



**MHLONTLO LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

General Information

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

General Information

Victor Loyiso Majeke	BHELE T/C
Siyanda Madolo	
Vuyani Ephriam Ludidi	HLUBI T/C
Siviwe Mcelu	EBHOTWE T/C
Linda Ngudle	KHAMBHI 20 T/C
K.Hanyisa Ngoni	MBALISWENI T/C

Bankers

FNB - QUMBU

Auditors

Auditor General South Africa

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 2016

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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 2016

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

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

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is 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 set out on pages 6 to 88, which have been prepared on the going concern basis, were approved by the on 31 August 2016 and were signed on its behalf by:

S G Sotshongaye
Municipal Manager

Qumbu

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

1. Review of activities

Main business and operations

The municipality is engaged in Mhlontlo Local Municipality is a South African Category B and operates principally in South Africa.

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

2. Going concern

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

The municipality as at 30 June 2016 has an operating deficit of R22 838 571 (2015: R30 977 835). The deficit is mainly due to non cash year end adjustment such as depreciation and amortisation and also provision for debt impairments.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

	Notes	2016 R	2015 Restated* R
Assets			
Current Assets			
Inventories	2	5 228 800	5 228 800
Receivables from non-exchange transactions	3	18 185 099	2 403 107
VAT receivable	4	2 855 705	2 668 906
Receivables from exchange transactions	5	39 193	354 832
Cash and cash equivalents	6	25 925 715	15 376 924
		52 234 512	26 032 569
Non-Current Assets			
Investment property	7	19 085 637	19 102 483
Property, plant and equipment	8	637 504 367	687 180 647
Intangible assets	9	490 991	851 626
Heritage assets	10	210 810	210 810
		657 291 805	707 345 566
Non-Current Assets		657 291 805	707 345 566
Current Assets		52 234 512	26 032 569
Total Assets		709 526 317	733 378 135
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	7 924 439	9 761 221
Employee benefit obligation	12	7 842 898	6 577 322
Unspent conditional grants and receipts	13	1 631 277	1 662 192
Provisions	14	3 550 000	5 000 000
		20 948 614	23 000 735
Non-Current Liabilities			
Employee benefit obligation	12	4 017 000	3 132 000
Provisions	14	1 666 890	1 513 016
		5 683 890	4 645 016
Non-Current Liabilities		5 683 890	4 645 016
Current Liabilities		20 948 614	23 000 735
Liabilities of disposal groups		-	-
Total Liabilities		26 632 504	27 645 751
Assets		709 526 317	733 378 135
Liabilities		(26 632 504)	(27 645 751)
Net Assets		682 893 813	705 732 384
Accumulated surplus		682 893 813	705 732 384

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

	Notes	2016 R	2015 Restated* R
Revenue			
Revenue from exchange transactions			
Service charges	15	1 157 510	572 850
Rental of facilities and equipment		46 161	45 737
Income from agency services		853 904	799 500
Licences and permits		1 488 639	1 303 861
Actuarial gain		(352 000)	227 000
Other income	16	1 430 121	1 073 132
Interest received	17	4 397 033	1 872 015
Total revenue from exchange transactions		9 021 368	5 894 095
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	31 807 393	9 078 232
Transfer revenue			
Government grants and subsidies	19	220 462 609	190 759 210
Public contributions and donations		-	8 000
Other revenue			
Fines		476 921	225 600
Commission received		173 337	151 658
Total revenue from non-exchange transactions		252 920 260	200 222 700
		9 021 368	5 894 095
		252 920 260	200 222 700
Total revenue		261 941 628	206 116 795
Expenditure			
Personnel	20	(76 744 083)	(67 475 668)
Remuneration of councillors	21	(16 514 056)	(15 167 982)
Depreciation and amortisation	22	(97 707 746)	(95 066 764)
Finance costs	23	(258 000)	(234 000)
Debt impairment	24	(12 393 000)	(2 221 283)
Repairs and maintenance	25	(3 192 332)	(2 068 869)
Contracted services	26	(5 094 291)	(2 926 206)
Operating grant expenditure	27	(25 877 127)	(11 306 002)
Loss on disposal of assets	28	(368 505)	-
General Expenses	29	(45 762 837)	(39 786 152)
Operating leases	29	(714 348)	(714 348)
Interest on landfill	14	(153 874)	(127 356)
Total expenditure		(284 780 199)	(237 094 630)
		-	-
Total revenue		261 941 628	206 116 795
Total expenditure		(284 780 199)	(237 094 630)
Operating deficit		(22 838 571)	(30 977 835)

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

	2016	2015
	R	Restated*
	Note(s)	R
Deficit before taxation	(22 838 571)	(30 977 835)
Taxation	-	-
Deficit for the year	(22 838 571)	(30 977 835)

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

		Accumulated surplus R	Total net assets R
Opening balance as previously reported		145 132 301	145 132 301
Adjustments			
Correction of errors (Refer to note 36)	37	591 577 918	591 577 918
Balance at 01 July 2014 as restated*		736 710 219	736 710 219
Changes in net assets			
Deficit for the year		(30 977 835)	(30 977 835)
Total changes		(30 977 835)	(30 977 835)
Restated* Balance at 01 July 2015		705 732 384	705 732 384
Changes in net assets			
Deficit for the year		(22 838 571)	(22 838 571)
Total changes		(22 838 571)	(22 838 571)
Balance at 30 June 2016		682 893 813	682 893 813

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Cash Flow Statement

	Notes	2016 R	2015 Restated* R
Cash flows from operating activities			
Receipts			
Rates and service charges		5 174 614	5 228 822
Grants		220 166 350	190 759 210
Interest income		4 397 033	1 872 015
Other receipts		4 145 003	3 826 487
		<u>233 883 000</u>	<u>201 686 534</u>
Payments			
Employee costs		(92 500 731)	(80 159 073)
Suppliers		(82 552 988)	(61 448 751)
Finance costs		(258 000)	(234 000)
		<u>(175 311 719)</u>	<u>(141 841 824)</u>
Total receipts		233 883 000	201 686 534
Total payments		(175 311 719)	(141 841 824)
Net cash flows from operating activities	31	<u>58 571 281</u>	<u>59 844 710</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(48 050 409)	(46 843 038)
Proceeds from sale of property, plant and equipment	8	27 920	-
Net cash flows from investing activities		<u>(48 022 489)</u>	<u>(46 843 038)</u>
Net increase/(decrease) in cash and cash equivalents		10 548 792	13 001 672
Cash and cash equivalents at the beginning of the year		15 376 923	2 375 252
Cash and cash equivalents at the end of the year	6	<u>25 925 715</u>	<u>15 376 924</u>

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	1 153 397	(92 158)	1 061 239	1 157 510	96 271	
Rendering of services	-	-	-	-	-	
Rental of facilities and equipment	46 161	(300)	45 861	46 161	300	
Income from agency services	852 329	1 575	853 904	853 904	-	
Licences and permits	1 488 639	-	1 488 639	1 488 639	-	
Other income 1	-	-	-	(352 000)	(352 000)	
Other income	1 382 248	40 977	1 423 225	1 430 121	6 896	
Interest received	3 697 113	699 920	4 397 033	4 397 033	-	
Total revenue from exchange transactions	8 619 887	650 014	9 269 901	9 021 368	(248 533)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	(70 973 142)	102 780 535	31 807 393	31 807 393	-	
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Transfer revenue

Government grants & subsidies	219 996 350	170 000	220 166 350	220 462 609	296 259	
Fines	82 000	-	82 000	476 921	394 921	45.1
Commission received	-	188 949	188 949	173 337	(15 612)	

Total revenue from non-exchange transactions	149 105 208	103 139 484	252 244 692	252 920 260	675 568	
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'Total revenue from exchange transactions'	8 619 887	650 014	9 269 901	9 021 368	(248 533)	
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'Total revenue from non-exchange transactions'	149 105 208	103 139 484	252 244 692	252 920 260	675 568	
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Total revenue	157 725 095	103 789 498	261 514 593	261 941 628	427 035	
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Expenditure

Personnel	(77 084 196)	1 654 491	(75 429 705)	(76 744 083)	(1 314 378)	45.2
Remuneration of councillors	(16 980 579)	141 769	(16 838 810)	(16 514 056)	324 754	45.2
Depreciation and amortisation	(17 395 683)	(78 418 399)	(95 814 082)	(97 707 746)	(1 893 664)	45.2
Finance costs	-	-	-	(258 000)	(258 000)	45.3
Debt impairment	-	-	-	(12 393 000)	(12 393 000)	45.4
Repairs and maintenance	(2 950 079)	(277 973)	(3 228 052)	(3 192 332)	35 720	45.2
Contracted Services	(5 142 457)	48 166	(5 094 291)	(5 094 291)	-	
Operating grant expenditure	(26 464 100)	518 211	(25 945 889)	(25 877 127)	68 762	45.2
General Expenses	(46 607 603)	(83 103 485)	(129 711 088)	(46 631 059)	83 080 029	45.6

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Total expenditure	(192 624 697)	(159 437 220)	(352 061 917)	(284 411 694)	67 650 223	
	157 725 095	103 789 498	261 514 593	261 941 628	427 035	
	(192 624 697)	(159 437 220)	(352 061 917)	(284 411 694)	67 650 223	
Operating deficit	(34 899 602)	(55 647 722)	(90 547 324)	(22 470 066)	68 077 258	
Loss on disposal of assets	-	-	-	(368 505)	(368 505)	45.7
	(34 899 602)	(55 647 722)	(90 547 324)	(22 470 066)	68 077 258	
	-	-	-	(368 505)	(368 505)	
Deficit	(34 899 602)	(55 647 722)	(90 547 324)	(22 838 571)	67 708 753	
Deficit	(34 899 602)	(55 647 722)	(90 547 324)	(22 838 571)	67 708 753	
Taxation	-	-	-	-	-	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Position

Assets

Current Assets

Inventories	16 062 397	(5 565 397)	10 497 000	5 228 800	(5 268 200)	
Receivables from non-exchange transactions	-	24 267 741	24 267 741	18 185 099	(6 082 642)	45.9
VAT receivable	-	111 527	111 527	2 855 705	2 744 178	45.10
Receivable from exchange transactions	-	730 059	730 059	39 193	(690 866)	45.11
Cash and cash equivalents	-	12 505 125	12 505 125	25 925 715	13 420 590	45.12
	16 062 397	32 049 055	48 111 452	52 234 512	4 123 060	

Non-Current Assets

Investment property	27 442 135	(330 300)	27 111 835	19 085 637	(8 026 198)	45.13
Property, plant and equipment	39 603 854	(1 550 358)	38 053 496	637 504 367	599 450 871	45.14
Intangible assets	-	(218 725)	(218 725)	490 991	709 716	45.15
Heritage assets	-	-	-	210 810	210 810	45.16
	67 045 989	(2 099 383)	64 946 606	657 291 805	592 345 199	

Non-Current Assets	16 062 397	32 049 055	48 111 452	52 234 512	4 123 060	
Current Assets	67 045 989	(2 099 383)	64 946 606	657 291 805	592 345 199	
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-	-	
Total Assets	83 108 386	29 949 672	113 058 058	709 526 317	596 468 259	

Liabilities

Current Liabilities

Payables from exchange transactions	-	10 286 989	10 286 989	7 924 440	(2 362 549)	45.17
Employee benefit obligation	-	-	-	7 842 898	7 842 898	45.18
Unspent conditional grants and receipts	-	30 915	30 915	1 631 277	1 600 362	45.19
Provisions	-	-	-	3 550 000	3 550 000	45.20
	-	10 317 904	10 317 904	20 948 615	10 630 711	

Non-Current Liabilities

Employee benefit obligation	-	-	-	4 017 000	4 017 000	45.21
Provisions	-	-	-	1 666 890	1 666 890	45.22
	-	-	-	5 683 890	5 683 890	
	-	10 317 904	10 317 904	20 948 615	10 630 711	
	-	-	-	5 683 890	5 683 890	
	-	-	-	-	-	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Total Liabilities	-	10 317 904	10 317 904	26 632 505	16 314 601	
Assets	83 108 386	29 949 672	113 058 058	709 526 317	596 468 259	
Liabilities	-	(10 317 904)	(10 317 904)	(26 632 505)	(16 314 601)	
Net Assets	83 108 386	19 631 768	102 740 154	682 893 812	580 153 658	
Net Assets						
Accumulated surplus	83 108 386	19 631 768	102 740 154	682 893 812	580 153 658	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	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	5 237 246	(13 592 754)	45.23
Grants	176 695 000	(40 537 000)	136 158 000	190 759 210	54 601 210	45.24
Other receipts	-	-	-	3 752 308	3 752 308	45.25
	186 148 415	(31 160 415)	154 988 000	199 748 764	44 760 764	

Payments

Suppliers and employees	(138 367 661)	19 928 661	(118 439 000)	(141 594 644)	(23 155 644)	45.26
Total receipts	186 148 415	(31 160 415)	154 988 000	199 748 764	44 760 764	
Total payments	(138 367 661)	19 928 661	(118 439 000)	(141 594 644)	(23 155 644)	
Net cash flows from operating activities	47 780 754	(11 231 754)	36 549 000	58 154 120	21 605 120	
Net increase/(decrease) in cash and cash equivalents	47 780 754	(11 231 754)	36 549 000	58 154 120	21 605 120	
Cash and cash equivalents at the end of the year	47 780 754	(11 231 754)	36 549 000	58 154 120	21 605 120	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Financial Statements

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

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:

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are

therefore as follows:

Standards Issued and Effective

- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 4 - The Effects of changes in Foreign Exchange Rates (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 25 – Employee Benefits
- GRAP 26 - Impairment of cash-generating assets
- GRAP 27 - Agriculture
- GRAP 31 - Intangible Assets
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments
- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers

Standards Issued, Not Yet Effective Date

- GRAP 20 - Related Party Disclosures
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 108 - Statutory Receivables
- GRAP 109 - Accounting by Principals and Agents

Interpretations - Approved and not yet effective

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting Inhyperinflationary Economies
- IGRAP 6 - Loyalty Programmes
- IGRAP 7 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non-cash Assets to Owners
- IGRAP 10 - Assets Received from Customers
- IGRAP 11 - Consolidation - Special Purpose Entities

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- IGRAP 12 - Jointly Controlled Entities - Non-Monetary Contributions
 - IGRAP 13 - Operating Leases - Incentives
 - IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
 - IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
 - IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)
- Interpretations – Approved and not yet effective
- IGRAP 17 - Interpretation of the Standard of GRAP on Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset

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:

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.

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1.4 Significant judgements and sources of estimation uncertainty (continued)

Contingent provisions on entity combinations

Contingencies recognised in the current year required estimates and judgments, refer to note on entity combinations.

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.

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.

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1.5 Investment property (continued)

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
Property - buildings	50 - 100 years

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.

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1.6 Property, plant and equipment (continued)

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.

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	30 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.

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1.6 Property, plant and equipment (continued)

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.

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.

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1.7 Intangible assets (continued)

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

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.

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Accounting Policies

1.8 Heritage assets (continued)

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.

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.

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.

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Accounting Policies

1.9 Financial instruments (continued)

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 unitised 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 fair value

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

Class	Category
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.

For the purpose of cash flow statement, cash and cash equivalents comprise cash on hand, deposits held, other short-term highly liquid investments and bank overdrafts.

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.

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1.11 Leases (continued)

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

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.

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1.13 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

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.

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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 2016

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

Financial Statements for the year ended 30 June 2016

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 2016

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 2016

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 35.

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 2016

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 2016

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 2016

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 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 37 to the financial statements.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

Irregular expenditure 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.

1.23 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.

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.23 Budget information (continued)

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.

1.24 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:

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.24 Related parties (continued)

- (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 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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.25 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 is receivables:

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

1.26 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 2016

Notes to the Financial Statements

	2016	2015
	R	R
<hr/>		
2. Inventories		
Residential houses	5 228 800	5 228 800
<hr/>		
Inventories relate to residential houses.		
3. Receivables from non-exchange transactions		
Traffic fines	992 721	323 922
Rates	17 864 260	14 183 028
Banking suspense	-	95
Allowance for impairment	(671 882)	(12 103 938)
	<hr/> 18 185 099	<hr/> 2 403 107

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R
3. Receivables from non-exchange transactions (continued)		
Rates		
Current (0-30 days)	16 988 114	234 274
31 - 60 days	16 966	110 345
61 - 90 days	16 900	251 984
91 -120 days	16 882	124 059
121 - 365 days	986 971	13 623 939
Impairment	-	(11 915 214)
	18 025 833	2 429 387
Summary of debtors by customer classification		
Consumers		
Current (0-30 days)	725 259	(17 884)
31 - 60 days	5 612	51 519
61 - 90 days	5 546	107 092
91 -120 days	5 528	52 201
121 - 365 days	420 221	6 881 889
	1 162 166	7 074 817
Industrial / commercial		
Current (0-30 days)	435 400	137 999
31 - 60 days	11 354	58 826
61 - 90 days	11 354	144 892
91 -120 days	11 354	71 858
121 - 365 days	513 591	5 706 293
	983 053	6 119 868
National and provincial government		
Current (0-30 days)	15 827 485	(503 499)
121 - 365 days	53 159	959 566
	15 880 644	456 067
Total		
Current (0-30 days)	16 988 144	153 487
31 - 60 days	16 966	110 345
61 - 90 days	16 900	251 984
91 -120 days	16 882	124 059
121 - 365 days	986 971	13 704 727
	18 025 863	14 344 602
Reconciliation of allowance for impairment		
Balance at the beginning of the year	(11 915 214)	(10 306 202)
contributions to allowance	-	(1 609 012)
Reversal of allowance	11 915 214	-
		- (11 915 214)

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R
3. Receivables from non-exchange transactions (continued)		
Traffic fines		
Opening balance	215 404	241 921
Current year movement	532 639	111 200
Less: Impairment	(620 876)	(137 717)
	127 167	215 404
No consumer debtors have been pledged as security.		
4. VAT		
VAT	2 855 705	2 668 906
Vat receivable balance includes the monies due from SARS for the vat periods May 2016 and June 2016 as well as the VAT on the trade debtors' and trade creditors' balances at year end.		
An amount of R7 874 284.95 has been received in the current year and therefore recoverability of the amount receivable from SARS is not remote.		
5. Receivables from exchange transactions		
Gross balances		
Refuse	5 505 932	4 559 494
Old balances	-	5 426 988
	5 505 932	9 986 482
Less: Allowance for impairment		
Refuse	(5 466 739)	(4 305 897)
Old balances	-	(5 325 753)
	(5 466 739)	(9 631 650)
Net balance		
Refuse	39 193	253 597
Old balances	-	101 235
	39 193	354 832
Refuse		
Current (0 -30 days)	59 456	106 603
31 - 60 days	86 337	45 074
61 - 90 days	85 677	118 892
91 - 120 days	85 560	58 819
121 - 365 days	5 188 902	4 230 106
Impairment	(5 466 739)	(4 305 897)
	39 193	253 597

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R
5. Receivables from exchange transactions (continued)		
Other - old balances		
Current (0 -30 days)	-	19 541
31 - 60 days	-	584
61 - 90 days	-	39 162
91 - 120 days	-	19 599
121 - 365 days	-	5 348 102
Impairment	-	(5 325 753)
	-	101 235
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	57 801	346 443
31 - 60 days	57 150	32 553
61 - 90 days	56 790	52 206
91 - 120 days	56 674	25 946
121 - 365 days	4 011 550	7 277 866
	4 239 965	7 735 014
Industrial/ commercial		
Current (0 -30 days)	21 498	12 850
31 - 60 days	21 301	8 947
61 - 90 days	21 301	32 837
91 - 120 days	21 301	16 262
121 - 365 days	891 890	2 047 961
	977 291	2 118 857
National and provincial government		
Current (0 -30 days)	1 376	(113 055)
31 - 60 days	7 886	4 159
61 - 90 days	7 586	9 649
91 - 120 days	7 586	4 746
121 - 365 days	264 242	227 112
	288 676	132 611
Total		
Current (0 -30 days)	59 456	126 144
31 - 60 days	86 337	45 658
61 - 90 days	85 677	158 054
91 - 120 days	85 560	78 418
121 - 365 days	5 188 902	9 578 208
	5 505 932	9 986 482
Less: Allowance for impairment	(5 466 739)	(9 631 650)
	39 193	354 832

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R
5. Receivables from exchange transactions (continued)		
Reconciliation of allowance for impairment		
Balance at beginning of the year	(21 546 864)	(9 070 492)
Contributions to allowance	(5 466 739)	(561 158)
Reversal of allowance	21 546 864	-
	(5 466 739)	(9 631 650)

Consumer debtors pledged as security

No consumer debtors have been pledged as security.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	257	361
Bank balances	3 358 406	5 314 740
Short-term deposits	22 567 052	10 061 823
	25 925 715	15 376 924

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	23 925 458	15 377 479

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016			2015 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 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
FNB - Business Call Account: Revolving Fund - 61399068117	17 423 520	7 201 916	1 470	17 423 519	7 201 916	1 470
FNB - Commercial Fixed Maturity Notice: Electrification Prog - 74231136926	-	532 178	223 935	-	532 178	223 935
FNB - Business NSTD Call: Equitable Share - 62027945809	3 156 246	282 622	15 950	3 156 246	282 622	15 950
FNB - Public Sector Cheque Account: Gqunu Lots - 62020395390	699 208	701 546	1 958	699 208	701 546	1 958
FNB - Public Sector Cheque Account: MIG - 62170844221	134 911	134 916	2 069 530	134 911	134 916	2 069 530
FNB - Commercial Money Market Investment: FMG - 62280641244	(14)	10 000	11 169	(14)	10 000	11 169
FNB - Commercial Call Account: Local Economic Dev - 62075571713	396 304	395 403	3 681	396 304	395 403	3 681
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	735 893	736 061	12 525	735 893	736 061	12 525
FNB - Commercial Money Market Investment: MSIG - 62280642416	9 986	56 181	10 000	9 986	56 181	10 000
FNB - Public Sector Cheque Account - 629929800300	3 358 406	5 290 491	11 296	3 358 407	5 314 740	13 896
Total	25 925 460	15 352 314	2 372 514	25 925 460	15 376 563	2 375 114

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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R

7. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	19 085 637	-	19 085 637	19 102 483	-	19 102 483

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	19 102 483	(16 846)	19 085 637

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	19 119 329	(16 846)	19 102 483

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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R

8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	7 786 300	-	7 786 300	7 786 300	-	7 786 300
Buildings	25 251 840	(10 736 377)	14 515 463	25 251 840	(10 108 886)	15 142 954
Infrastructure	1 166 299 801	(662 547 762)	503 752 039	1 151 630 364	(568 765 403)	582 864 961
Community assets	40 085 859	(17 458 765)	22 627 094	40 085 859	(16 496 065)	23 589 794
Other assets	27 966 995	(5 917 392)	22 049 603	22 416 418	(4 512 630)	17 903 788
Work-in-progress	60 949 775	-	60 949 775	33 864 744	-	33 864 744
Landfill site	8 050 524	(2 226 431)	5 824 093	8 050 524	(2 022 418)	6 028 106
Total	1 336 391 094	(698 886 727)	637 504 367	1 289 086 049	(601 905 402)	687 180 647

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	7 786 300	-	-	-	-	7 786 300
Buildings	15 142 954	-	-	-	(627 491)	14 515 463
Infrastructure	582 864 961	-	-	14 669 437	(93 782 359)	503 752 039
Community assets	23 589 794	-	-	-	(962 700)	22 627 094
Other assets	17 903 788	7 155 941	(1 256 424)	-	(1 753 702)	22 049 603
Work-in-progress	33 864 744	41 754 468	-	(14 669 437)	-	60 949 775
Landfill site	6 028 106	-	-	-	(204 013)	5 824 093
	687 180 647	48 910 409	(1 256 424)	-	(97 330 265)	637 504 367

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Depreciation	Total
Land	7 786 300	-	-	-	7 786 300
Buildings	15 770 445	-	-	(627 491)	15 142 954
Infrastructure	634 606 074	-	39 755 525	(91 496 638)	582 864 961
Community assets	24 552 494	-	-	(962 700)	23 589 794
Other assets	19 268 584	33 645	-	(1 398 441)	17 903 788
Work-in-progress	26 810 876	46 809 393	(39 755 525)	-	33 864 744
Landfill site	6 232 119	-	-	(204 013)	6 028 106
	735 026 892	46 843 038	-	(94 689 283)	687 180 647

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2016	2015
R	Restated*
R	R

8. Property, plant and equipment (continued)

* - Prior period restatement

Refer to Note 37 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

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 861 704	(1 370 713)	490 991	1 861 704	(1 010 078)	851 626

Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software	851 626	(360 635)	490 991

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	1 212 261	(360 635)	851 626

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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R

10. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	210 810	-	210 810	210 810	-	210 810

Reconciliation of heritage assets 2016

	Opening balance	Total
Heritage assets	210 810	210 810

Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage assets	210 810	210 810

Age and/or condition of heritage assets

The municipality owns the following heritage asset:

The mayoral chain.

11. Payables from exchange transactions

Trade payables	4 130 037	2 746 263
Payments received in advanced - Consumer debtors	1 626 215	848 112
Unallocated Deposits	235 412	218 177
Payroll control	75 009	3 881 840
Creditors accruals	1 856 680	2 065 743
Debtors suspense	1 086	1 086
	7 924 439	9 761 221

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
	R	R

12. Employee benefit obligation

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 2016 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	468 000	463 000
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* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015		
	R	Restated* R		
12. Employee benefit obligation (continued)				
The amounts recognised in the statement of financial position are as follows:				
Carrying value				
Bonus accrual	1 504 619	1 213 873		
Leave pay accrual	6 338 279	5 363 449		
Long service awards	4 017 000	3 132 000		
	11 859 898	9 709 322		
Non-current liabilities	4 017 000	3 132 000		
Current liabilities	7 842 898	6 577 322		
	11 859 898	9 709 322		
Reconciliation of employee benefits - 2016				
	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 213 873	1 504 619	(1 213 873)	1 504 619
Leave pay accrual	5 363 449	6 415 639	(5 440 809)	6 338 279
	6 577 322	7 920 258	(6 654 682)	7 842 898
Reconciliation of employee benefits - 2015				
	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 128 474	1 213 873	(1 128 474)	1 213 873
Leave pay accrual	3 709 621	5 363 449	(3 709 621)	5 363 449
	4 838 095	6 577 322	(4 838 095)	6 577 322
Long service awards				
Changes in the present value of the defined benefit obligation are as follows:				
Opening balance		3 132 000		2 807 000
Benefits paid		(193 000)		(145 000)
Net expense recognised in the statement of financial performance		1 078 000		470 000
		4 017 000		3 132 000
Net expense recognised in the statement of financial performance				
Current service cost		468 000		463 000
Interest cost		258 000		234 000
Actuarial losses / (gains)		352 000		(227 000)
		1 078 000		470 000

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

12. Employee benefit obligation (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,06 %	8,50 %
Expected rate of return on assets	6,68 %	6,23 %
Expected rate of return on reimbursement rights	7,68 %	7,23 %
Actual return on reimbursement rights	1,28 %	1,18 %

The SA85-90 mortality table was used.

The normal retirement age is assumed to be 65.

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

Accounting Standard GRAP 25 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 2015 the duration of liabilities was 9.32 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2016 is 9.06% per annum. The assumed discount rate used at the previous valuation, 30 June 2015, was 8.50% per annum.

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

Example at stated age	Withdrawal rates %
20	20,00
25	15,00
30	12,50
35	9,00
40	6,00
45	4,00
50	2,00
55+	0,00

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R

12. Employee benefit obligation (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	865 000	964 000
Effect on defined benefit obligation	3 681 000	4 405 000

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

	2016	2015	2014	2013	2012
	R	R	R	R	R
Defined benefit obligation	4 017 000	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

Gqunu lots	1 053 752	1 053 752
Qumbu Pilot Housing	62 525	62 525
LED	15 000	15 000
INEP electrification	-	530 915
Tsitsa Falls Fire Management	500 000	-
	1 631 277	1 662 192

Movement during the year

Balance at the beginning of the year	1 662 192	2 010 663
Additions during the year	58 498 000	60 800 000
Income recognition during the year	(58 528 915)	(61 148 471)
	1 631 277	1 662 192

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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015			
	R	Restated* R			
14. Provisions					
Reconciliation of provisions - 2016					
	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	1 513 016	-	-	153 874	1 666 890
Legal proceedings	5 000 000	3 550 000	(5 000 000)	-	3 550 000
	6 513 016	3 550 000	(5 000 000)	153 874	5 216 890
Reconciliation of provisions - 2015					
	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	1 373 347	-	-	139 669	1 513 016
Legal proceedings	3 800 000	5 000 000	(3 800 000)	-	5 000 000
	5 173 347	5 000 000	(3 800 000)	139 669	6 513 016
Non-current liabilities				1 666 890	1 513 016
Current liabilities				3 550 000	5 000 000
				5 216 890	6 513 016

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 1 666 890 to restore the sites at the end of its useful lives. 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 2043, 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 DB Grobler. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
	R	R

14. Provisions (continued)

- The sizes of the landfill sites is estimated to be 50512 square metres.
- 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	322 500	117 966
Consumers	748 690	408 445
National and provincial government	86 320	46 439
	1 157 510	572 850

16. Other income

Advertising bill boards	61 416	44 774
Business Licence	38 786	53 360
Cemetery fee - burials	15 560	10 439
Clearance certificate	1 252	1 266
Overdeposit / banking	-	3
Pound fees	171 560	270 130
Pound sales	973 129	610 132
Refund	46 587	6 362
Sale of wood	123	44
Sundry income	6 601	179
Tender fees	112 438	71 229
Plan fees	2 669	5 214
	1 430 121	1 073 132

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R
17. Interest received		
Interest revenue		
Interest from investments	3 559 343	1 211 288
Interest charged on trade and other receivables	837 690	660 727
	4 397 033	1 872 015
	-	-
	4 397 033	1 872 015
18. Property rates		
Rates received		
Consumers	2 485 601	495 404
Industrial / Commercial	5 115 379	1 295 121
National and provincial government	24 250 404	8 309 696
Small holdings and farms	167 135	1 359 804
Less: Income forgone - rebates	(211 126)	(2 381 793)
	31 807 393	9 078 232
Valuations		
Valuations on land and buildings are performed every 4 years. The next general valuation will come into effect on 1 July 2018, 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.		
19. Government grants and subsidies		
Operating grants		
Equitable share	159 404 000	127 895 000
Training - LGSETA	1 359 694	1 715 738
	160 763 694	129 610 738
Conditional grants		
EPWP - Casual workers	1 000 000	1 221 000
Municipal Finance Management Grant	1 875 000	1 800 000
Electrification program	13 530 915	4 311 095
Library Assistance	170 000	170 000
MIG grant	3 914 891	52 712 377
MSIG grant	930 000	934 000
	21 420 806	61 148 472
Government grant (capital) 1	38 278 109	-
	182 184 500	190 759 210

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R
19. Government grants and subsidies (continued)		
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members as well as the operations of the municipality.		
All registered indigents receive a monthly subsidy of R - (2015: R -), which is funded from the grant.		
MIG grant		
Balance unspent at beginning of year	-	37 377
Current-year receipts	42 193 000	52 675 000
Conditions met - transferred to revenue	(42 193 000)	(52 712 377)
	<u>-</u>	<u>-</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	<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.		
Qumbu Pilot Housing		
Balance unspent at beginning of year	<u>62 525</u>	<u>62 525</u>
LED		
Balance unspent at beginning of year	<u>15 000</u>	<u>15 000</u>
Unspent amount relates to Sinakho coffin manufacture project. Prior period figures have been restated.		
FMG		
Current-year receipts	1 875 000	1 800 000
Conditions met - transferred to revenue	(1 875 000)	(1 800 000)
	<u>-</u>	<u>-</u>

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R
19. Government grants and subsidies (continued)		
MSIG		
Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-
All the conditions have been met and all funds have been spent, overspending has been financed through equitable share.		
Vuna Awards		
Library Assistance		
Current-year receipts	170 000	170 000
Conditions met - transferred to revenue	(170 000)	(170 000)
	-	-
EPWP - Casual workers		
Current-year receipts	1 000 000	1 221 000
Conditions met - transferred to revenue	(1 000 000)	(1 221 000)
	-	-
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	530 915	842 009
Current-year receipts	13 000 000	4 000 000
Conditions met - transferred to revenue	(13 530 915)	(4 311 094)
	-	530 915

The balance left is for the retention due, which will be paid after inspections have been done and the necessary period has lapsed.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R
20. Employee related costs		
Basic	44 059 475	39 949 686
Acting allowances	-	36 682
Back pay	1 036 844	164 346
Bonus	3 096 340	2 532 166
Medical aid - employer contribution	4 904 455	4 418 474
UIF	343 953	399 370
SDL	720 509	653 811
Other payroll levies	15 839	16 482
Contribution to leave pay provision charge	974 830	734 508
Pension Fund - employer contribution	5 278 165	4 972 343
Travel, motor car, accommodation, subsistence and other allowances	8 413 571	6 538 874
Overtime payments	2 084 184	2 273 388
WCA	441 242	378 163
Contribution provision for bonus	290 745	85 399
Casual Workers	168 765	87 581
Employee related expenses	-	5 250
Housing benefits and allowances	2 441 517	2 246 164
Long term leave contribution	275 000	318 000
Leave encashment	844 964	504 251
Standby allowance	608 145	498 845
Cellphone allowance	745 540	661 885
	76 744 083	67 475 668

Remuneration of Municipal Manager - S G Sotshongaye

Annual Remuneration	746 649	619 763
Car Allowance	291 748	191 341
Contributions to UIF, Medical and Pension Funds	1 785	30 732
Back pay	85 132	-
Re-imbursive travel allowance	88 240	-
Acting allowance	-	14 723
Leave encashment	111 666	95 109
	1 325 220	951 668

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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R
20. Employee related costs (continued)		
Remuneration of Chief Finance Officer - N Boti		
Annual Remuneration	830 656	461 396
Car Allowance	177 814	192 248
Contributions to UIF, Medical and Pension Funds	1 785	1 487
Housing Allowance	34 718	115 349
Backpay	76 299	-
Cellphone Allowance	30 000	-
Re-imbursive travel allowance	7 304	-
	1 158 576	770 480

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

Remuneration of the Community Manager - Y M Yilo

Annual Remuneration	709 470	578 000
Car Allowance	196 889	144 500
Contributions to UIF, Medical and Pension Funds	1 785	126 805
Housing Allowance	127 010	54 076
Back pay	76 299	-
Cellphone Allowance	-	5 200
	1 111 453	908 581

Remuneration of the Technical Manager - TP Mase

Annual Remuneration	758 009	891 260
Car Allowance	209 299	-
Contributions to UIF, Medical and Pension Funds	1 785	24 383
Cellphone Allowance	46 986	-
Back pay	76 299	-
Re-imbursive Travel Allowance	24 476	-
	1 116 854	915 643

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R
20. Employee related costs (continued)		
Remuneration of the Acting Chief Finance Officer - T Yengeni		
Annual Remuneration	-	90 864
Car Allowance	-	34 558
Contributions to UIF, Medical and Pension Funds	-	3 227
Other	-	1 848
Other	-	23 903
Other	-	4 000
	-	7 872
	-	166 272

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	709 470	566 558
Car Allowance	248 939	172 399
Contributions to UIF, Medical and Pension Funds	1 785	70 545
Housing Allowance	55 884	71 243
Cellphone Allowance	-	5 200
Acting Allowance	-	20 855
Back pay	76 299	-
Re-imbursive Travel Allowance	34 169	-
	1 126 546	906 800

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

Remuneration of the Local Economic and Rural Development Manager - Z Zipete

Annual Remuneration	709 470	702 591
Car Allowance	248 939	156 674
Contributions to UIF, Medical and Pension Funds	1 785	24 053
Housing Allowance	20 332	-
Back pay	76 299	-
Re-imbursive Travel Allowance	64 734	-
	1 121 559	883 318

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R
21. Remuneration of councillors		
Mayor	803 432	754 121
Councillors	15 710 624	14 413 861
	16 514 056	15 167 982
Breakdown of councillors' remuneration		
Mayor's Allowance	803 432	754 121
Speaker's Allowance	630 878	639 842
Chief Whip	601 966	581 642
Councillors Allowance	14 477 780	13 110 527
Contributions to Medical	-	58 732
	16 514 056	15 144 864
22. Depreciation and amortisation		
Property, plant and equipment	97 347 111	94 706 129
Intangible assets	360 635	360 635
	97 707 746	95 066 764
23. Finance costs		
Interest on long service awards	258 000	234 000
24. Debt impairment		
Consumer debtors	12 393 000	2 221 283
<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. Consumer debtors provided for impairment in prior years have been written off during the current year per the council resolution.</p>		
25. Repairs and maintainence		
Buildings	1 037 643	109 094
Equipment	464 702	542 213
Network and hardware support	294 807	555 234
Public safety	244 460	248 578
Streets lights and access roads	815 777	158 833
Motor vehicle repairs	334 939	454 915
	3 192 328	2 068 867
26. Contracted services		
Security services	5 094 291	2 926 206

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R
27. Operating grant expenditure		
Other subsidies		
Electrification program	12 299 570	3 781 662
EPWP Program	1 527 849	1 381 496
Indigent subsidy	9 711 808	5 786 600
FMG Interns	1 269 202	232 560
MSIG	-	123 684
SETA	173 034	-
Group co ID 12	895 664	-
	25 877 127	11 306 002
28. Loss on disposal of assets		
Net book value of assets disposed of	(396 424)	-

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R
29. General expenses		
Accounting fees	167 750	200 641
Advertising	469 475	277 515
Animal Feed	86 432	57 225
Auditors remuneration	2 886 281	3 329 005
Bank charges	154 931	184 613
Community development and training	318 892	94 200
Conferences and seminars	249 700	551 977
Consulting and professional fees	148 898	2 058 782
Consumables	365 712	525 320
Contribution for legal fees	6 776 602	7 929 289
Crime prevention	4 950	751
Council meetings	-	4 500
Electricity purchase	1 178 259	1 124 422
Entertainment	891 450	53 666
Fuel and oil	1 777 606	1 709 313
Hiring charges	1 576 383	329 533
Incorporation costs	2 920	500 285
Interest and penalties	38 23 452	644 078
Insurance - general	334 429	358 747
Medical expenses	45 322	700
Motor vehicle expenses	195 889	185 139
Packaging	-	5 054
Office expenses	14 866	14 911
Postage and courier	2 060	5 027
Pest control	37 977	23 500
Printing and stationery	1 874 406	1 150 346
Promotions	-	400 371
Protective clothing	810 823	155 445
Public participation	2 288 499	203 800
Restructuring	153 874	139 669
Software expenses	977 751	542 852
Project maintenance costs	3 623 418	3 767 000
Subscriptions and membership fees	840 408	688 172
Survey and planning	3 485 998	224 463
Telephone and fax	2 896 794	3 421 249
Tourism development	-	7 574
Training	2 388 490	2 965 634
Travel - local	2 810 252	-
Ward committee stipend	6 082 209	6 078 740
	45 943 158	39 913 508
30. Auditors' remuneration		
Fees	2 886 281	3 329 005

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R
31. Cash generated from operations		
(Deficit) / surplus	(22 838 571)	(30 977 835)
Adjustments for:		
Depreciation and amortisation	97 707 746	95 066 764
Gain on sale of assets and liabilities	368 505	-
Debt impairment	12 393 000	2 221 283
Increase in employment benefit obligations	2 150 576	1 144 906
Increase in provisions	(1 296 126)	1 339 669
Changes in working capital:		
Inventories	-	9 319
Consumer debtors	(27 673 807)	(2 494 457)
Other receivables from non-exchange transactions	(185 547)	(30 979)
Payables from exchange transactions	(1 836 781)	(4 188 668)
VAT	(186 799)	(1 896 820)
Unspent conditional grants and receipts	(30 915)	(348 472)
	58 571 281	59 844 710

32. 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.

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.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

32. Risk management (continued)

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

Financial instrument	2016	2015
Short term deposits	22 567 052	10 061 823
Receivables from exchange transactions	39 193	254 057
Receivables from non-exchange transactions	18 171 014	2 644 886

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.

33. Unauthorised expenditure

Opening balance	61 045 087	50 772 818
Unauthorised expenditure in the current year	18 241 208	10 272 269
	79 286 295	61 045 087

This was due to depreciation calculations that were only accounted for after budget was adopted. The reconstruction of asset registers was only completed after the 30th of June 2016

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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
	R	R

33. Unauthorised expenditure (continued)

Detailed breakdown of unauthorised expenditure per Vote - Operating	2016 R (Actual)	2016 R (Budget)	2016 R (Variance)	Unauthorised
Executive and Council	46 555 683	52 296 594	5 740 911	-
Finance and Administration	68 656 222	54 123 558	(14 532 664)	14 532 664
Planning and Development	14 677 470	13 722 502	(954 968)	954 968
Public Safety	18 437 924	18 325 725	(112 199)	112 199
Waste Management	14 547 798	14 446 720	(101 078)	101 078
Road Transport	120 476 750	121 025 509	548 759	-
Community Services	962 700	226 105	(736 595)	736 595
	284 314 547	274 166 713	(10 147 834)	16 437 504

Capital Expenditure per Vote	2016 R (Actual)	2016 R (Budget)	2016 R (Variance)	Unauthorised
Capital Expenditure	48 910 409	47 106 704	(1 803 704)	1 803 704

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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated* R

34. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Receivables from non-exchange transactions	-	18 171 014	18 171 014
Receivables from exchange transactions	-	39 193	39 193
Bank balances	3 358 662	-	3 358 662
Short term deposits	22 567 052	-	22 567 052
	25 925 714	18 210 207	44 135 921

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	7 808 116	7 808 116

2015

Financial assets

	At fair value	At amortised cost	Total
Receivables from non-exchange transactions	-	2 644 886	2 644 886
Receivables from exchange transactions	-	354 832	354 832
Bank balances	5 315 294	-	5 315 294
Short term deposits	10 061 822	-	10 061 822
	15 377 116	2 999 718	18 376 834

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	9 803 721	9 803 721

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R
35. Contingent liabilities		
Bank guarantees	135 000	135 000
Pending legal claims	3 250 000	3 500 000
	3 385 000	3 635 000

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 - Mangezimani Access Road, Eastern Province. The guarantee is payable to the municipality upon the submission of a claim in writing.

Legal proceedings

Ntantana Nokhitha and 3 others vs Mhlontlo Local Municipality Case Number 3412/2014

An interdict application that was brought on urgent basis interdicting the building of low cost houses at Tsolo under ERF 42.

The municipality won this application against Nomkhitha Ntantana and 3 Others and applicants lodged an appeal to Supreme Court of Appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court

An amount of R700 000 (Seven Hundred Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

Gqesha Nozolile and 4 others vs Mhlontlo Local Municipality Case Number 3424/2014

An interdict application that was brought on urgent basis interdicting the building of low cost houses at Tsolo under ERF 42.

The municipality won this application against Gqesha Nozolile and 4 Others and applicants lodged an appeal to Supreme Court of Appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court. An amount of R750 000 (Seven Hundred and Fifty Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

Mavuso Kholiswa vs Mhlontlo Local Municipality Case Number 3434/2014

This is an application that was brought by Kholiswa Mavuso and two others seeking an interim relief against municipality for the building of low cost houses at Tsolo under ERF 42. The municipality opposed the granting of interim relief successfully but Mavuso Kholiswa appealed and the matter is still pending before Supreme Court of Appeals in Bloemfontein.

An amount of R950 000 (Nine Hundred and Fifty Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2016	2015
R	Restated*
R	R

35. Contingent liabilities (continued)

Sojada Nomalunge and other vs Mhlontlo Local Municipality Case Number 3407/2014

This is an application that was brought by Sojada Nomalunge and two others seeking an interim relief against municipality for the building of low cost houses at Tsolo under ERF 42. The municipality opposed the granting of interim relief successfully but Siseko Landule appealed and the matter is still pending before Supreme Court of Appeals in Bloemfontein.

An amount of R850 000 (Eight Hundred and Fifty Thousand Rand) may be incurred by paying applicant's legal team if the municipality does not win the case.

2015

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.

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.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
	R	R

35. Contingent liabilities (continued)

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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
	R	R
36. 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 Mfabela	
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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
	R	R
36. 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
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 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

37. Prior period errors

2015 Opening balances

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Receivables from non-exchange transactions	483 838	(379 433)	104 405	1
Property, Plant and Equipment	127 409 628	607 617 265	735 026 893	2
Investment property	27 111 835	(7 992 506)	19 119 329	3
Intangible Assets	1 187 159	25 102	1 212 261	4
Heritage Assets	119 400	91 410	210 810	5
Payables from exchange transactions	(12 283 457)	(2 150 174)	(14 433 631)	6
Provisions	(1 927 200)	(365 466)	(2 292 666)	7
Inventories	10 497 000	(5 268 200)	5 228 800	23
Accumulated surplus	(144 648 478)	(591 577 998)	(736 226 476)	
	7 949 725	-	7 949 725	

The opening balances for 2015 have been restated as follows:

1. The reconciliation of the creditors was reperformed and the payments made in advance to a creditor was correctly accounted for retrospectively. In addition the application of IGRAP 1 has been retrospectively corrected and included in non exchange transactions.
2. 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.
3. The investment property was reconstructed and the effects of the prior period errors were corrected retrospectively .
4. Heritage Assets have been revalued and the revaluing has been performed retrospectively and also the memorial stone has been removed as it is part of the Municipal Office building entrance and it has been included as part of the Property, plant and equipment.
5. The restatement in payables from exchange transactions is due to the restatement of provision on retention and surety as part of the property plant and equipment restatement in point 2 above and the effect has been performed retrospectively.
6. The provision for landfill site calculation has been reperformed due to the fact that the land has also been revalued as part of the restatement of property, plant and equipment in point 2 above and the calculation has been retrospectively corrected and also the leave provision has been restated after reperforming the leave reconciliations amd effect has been corrected retrospectively.

Current year comparatives

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

			2016	2015
			R	Restated* R
37. Prior period errors (continued)				
Statement of Financial Performance				
	Previously Stated	Adjustments	Restated 2015	Reference
Income				
Property rates	(9 078 232)	-	(9 078 232)	7
Fines	-	82 001	82 001	7
Other income	1 072 953	177	1 073 130	7
Expenditure				
Personnel costs	68 078 365	(602 698)	67 475 667	8
Remuneration of councillors	15 144 864	23 118	15 167 982	8
Depreciation and amortisation	15 229 009	79 837 755	95 066 764	9
Debt impairment	2 170 170	51 113	2 221 283	7
Repairs and maintenance	1 881 327	187 542	2 068 869	10
Grants and subsidies paid	11 277 285	28 717	11 306 002	10
General expenses	39 736 816	751 369	40 488 185	10
Interest on landfill	127 356	12 313	139 669	11
Loss on disposal of assets	144 183	(144 583)	(400)	12
	145 784 096	80 226 824	226 010 920	
Statement of Financial Position				
	Previously stated	Adjustments	Restated 2015	Reference
Assets				
Consumer debtors	2 627 799	(5 154)	2 622 645	13
Receivables from non-exchange transactions	483 838	(348 545)	135 293	14
VAT receivable	2 737 328	(68 422)	2 668 906	15
Inventories	10 497 000	(5 268 200)	5 228 800	23
Investment property	27 111 835	(8 009 352)	19 102 483	16
Property, plant and equipment	159 198 842	527 981 805	687 180 647	17
Intangible assets	814 819	36 807	851 626	18
Heritage assets	119 400	91 410	210 810	-
Liabilities				
Payables from exchange transactions	(7 446 660)	(2 798 303)	(10 244 963)	20
Provisions - non-current	(2 053 480)	540 464	(1 513 016)	21
Employee benefits - current	(5 440 809)	77 360	(5 363 449)	24
Accumulated surplus	(193 018 771)	(512 229 870)	(705 248 641)	22
	(4 368 859)	-	(4 368 859)	

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2016	2015
R	Restated*
R	R

37. Prior period errors (continued)

The comparative figures for 2015 have been restated as a result of -

Property rates

7. The reconciliations was performed between the rates control account and property rates and therefore the consumer debtor was corrected retrospectively. In addition the application of IGRAP 1 has been retrospectively corrected and included in non exchange transactions.

Personnel costs and remuneration of councillors

8. 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.

Depreciation and amortisation

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

Repairs and maintenance, Grants and subsidies, General expenses

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

Interest on Landfill

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

Loss on disposal of assets

12. 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.

Consumer debtors,

13. The reconciliations was performed between the rates control account and property rates and therefore the consumer debtor was corrected retrospectively.

Receivables from non-exchange transactions

14. The reconciliation of the creditors was reperformed and the payments made in advance to a creditor was correctly accounted for retrospectively. In addition the application of IGRAP 1 has been retrospectively corrected and included in non exchange transactions.

VAT receivable

15. The restatement is due to the restatement of provision on retention and surety as part of the property plant and equipment restatement in point 2 above and it has also affected VAT and the effect has been performed retrospectively.

Investment property

16. The investment property was reconstructed and the effects of the prior period errors were corrected retrospectively.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

37. Prior period errors (continued)

Property, plant and equipment

17.1 The asset registers were recompiled, physical verification of assets was performed and depreciation was recalculated. All errors discovered as a result were corrected retrospectively.

17.2 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

18. The intangible asset register was recompiled and depreciation was recalculated. All errors discovered as a result were corrected retrospectively.

Heritage Assets

19. Heritage Assets have been revalued and the revaluing has been performed retrospectively and also the memorial stone has been removed as it is part of the Municipal Office building entrance and it has been included as part of the Property, plant and equipment.

Payables from exchange transactions

20. The restatement in payables from exchange transactions is due to the restatement of provision on retention and surety as part of the property plant and equipment restatement in point 2 above and the effect has been performed retrospectively.

Provisions

21. 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

22. This is the cumulative effect of the errors in the opening balance as well as the corrections during 2015.

Inventories

23. This is due to removal of RDP houses and also properties not under the name of the municipality

Irregular expenditure

	Previously stated	Adjustments	Restated 2015
Opening balance	169 850 513	(52 534 836)	117 315 677
Current year	1 061 887	12 345 880	13 407 767
	170 912 400	(40 188 956)	130 723 444

The CFO reviewed all payments made in the 2011/12 to 2015/16 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.

38. Fruitless and wasteful expenditure

Opening balance	858 741	215 129
Fruitless and wasteful expenditure - current year	56 878	643 612
	915 619	858 741

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

38. Fruitless and wasteful expenditure (continued)

Fruitless and wasteful expenditure is as result of interest and penalties on 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.

39. Irregular expenditure

Opening balance	130 723 444	117 315 677
Add: Irregular Expenditure - current year	51 873 803	13 407 767
	<u>182 597 247</u>	<u>130 723 444</u>

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

Irrecoverability of all irregular expenditure was 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	51 873 803
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40. Limitation of scope

Opening balance	82 097 043	82 097 043
Incurred - current year	-	-
	<u>82 097 043</u>	<u>82 097 043</u>

This item has not been included in the irregular expense calculation because it is impractical in terms of GRAP 1 to determine whether the tender files are indeed Irregular or Regular as described below.

These payments were considered to be a limitation of scope because they relate to old tender files from 2011/12 - 2013/14 year where contract files or documentation could not be found or had incomplete information. This is due to the fact that there is no proper filing space in the institution and documents are currently be searched for.

41. 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.

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.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

41. Deviation from supply chain management regulations (continued)

Goods and services to the value of R2 034,250 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.

42. Arrear debts for councillors - MFMA S124 (b)

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

43. 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	238 116	714 348
- Due within 2 to 5 years	-	238 116
	238 116	952 464

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.

44. Commitments

Already contracted for but not provided for

Capital expenditure

• Infrastructure	36 813 220	22 384 615
• Community	-	24 558 891
• Other assets	-	1 936 649
	36 813 220	48 880 155

Operational expenditure

• Goods and services	1 477 862	-
• Operating leases	238 116	952 464
	1 715 978	952 464

This committed expenditure relates to roads and other infrastructure developments, building of town halls and other goods and services and will be financed by available bank facilities, retained surpluses, as well as Grant funding and existing cash resources.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
	R	R
45. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	(483 743)	(483 743)
Current year subscription / fee	1 281 303	804 700
Amount paid - current year	(797 560)	(695 453)
Amount paid - previous years	-	(109 247)
	-	(483 743)
Audit fees		
Current year subscription / fee	2 886 281	3 316 463
Amount paid - current year	(2 886 281)	(3 316 463)
	-	-
PAYE and UIF		
Opening balance	3 081 709	-
Current year subscription / fee	15 278 028	12 600 935
Amount paid - current year	(19 019 384)	(9 519 226)
	(659 647)	3 081 709
2015/16 closing balance consists of amounts due for July 2014, August 2014, May & June 2015.		
Pension and Medical Aid Contributions		
Current year subscription / fee	16 454 122	14 416 894
Amount paid - current year	(16 454 122)	(14 416 894)
	-	-
VAT		
VAT receivable	2 855 705	2 668 906
All VAT returns have been submitted by the due date throughout the year.		
46. Other revenue		
(Actuarial gain) / Loss	(352 000)	227 000
Other income	1 430 121	1 073 132
	1 078 121	1 300 132

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

2016	2015
R	Restated*
R	R

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

Explanation of material variances

STATEMENT OF FINANCIAL PERFORMANCE

REVENUE

46.5 – Fines

The variance is a result of the application of IGRAP 1 which is also included in non exchange transactions.

EXPENDITURE

46.2 - The variance is trivial and immaterial

46.3 – Finance Costs

Expenditure incurred under this item is the interest on overdue accounts.

46.4 – Debt Impairment

Budget was under stated.

46.6– General Expenses

46.7 - Loss on disposal

The asset registers were completed at year end and probable budget amounts could not be determined.

46.8- Actuarial Loss

Calculations were only performed at year end.

STATEMENT OF FINANCIAL POSITION

CURRENT ASSETS

46.9 - Receivables from non-exchange transactions

Under estimation on impairment of rates in the budget.

46.10 – VAT Receivable

Budget understated

46.11– Receivables from exchange

Under estimation on impairment of refuse in the budget.

46.12- Cash & Cash Equivalents

Budget understated

NON CURRENT ASSETS

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

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

46.13– Investment Properties

Property register was only completed after the 30th of June 2016. Budget values were based on the old asset register.

46.14 - Property, plant and equipment

Asset register was only completed after the 30th of June 2016. Budget values were based on the old asset register.

46.15 – Intangible assets

Intangible register was only completed after the 30th of June 2016. Budget values were based on the old register.

46.16 – Heritage assets

Heritage register was only completed after the 30th of June 2016. Budget values were based on the old register.

46.17 – Payables from exchange transactions

Over estimation in the budget.

46.18 - Employee Benefit Obligation

Under estimation on budg

46.19 - Unspent Conditional Grants

Under estimation on budget

46.20 - Provision

Budget was under stated

46.21 Employee benefit obligation

Budget was under stated

46.22

Budget was under stated

CASH FLOW STATEMENT

46.23 - Ratepayer and others

Under collection on rates and refuse.

46.24 - Grants

Budget was understated

46.25- Other Receipts

Budget was understated

46.26 - Payments

Budget was understated.

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

	2016	2015
	R	Restated*
		R

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

The municipality has the deficit of R- 22 838 571, There are two major factors that had an impact on this. The was a huge debt impairment to the amount of R12 393 000 nd also the restatement of property plant and equipment which led to an increase in the depreciation amount to the value of R97 707 746 (2015: R95 066 764) 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.

48. Events after the reporting date

No significant events have occurred after the reporting date

* See Note 37