiled, physical verification of assets was performed and depreciation was recalculated. All errors discovered as a result were corrected retrospectively.		
24.2 The land on which the municipal offices are situated was removed from Investment property and reclassified as Property, plant and equipment.		
24.3 The valuation of the landfill site was performed by an engineer and the cost and accumulated depreciation on landfill sites were corrected retrospectively.		
Intangible assets		
25. The intangible asset register was recompiled and depreciation was recalculated. All errors discovered as a result were corrected retrospectively.		
Payables from exchange transactions, Payables from non-exchange transactions		
26.1 Trade payables, accrued expenses, payroll control, payments received in advance, unallocated deposits and refunds payable were reclassified from payables from non-exchange to payables from exchange transactions.		
26.2 The reconciliations of the payroll debtor and payroll control accounts were reperformed. The payroll debtor, the related impairment, the payroll control accounts and the related personnel costs were corrected retrospectively.		
Employee benefit obligation - current		
27. The provision for bonuses and provision for leave pay were recalculated and all errors discovered were corrected retrospectively.		
Employee benefit obligation - non-current		
28. The calculation of the provision for long service awards was performed by an actuary and the provision was recognised retrospectively.		
Provisions		
29. The calculation of the provision for rehabilitation of environment was reperformed by an engineer in accordance with GRAP 19 and the provision was corrected retrospectively.		
Accumulated Surplus		
30. This is the cumulative effect of the errors in the opening balance as well as the corrections during 2014. Resulting in the R8 467 564 movement.		

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R

36. Prior period errors (continued)

Restatement of disclosure notes:

Irregular expenditure	Previously stated	Adjustments	Restated 2014
Opening balance	12,345,393	83,808,114	96,153,507
Current year	96,726,911	(23,029,905)	73,697,006
	109,072,304	60,778,209	169,850,513

The CFO reviewed all payments made in the 2012 and 2013 financial years and updated the irregular expenditure listings with items that met the definition according to paragraph 1 of the Municipal Finance Management Act.

Staff received training on the compilation of an irregular expenditure register as well as the identification of irregular expenditure. The irregular expenditure listings were reviewed and amended where necessary.

37. Fruitless and wasteful expenditure

Opening balance	215,129	187,890
Fruitless and wasteful expenditure - current year	643,612	27,239
	858,741	215,129

Fruitless and wasteful expenditure is as result of interest and penalties on overdue PAYE and overdue suppliers' accounts. See note

Recoverability of all fruitless and wasteful expenditure will be evaluated by council in terms of section 32 of MFMA. No Steps have been taken at this stage to recover any monies.

38. Irregular expenditure

Opening balance	169,850,513	96,153,507
Irregular Expenditure - current year	1,061,887	73,697,006
	170,912,400	169,850,513

Irregular expenditure was incurred due to the non-compliance with Supply management principles.

Recoverability of all irregular expenditure will be evaluated by council in terms of section 32 of MFMA. No Steps have been taken at this stage to recover any monies.

Details of irregular expenditure – current year

Non-compliance with supply chain management	Disciplinary steps taken/criminal proceedings No disciplinary steps have been instituted as yet	1,061,887
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39. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R
39. Deviation from supply chain management regulations (continued)		
Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.		
Goods and services to the value of R451,928 were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations.		
A register containing the details of the deviations is available for inspection.		
40. Arrear debts for councillors - MFMA S124 (b)		
Councillor T Msongelwa		
Current	-	9
30 Days	-	12
60 Days	-	42
90 Days	-	42
120 Days	-	2,276
	-	2,381
Councillor XB Ngoma		
Current	(327)	68
30 Days	-	79
60 Days	-	109
90 Days	-	110
120 Days	-	2,084
	(327)	2,450
Councillor Z Songca		
Current	(70)	-
30 Days	-	-
60 Days	-	1
90 Days	-	1
120 Days	-	108
	(70)	110
Councillor A Dawedi		
Current	-	-
30 Days	-	-
60 Days	-	-
90 Days	-	-
120 Days	(290)	1,628
	(290)	1,628

The councillors do not have any arrear debts in 2015. This disclosure is for comparative purposes only.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
	R	R
41. Operating lease		
This committed expenditure relates to capital and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.		
Operating leases - as lessee (expense)		
- Due within one year	714,348	714,348
- Due within 2 to 5 years	238,116	952,464
	952,464	1,666,812

Operating lease payments represent rentals payable by the municipality for certain of its office equipment.

Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable.

42. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Infrastructure	22,384,615	90,402,240
• Community	24,558,891	5,143,534
• Other assets	1,936,649	-
	48,880,155	95,545,774

This committed expenditure relates to roads and other infrastructure developments, the purchase of a refuse truck and the building of town halls and other community assets and will be financed by available bank facilities, retained surpluses, as well as Grant funding and existing cash resources.

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(483,743)	-
Current year subscription	804,700	1,011,486
Amount paid - current year	(695,453)	(1,495,229)
Credit note	(109,247)	-
	(483,743)	(483,743)

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R
43. Additional disclosure in terms of Municipal Finance Management Act (continued)		
VAT - MFMA S125(1)		
Opening balance	(727,478)	(2,319,485)
Amounts received - current year	6,882,255	9,179,787
Amounts received - previous years	727,498	2,319,485
Amounts claimed - current year	(9,699,450)	(10,135,372)
Amounts disallowed & penalties	-	228,107
	(2,817,175)	(727,478)

2013/14 closing balance consists of refunds due for May 2014 & June 2014.

2014/15 closing balance consists of refunds due for May & June 2015.

Audit fees

Current year fee	3,316,463	2,551,038
Amount paid - current year	(3,316,463)	(2,551,038)
	-	-

PAYE and UIF

Current year subscription / fee	12,600,935	11,470,443
Amount paid - current year	(9,519,226)	(11,470,443)
	3,081,709	-

2014/15 closing balance consists of amounts due for July 2014, August 2014, May & June 2015.

Pension and Medical Aid Contributions

Current year subscription / fee	14,416,894	8,680,861
Amount paid - current year	(14,416,894)	(8,680,861)
	-	-

44. Other revenue

Actuarial gain	227,000	11,000
Other income	1,072,953	1,113,221
	1,299,953	1,124,221

45. Material variances - Budget vs actual and Approved vs Adjusted Budget

Explanation of material variances

STATEMENT OF FINANCIAL PERFORMANCE

REVENUE

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R

45. Material variances - Budget vs actual and Approved vs Adjusted Budget (continued)

45.1 - Actuarial gains

The report from the actuaries on the provision for long service awards was only received after year end and the actuarial gain cannot be estimated based on prior year figures therefore it could not be budgeted for.

45.2 - Other income

The LG Seta Training income was budgeted for under Other income but the actual amount (R 1 715 737) was included under Grants and subsidies.

45.3 - Property rates

The budget amount for property rates was presented before taking into account the rebates.

45.4 - Public contributions and donations

Unexpected donations were received from ADT, Tapelo Building Construction and T. Ndabeni during the current year.

45.5 - Commission received

The budgeted amount consists of income from agency fees while the actual amount consists of commissions received. The actual amounts for income from agency fees was disclosed separately.

EXPENDITURE

45.4 - Personnel

The budget for bonus and leaves provisions was understated. Excessive expenditure incurred on acting allowance, salaries etc.

45.5 - Depreciation and amortisation

The budget for Depreciation was not sufficient. The basis was the actuals of the previous financial year.

45.6 - Debt impairment

Budget was overstated.

45.7 - Contracted services

Budget for contracted services was incorrectly classified under general expenses.

45.8 - Operating grant expenditure

National treasury's budget format does not have separate item named like this, so the budget for grants operating expenses is included in the general expenses' budget if there's no separate line item provided by the format.

45.9 - Finance costs

Expenditure incurred under this item is the interest on overdue accounts. Budget for the services that the municipality paid late is under general expenses.

45.10 - General expenses

The positive variance is caused by the misclassification and the separately disclosed items of which the actuals of those items couldn't be reported here. The massive positive variance covers the contracted services, expenditure on grants and any other item noted above.

45.11 - Loss on disposal of assets

This item was not budgeted for.

STATEMENT OF FINANCIAL POSITION

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated* R

45. Material variances - Budget vs actual and Approved vs Adjusted Budget (continued)

CURRENT ASSETS

45.12 - Inventories

The basis of the budget was the year to date total at that time which was just few days till the year end.

45.13 - Receivables from non-exchange transactions

Budget for vat receivable was included here.

45.14 - Consumer debtors

Budget was overstated. Debtors were fully impaired in 2012/13 financial year, that fact was overlooked when budgeting.

45.15 - Property, plant and equipment

Budget for PPE was based on the year to date actual which included work in progress. This item has been restated in some areas of which at that time of the budget some changes were not yet made.

45.16 - Unspent Conditional Grants

Budget was overstated.

45.17 - Bank overdraft

Cash book has reconciled items that were paid directly at the bank; they are not shown in the bank statement. The matter is still being handled.

CASH FLOW STATEMENT

45.18 - Ratepayer and others

Under collection and errors in the budget.

45.19 - Grants

Some grants were offset by national treasury.

45.20 - Interest Income

Under collected. Transfers from call accounts were being made regularly to fully utilise the funds hence we could not earn interest.

45.21 - Payments

Some operations were stalled due to funds massive cuts on capital grants by National Treasury.

45.22 - Decrease in non-current receivables/Decrease in non-current assets

This is consolidated cash flow which takes into account other investment account. Budget was prepared looking at the main account, but showing the monies that will be transferred from call accounts to the main account. The effect of the money from investments is shown at the bottom. This financial year shows the net decrease, but because we had a huge amount opening balance we managed to have the positive balance at year end.

Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	Restated*
		R

45. Material variances - Budget vs actual and Approved vs Adjusted Budget (continued)

The municipality has the deficit of R- 15 908 962. There are two major factors that had an impact on this. The municipality had huge balance of its investment for equitable share and other non-investments call accounts amounting to R 17 746 209.13 as at end 2012/13 and also the municipality is constantly receiving the refunds from SARS. These two form part of the current assets and have a bearing on the surplus for the previous year. In order for the municipality to be able to utilise the funds the operating expenditure to be funded by these current assets has to be budgeted for in the statement of financial performance. It should also be noted that even though the operating expenditure is provided for in the statement of financial performance, corresponding revenue cannot be included in the statement of financial performance as per GRAP statements. This is simply because the revenue was already recognised so its part of the surplus for that year the current assets relates to. Therefore the operating expenditure incurred funded by those current assets is mostly the cause of the deficit, not that there was no cash available.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

46. New standards and interpretations

46.1 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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 20		

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when a municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by a municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees.
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as 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;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

46. New standards and interpretations (continued)

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

46. New standards and interpretations (continued)

The effective date of the standard is still unknown.

The objective of this Standard is to establish principles for reporting financial information by segments. Additional text

The effective date of the standard is for years beginning on or after .

The municipality expects to adopt the standard for the first time in the 2001 financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

* See Note 36

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2015

Notes to the Financial Statements

	2015	2014
	R	R

47. Events after the reporting date

No significant events have occurred after the reporting date

* See Note 36