



MBHASHE LOCAL MUNICIPALITY (EC 121)  
ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2016

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## General Information

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### Nature of business and principal activities

The Municipality is responsible for the following activities:

- collection of rates in respect of property
- refuse and solid waste removal
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction
- traffic control, issue of learners licences and renewal of drivers licences

The following is the list of Councillors as at 30 June 2016

### Mayoral committee

Mayor

Speaker

Members of the Executive Committee

Councillor N. O. Mfecane  
Councillor M. M. Mcotsho  
Councillor M. Peter  
Councillor X. O. Willie  
Councillor M. Mbomvu  
Councillor F. Khekhetshe  
Councillor V. S. K Mbewu  
Councillor N. Xhungu  
Councillor M. Tetyana  
Councillor M. Noyila  
Councillor X. P. Baleni  
Councillor S. Hoyo  
Councillor P. Rulumeni  
Councillor N. N. Nkqwiliso  
Councillor N. Tswila  
Councillor S.D. Kalityi  
Councillor M. Potelwa  
Councillor M. T. Nodliwa  
Councillor X. A. Zimba  
Councillor M. Khwakhwi  
Councillor B. Jamnda  
Councillor S. Mpongwana  
Councillor N. Sigcau  
Councillor T. Tshika  
Councillor Z. Khosi  
Councillor C. N. Buyeye  
Councillor M. Tyali  
Councillor P. Faniso  
Councillor M. J. Savu  
Councillor N. Kopolo  
Councillor S. Ndinisa  
Councillor M. Mapungu  
Councillor V. Matiwane  
Councillor N. Magatya  
Councillor N. Mtsi  
Councillor B. Maqelana  
Councillor L. Gogoba  
Councillor M. Majiya  
Councillor N. Stefana  
Councillor B. Sigcawu  
Councillor N. Mlungu

Chief WHIP

Councillors

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## General Information

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Councillor N. M. Mlandu  
Councillor N. Ncetani  
Councillor N. Janda  
Councillor N. B. Benya  
Councillor V. A. Somana  
Councillor X. M. Tyodana  
Councillor M. S. Jafta  
Councillor N. V. Lumkwana  
Councillor N. Nonjaca  
Councillor A Bambiso  
Councillor P. Methu  
Councillor F. Mbiko  
Councillor N. Ndlodaka  
Councillor K. D. Msindwana  
Councillor Y. G. Mhlathi  
Councillor M. Takani  
Councillor S. Wulana  
Councillor T. Mafanya  
Councillor A Ngqola

**Grading of local authority**

3

**Municipal Manager**

Mr S. V. Poswa

**Chief Financial Officer**

Mr X. Sikobi

**Registered office**

454 Steatfield Road  
Dutywa  
5000

**Postal address**

P.O. Box 25  
Dutywa  
5000

**Bankers**

First National Bank (62231175953)

**Auditors**

Auditor General South Africa

**Attorneys**

Nginda Vuba Attorneys  
Tonise Attorneys  
Vitshima Attorneys  
M Gigaba Incorporated

## **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

### **General Information**

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#### **Traditional Leaders**

Chief N.M Masiko  
Chief N.W Salakuphathwa  
Chief A. N. Sigcawu  
Chief F. F. Ndim  
Chief S. Nyendani  
Chief M. Sigcawu - deceased  
Chief B. W. Sigidi  
Chief M. Titshala  
Chief S.V Qotongo - deceased  
Chief N. Ngubechanti  
Chief S. X. Ndevu  
Chief N. W. Zenani

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## General Information

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### Relevant Legislation

Basic Conditions of Employment Act 75 of 1997  
Broad Based Black Economic Empowerment Act 53 of 2003  
Constitution of the Republic of South Africa Act, 1996  
Deeds Registries Act 47 of 1937  
Disaster Management Act 57 of 2002  
Division of Revenue Act 10 of 2014  
Electoral Act 73 of 1998  
Electoral Commission Act 51 of 1996  
Intergovernmental Relations Framework Act 13 of 2005  
Interim Protection of Informal Lands Rights Act 31 of 1996  
Labour Relations Act 66 of 1995  
Local Government : Municipal Demarcation Act 27 of 1998  
Local Government : Municipal Electoral Act 27 of 2000  
Local Government : Municipal Finance Management Act 56 of 2003  
Local Government : Municipal Property Rates Act 6 of 2004  
Local Government : Municipal Structures Act 117 of 1998 (as amended)  
Local Government : Municipal Systems Act 32 of 2000 (as amended by Act 44 of 2003)  
Local Government : Municipal Fiscal Powers and Functions Act No 12 of 2007  
Prescription Act 18 of 1943  
Prescription Act 68 of 1969  
Prevention and Combating of Corrupt Activities Act  
Prevention of Illegal eviction from an Unlawful Occupation of Land Act 19 of 1998  
Promotion of Access to Information Act 2 of 2000  
Promotion of Administrative Justice Act 3 of 2000  
Promotion of Equality and Prevention of Unfair Discrimination Act 4 of 2000  
Protected disclosures Act 26 of 2000  
Public Audit Act 25 of 2004  
Re-Determination of the Boundaries of Cross-Boundary Municipality Act 6 of 2005  
Reconstruction and Development Program Fund Act 7 of 1994  
Regional Services Councils Act 109 of 1985  
Regulation of Gatherings Act 205 of 1993  
Removal of Restrictions Act 84 of 1967  
Remuneration of Public Office Bearers Act 20 of 1998  
Skills Development Act 97 of 1998  
Skills Development Levies Act 9 of 1999  
South African National Roads Agency Limited and National Roads Act 7 of 1998  
Tobacco Products Control Act 83 of 1993  
Traditional Leadership and Governance Framework Act 41 of 2003  
Transfer of Staff to Municipalities Act 17 of 1998  
Unemployment Insurance Act 63 of 2001  
United Municipal Executive (Pension) Act 12 of 1958  
Value Added Tax 1991

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Index

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

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### Abbreviations

AFS	Annual Financial Statements
EPWP	Extended Public Works Programme
FMG	Financial Management Grant
GRAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
PPE	Property, Plant and Equipment
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MPAC	Municipal Public Accounts Committee
MSIG	Municipal Systems Improvement Grant
SARS	South African Revenue Service
VAT	Value Added Tax

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Section 62 of MFMA, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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


The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments 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 behaviours are applied and managed within predetermined procedures and constraints. Salaries, allowances and benefits to public office bearers and Councillors of the municipality were within the upper limits of the framework envisaged in Section 219 of the Constitution.

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

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

The annual financial statements set out on page 5 to 6, which have been prepared on the going concern basis, were approved by the Council on 31 August 2016 and were signed on its behalf by:



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**Mr S. V. Poswa**  
Municipal Manager

**Dutywa**

**31 August 2016**

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Officer's Report

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

### 1. Review of activities

#### Main business and operations

The municipality is engaged in the municipality is responsible for the following activities:

- collection of rates in respect of property
- refuse and solid waste removal
- construction and maintenance of access roads, storm water facilities and streetlights within its jurisdiction
- traffic control, issue of learners licences and renewal of drivers licences and operates principally in South Africa.

It would seem as an anomaly that whilst 100% of MIG has been spent but there are unmet targets in the construction of new gravel roads, Community Halls, Paving of Side Walks and upgrading of Storm water channels. This is because of some projects are funded through multi-year budget and there are currently under construction, as such the Work in Progress disclosed under the Note 8 of the Annual Financial Statements has increased by 100%.

### 2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 581 139 798 and that the municipality's total assets exceed its liabilities by R 581 139 798.

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

The current year deficit of R 26 885 229 was due to the following reasons:

There is a shortfall of R 15 978 000 from Equitable Share under Government grants and subsidies in the Revenue section due to 2014/2015 MIG rollover application denied by National Treasury, and was offset against Equitable Share.

Transfers from Reserves amounting to R 12 900 000 to fund Electrification program that is allocated in 2016/2017, the expenditure is allocated Statement of Financial Performance and the transfers from reserves is not allocated in this section in 2015/2016.

### 3. Borrowing potential

The current ratio is below 2 whilst it was almost 4 in the previous year. This is a temporary setback as it was caused in the main by the internal borrowing from own reserves in order to speed up service delivery on roads and electrification. These amounts are to be returned as they will be refunded when grant funding is received. Liabilities have also been increased by the short term finance lease which will be settled in two years' time.

Our assets versus liabilities show that we have huge potential for borrowing which the municipality is currently not exploring. This option will only be taken to fund borrowings for income-generating assets with the objective of generating a commercial return..



# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Position as at 30 June 2016

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	3	827 696	715 499
Receivables from non-exchange transactions	38	288 150	556 377
VAT receivable	4	13 671 774	10 915 401
Consumer debtors	5	2 868 371	668 594
Cash and cash equivalents	6	66 777 287	145 034 342
		<b>84 433 278</b>	<b>157 890 213</b>
<b>Non-Current Assets</b>			
Investment property	7	47 080 100	47 080 100
Property, plant and equipment	8	524 536 679	474 871 788
Intangible assets	9	865 121	446 857
Heritage assets	36	9	9
		<b>572 481 909</b>	<b>522 398 754</b>
Non-Current Assets		572 481 909	522 398 754
Current Assets		84 433 278	157 890 213
<b>Total Assets</b>		<b>656 915 187</b>	<b>680 288 967</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	39	24 665 534	10 281 999
Operating lease liability	37	-	10 939
Payables from exchange transactions	10	17 682 648	14 397 138
Employee benefit obligation	13	304 495	-
Unspent conditional grants and receipts	11	1 000 000	15 978 536
Provisions	12	339 649	315 243
		<b>43 992 326</b>	<b>40 983 855</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	39	22 035 717	19 896 954
Operating lease liability	37	-	3 169
Employee benefit obligation	13	2 424 359	2 393 117
Provisions	12	7 322 987	6 914 675
		<b>31 783 063</b>	<b>29 207 915</b>
Non-Current Liabilities		31 783 063	29 207 915
Current Liabilities		43 992 326	40 983 855
<b>Total Liabilities</b>		<b>75 775 389</b>	<b>70 191 770</b>
Assets		656 915 187	680 288 967
Liabilities		(75 775 389)	(70 191 770)
<b>Net Assets</b>		<b>581 139 798</b>	<b>610 097 197</b>
<b>Net Assets</b>			
Accumulated surplus		581 139 798	610 097 197

\* See Note 43

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Revenue</b>			
Service charges	18	1 322 908	1 024 394
Rental of facilities and equipment	42	1 536 705	991 114
Recoveries		3 383 742	-
Other income	19	1 469 586	1 085 204
Interest earned		9 004 105	9 068 446
Assessment rates	17	7 701 146	6 867 696
Licence and permits		731 769	742 726
Government grants & subsidies	15	289 997 410	220 520 286
Fines and penalties		2 208 895	392 313
<b>Total revenue</b>		<b>317 356 266</b>	<b>240 692 179</b>
<b>Expenditure</b>			
Employee related costs	21	(80 034 477)	(43 331 209)
Remuneration of Councillors	22	(23 984 032)	(21 814 912)
Depreciation and amortisation	41	(69 116 580)	(58 473 922)
Finance costs	23	(41 040 042)	(3 835 823)
Debt Impairment	24	(8 981 240)	(2 554 155)
Administrative and other expenditure	25	(120 639 249)	(74 797 342)
<b>Total expenditure</b>		<b>(343 795 620)</b>	<b>(204 807 363)</b>
Total revenue		317 356 266	240 692 179
Total expenditure		(343 795 620)	(204 807 363)
<b>Operating (deficit) surplus</b>		<b>(26 439 354)</b>	<b>35 884 816</b>
Loss on disposal of assets		(2 517 045)	(2 281 325)
Operating surplus/deficit		(2 517 045)	(2 281 325)
(Deficit) surplus before taxation		(28 956 399)	33 603 491
Taxation		-	-
<b>(Deficit) surplus for the year</b>		<b>(28 956 399)</b>	<b>33 603 491</b>

\* See Note 43

## MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	333 472 982	333 472 982
Correction of errors	241 612 231	241 612 231
<b>Balance at 01 July 2014 as restated*</b>	<b>575 085 213</b>	<b>575 085 213</b>
Changes in net assets		
Other changes in the net assets	1 408 493	1 408 493
Net income (losses) recognised directly in net assets	1 408 493	1 408 493
Surplus for the year	33 603 491	33 603 491
Total recognised income and expenses for the year	35 011 984	35 011 984
Total changes	35 011 984	35 011 984
<b>Restated* Balance at 01 July 2015</b>	<b>610 096 197</b>	<b>610 096 197</b>
Changes in net assets		
Surplus for the year	(28 956 399)	(28 956 399)
Total changes	(28 956 399)	(28 956 399)
<b>Balance at 30 June 2016</b>	<b>581 139 798</b>	<b>581 139 798</b>

\* See Note 43

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		11 676 419	(2 327 511)
Grants		281 255 366	216 445 286
Interest income		9 004 105	9 068 446
Other receipts		4 145 669	3 188 548
		<u>306 081 559</u>	<u>226 374 769</u>
<b>Payments</b>			
Employee costs		(103 385 804)	(64 594 511)
Suppliers		(132 544 833)	(63 396 815)
Finance costs		(41 040 042)	(3 835 823)
		<u>(276 970 679)</u>	<u>(131 827 149)</u>
Total receipts		306 081 559	226 374 769
Total payments		(276 970 679)	(131 827 149)
Undefined difference compared to the cash generated from operations note		(2 071 170)	-
<b>Net cash flows from operating activities</b>	34	<u><b>27 039 710</b></u>	<u><b>94 547 620</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(121 223 358)	(50 897 364)
Purchase of other intangible assets	9	(595 705)	(358 864)
<b>Net cash flows from investing activities</b>		<u><b>(121 819 063)</b></u>	<u><b>(51 256 228)</b></u>
<b>Cash flows from financing activities</b>			
Finance lease payments - Current		16 522 298	(9 629 583)
<b>Net increase in cash and cash equivalents</b>		<u><b>(78 257 055)</b></u>	<u><b>33 661 809</b></u>
Cash and cash equivalents at the beginning of the year		145 034 342	111 372 533
<b>Cash and cash equivalents at the end of the year</b>	6	<u><b>66 777 287</b></u>	<u><b>145 034 342</b></u>

\* See Note 43

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual 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
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	807 560	-	807 560	1 322 908	515 348	45.1
Rental of facilities and equipment	786 679	-	786 679	1 536 705	750 026	45.2
Recoveries	-	-	-	3 383 742	3 383 742	45.4
Other income	10 857 210	12 000 000	22 857 210	1 469 586	(21 387 624)	45.3
Interest received - investment	6 000 000	4 478 662	10 478 662	9 004 105	(1 474 557)	45.5
<b>Total revenue from exchange transactions</b>	<b>18 451 449</b>	<b>16 478 662</b>	<b>34 930 111</b>	<b>16 717 046</b>	<b>(18 213 065)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	5 957 028	1 000 000	6 957 028	7 701 146	744 118	45.6
Licenses and permits	1 168 663	(84 331)	1 084 332	731 769	(352 563)	45.7

##### Transfer revenue

Government grants & subsidies	341 824 251	(11 874 251)	329 950 000	289 997 410	(39 952 590)	45.8
Fines, Penalties and Forfeits	482 946	1 084 331	1 567 277	2 208 895	641 618	45.9

<b>Total revenue from non-exchange transactions</b>	<b>349 432 888</b>	<b>(9 874 251)</b>	<b>339 558 637</b>	<b>300 639 220</b>	<b>(38 919 417)</b>	
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'Total revenue from exchange transactions'	18 451 449	16 478 662	34 930 111	16 717 046	(18 213 065)	
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'Total revenue from non-exchange transactions'	349 432 888	(9 874 251)	339 558 637	300 639 220	(38 919 417)	
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<b>Total revenue</b>	<b>367 884 337</b>	<b>6 604 411</b>	<b>374 488 748</b>	<b>317 356 266</b>	<b>(57 132 482)</b>	
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#### Expenditure

Personnel	(70 101 404)	-	(70 101 404)	(80 034 477)	(9 933 073)	
Remuneration of councillors	(25 585 611)	-	(25 585 611)	(23 984 032)	1 601 579	
Depreciation and amortisation	(38 199 958)	-	(38 199 958)	(69 116 580)	(30 916 622)	45.10
Finance costs	-	-	-	(41 040 042)	(41 040 042)	45.11
Bad debts written off	(1 010 344)	-	(1 010 344)	(8 981 240)	(7 970 896)	45.12
General Expenses	(176 154 241)	(5 415 762)	(181 570 003)	(120 639 249)	60 930 754	

<b>Total expenditure</b>	<b>(311 051 558)</b>	<b>(5 415 762)</b>	<b>(316 467 320)</b>	<b>(343 795 620)</b>	<b>(27 328 300)</b>	
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	367 884 337	6 604 411	374 488 748	317 356 266	(57 132 482)	
	(311 051 558)	(5 415 762)	(316 467 320)	(343 795 620)	(27 328 300)	

<b>Operating deficit</b>	<b>56 832 779</b>	<b>1 188 649</b>	<b>58 021 428</b>	<b>(26 439 354)</b>	<b>(84 460 782)</b>	
Loss on disposal of assets and liabilities	-	-	-	(2 517 045)	(2 517 045)	45.13

	56 832 779	1 188 649	58 021 428	(26 439 354)	(84 460 782)	
	-	-	-	(2 517 045)	(2 517 045)	

<b>Surplus</b>	<b>56 832 779</b>	<b>1 188 649</b>	<b>58 021 428</b>	<b>(28 956 399)</b>	<b>(86 977 827)</b>	
Deficit	56 832 779	1 188 649	58 021 428	(28 956 399)	(86 977 827)	

	-	-	-	-	-	
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# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual 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
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>56 832 779</b>	<b>1 188 649</b>	<b>58 021 428</b>	<b>(28 956 399)</b>	<b>(86 977 827)</b>	

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual 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
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Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	209 600	-	209 600	-	(209 600)	
Receivables from exchange transactions	-	-	-	827 696	827 696	45.14
Receivables from non-exchange transactions	-	-	-	288 150	288 150	45.15
VAT receivable	-	-	-	13 671 774	13 671 774	45.16
Consumer debtors	-	-	-	2 868 371	2 868 371	45.17
Cash and cash equivalents	165 554 142	-	165 554 142	66 777 287	(98 776 855)	45.18
	<b>165 763 742</b>	<b>-</b>	<b>165 763 742</b>	<b>84 433 278</b>	<b>(81 330 464)</b>	

##### Non-Current Assets

Investment property	-	-	-	47 080 100	47 080 100	45.19
Property, plant and equipment	83 978 004	2 065 900	86 043 904	524 536 679	438 492 775	45.20
Intangible assets	1 000 000	(50 000)	950 000	865 121	(84 879)	
Heritage assets	-	-	-	9	9	
	<b>84 978 004</b>	<b>2 015 900</b>	<b>86 993 904</b>	<b>572 481 909</b>	<b>485 488 005</b>	

Non-Current Assets	165 763 742	-	165 763 742	84 433 278	(81 330 464)	
Current Assets	84 978 004	2 015 900	86 993 904	572 481 909	485 488 005	
<b>Total Assets</b>	<b>250 741 746</b>	<b>2 015 900</b>	<b>252 757 646</b>	<b>656 915 187</b>	<b>404 157 541</b>	

#### Liabilities

##### Current Liabilities

Finance lease obligation	-	-	-	24 665 534	24 665 534	45.21
Payables from exchange transactions	-	-	-	17 682 648	17 682 648	45.22
Employee benefit obligation	-	-	-	304 495	304 495	45.23
Unspent conditional grants and receipts	-	-	-	1 000 000	1 000 000	45.24
Provisions	-	-	-	339 649	339 649	45.25
	<b>-</b>	<b>-</b>	<b>-</b>	<b>43 992 326</b>	<b>43 992 326</b>	

##### Non-Current Liabilities

Finance lease obligation	-	-	-	22 035 717	22 035 717	45.26
Employee benefit obligation	-	-	-	2 424 359	2 424 359	45.27
Provisions	-	-	-	7 322 987	7 322 987	45.28
	<b>-</b>	<b>-</b>	<b>-</b>	<b>31 783 063</b>	<b>31 783 063</b>	

	<b>-</b>	<b>-</b>	<b>-</b>	<b>43 992 326</b>	<b>43 992 326</b>	
	<b>-</b>	<b>-</b>	<b>-</b>	<b>31 783 063</b>	<b>31 783 063</b>	
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>75 775 389</b>	<b>75 775 389</b>	

Assets	250 741 746	2 015 900	252 757 646	656 915 187	404 157 541	
Liabilities	-	-	-	(75 775 389)	(75 775 389)	
<b>Net Assets</b>	<b>250 741 746</b>	<b>2 015 900</b>	<b>252 757 646</b>	<b>581 139 798</b>	<b>328 382 152</b>	

#### Net Assets

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual 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
Figures in Rand						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	250 741 746	2 015 900	<b>252 757 646</b>	583 210 968	<b>330 453 322</b>	42,31
Undefined Difference	-	-	-	(2 071 170)	(2 071 170)	
<b>Total Net Assets</b>	<b>250 741 746</b>	<b>2 015 900</b>	<b>252 757 646</b>	<b>583 210 968</b>	<b>330 453 322</b>	



# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1. Presentation of Annual Financial Statements**

#### Statement of compliance

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Section 62 of MFMA.

#### Basis of measurement

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention.

The principal accounting policy adopted in the preparation of these annual financial statements are set out below. These accounting policies are consistent with the previous period, except for the policies relating to the new standards and interpretations under note 2.1.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Amounts are rounded off to the nearest Rand.

#### **1.2 Reporting entity**

Mbhashe Local Municipality ("the municipality") is a low capacity local government institution covering Dutywa, Willowvale and Elliotdale in the Eastern Cape.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.3 Judgements, assumptions and estimates

The preparation of financial statements in conformity with GRAP requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by management on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of GRAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year include:

- Impairment of debtors. Management is required to assess the debtors portfolio on an individual and collective basis and to determine an appropriate impairment based on the collection trends, type of consumer and the general economic environment.
- Provision for landfill sites. Management is required to base the provision for the rehabilitation of the landfill sites on appropriate supporting documentation and assumptions relating to available permitted airspace, airspace utilization factor and waste acceptance rate.
- Assessment of conditions related to unspent grants. Management must exercise judgment in assessing the extent to which the conditions pertaining to grants have been met in order to release an appropriate amount to revenue.
- Assets. Management are required to exercise judgment when assessing the fair value / deemed cost of an asset, the extent of any potential impairment, the useful lives and depreciation methods applied to assets.
- Intangible assets. Management is required to assess the useful life of intangible assets based on the period the asset is expected to generate net cash inflows or service potential.

Going concern assumption

These annual financial statements have been prepared on a going concern basis.

Comparative information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated as per **Note 43**. The nature and reason for the re-classification is disclosed. Where accounting errors relating to prior years 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 in terms of the requirements of the standard, and the prior year comparatives are restated accordingly.

### 1.4 Value add tax

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

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.5 Investment property

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation recognised on investment property is determined with reference to the useful lives and residual values of the underlying items. 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	30 years

#### Initial recognition

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 property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

#### Subsequent measurement and derecognition - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is depreciated on the straight line basis over its expected useful life to its estimated residual value. The depreciable amount is determined after taking into account an asset's residual value. If at any point the residual value exceeds the carrying amount of an investment property, no depreciation is calculated on that investment property. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful life of investment property is estimated to be 40 years.

Investment property is derecognised on disposal when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### 1.6 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 period.

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

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

Property, plant and equipment is initially measured at cost.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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.

#### Subsequent measurement and derecognition - cost model

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

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

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

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Item	Depreciation method	Average useful life
Buildings	Straight line	30 years
Other assets	Straight line	5 - 10 years
Infrastructure	Straight line	10 - 60 years
Community assets	Straight line	30 years

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

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

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

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

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.6 Property, plant and equipment (continued)

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

#### Derecognition of PPE

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

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

### 1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its statement of financial position only when it meets the definition of an intangible asset and 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 reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

For intangible assets with indefinite useful life 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. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the amortisation method shall be changed to reflect the changed pattern. Such changes shall be accounted for as changes in accounting estimates in accordance with the Standards of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors

#### Initial recognition

The cost of an item of an asset 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 the municipality.

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

#### Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life.

#### Amortisation

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated asset average lives

<b>Item</b>	<b>Useful life</b>
Computer software	3 to 5 years

#### Derecognition

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.7 Intangible assets (continued)**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefit or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the surplus or deficit.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.8 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 the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

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

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

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

### **1.9 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.

The fair values cannot be measured due to nature of assets. The assets are shown in the financial statements at a nominal value of R9 for record keeping.

### **1.10 Related parties**

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

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other senior managers reporting directly to the Municipal Manager and supply chain officials.

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

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

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

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.11 Events after reporting period

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

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

### 1.12 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

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

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

#### Initial recognition

A financial assets/ financial liability shall be recognised in the statement of financial position when, and only when the municipality becomes a party to the contractual provisions of instrument.

#### Initial measurement financial assets and financial liabilities

When a financial asset/liability is recognised initially, the municipality shall measure it at its fair value plus, in the case of a financial asset/liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset/liability.

#### Subsequent measurement of financial assets and financial liabilities

The municipality shall measure all financial assets/liabilities after initial recognition using the following categories:  
- financial instruments at amortised cost  
- financial instrument at fair value

All financial assets measured at amortised cost, or cost, are subject to an impairment review in terms of GRAP 104: Financial Instruments. Financial assets are recognised using trade date accounting.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost.

#### Receivables from exchange transactions

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.



# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.12 Financial instruments (continued)

#### Cash and cash equivalents

Cash and cash equivalents are recognised at fair value and subsequently carried at amortised cost using the effective interest method. Cash includes cash on hand (including petty cash) and investments comprising cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. Trade and other payables from exchange transactions reflected on the face of the statement of financial position or in the notes thereto are classified as other financial liabilities.

Financial liabilities consist of trade payables and are initially measured at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

#### Derecognition

##### Financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires, is settled or waived, or it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another party.

An entity recognises financial assets using trade date accounting.

##### Financial liabilities

A financial liability is derecognised when and only when the financial liability is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived).

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.12 Financial instruments (continued)**

#### **Impairment of financial assets**

A financial asset measured at amortised cost or cost, is assessed at each reporting period to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

The municipality considers evidence of impairment at both a specific asset and collective asset level.

All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment, the Municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### **Payables from exchange transactions**

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

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Leases

#### **Municipality as lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the lessee. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the assets fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and not guaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The municipality recognises the aggregate payments as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### **Municipality as lessor**

Operating lease payments are recognised in surplus or deficit on a straight-line basis over the term of the lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### **Operating leases - lessor**

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

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

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

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

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

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.13 Leases (continued)

#### Municipality as a lessor

Under a finance lease, the Municipality recognised the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight lined revenue and actual payment received will give rise to an asset. The Municipality recognised the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

### 1.14 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.15 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

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

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

- The assets ability to generate significant cash flows; and
- The degree to which it is utilised to generate commercial returns.

The carrying amounts of the municipality's non-cash generating assets are reviewed at each reporting date to determine whether there is any indication of impairment. A non-cash-generating asset is impaired when the carrying amount of the asset exceeds its recoverable service amount. The recoverable service amount is the greater of an asset's fair value less costs to sell and its value in use.

The value in use of a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the depreciated replacement cost approach - The present value of the remaining service potential of a non cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable service amount. Impairment losses are recognised in surplus or deficit.

An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exist, the entity shall estimate the recoverable service amount of that asset.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.16 Share capital / contributed capital

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

### 1.17 Employee benefits

#### Short-term employee benefits

Remuneration to employees is recognised in surplus or deficit as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

Short term employee benefits (those payable within 12 months after the service is rendered) are measured on an undiscounted basis.

An accrual is recognised for the amount expected to be paid in terms of short term bonus or leave arrangements when the municipality has a present legal or constructive obligation to pay the amount as a result of a past service provided by an employee and the amount can be estimated reliably.

Liabilities for annual leave are recognised as they accrue to the employees. The liability is based on the total amount of leave days due to the employee and the total related remuneration package.

#### Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions to a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the surplus or deficit in the period in which the service is rendered by the relevant employees.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Group Municipal Pension Fund
- Eastern Cape Group Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

#### Other long term employee benefit

For other long term employee benefit the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries. Gains and losses arising from actuarial valuation is recognised in surplus or deficit in the year in which they occur.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation.

The municipality has an unfunded other long term employee benefit that relates to long service awards.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Accounting Policies

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### 1.18 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments 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.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgment. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

#### Contingencies

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

### 1.19 Revenue from exchange transactions

Revenue from exchange transactions includes revenue from service charges, rental of facilities and equipment, other income and interest received on investments.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue from the sale of goods in the ordinary course of the municipality's activities is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts. Revenue from the rendering of the services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements and receiving service. Tariffs are determined per category of property usage, and are levied at a fixed monthly rate based on the category of the customer.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.19 Revenue from exchange transactions (continued)**

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

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Interest income is recognised using the effective interest rate method.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

### **1.20 Revenue from non-exchange transactions**

Revenue from non-exchange transactions includes rates levied, licences and permits, fines and grants from other spheres of government.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable.

Fines constitute both spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. As a result, revenue from spot fines and summonses is recognised when payment is received.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the definition and recognition criteria of an asset have been met.

#### **Unconditional grants and receipts**

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached restrictions, the grants are recognised as revenue when received by the entity.

#### **Conditional grants and receipts**

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant. If the compliance with the restrictions have not been met, the revenue is deferred and recognised as a liability

Interest earned on investments arising from grants is recognised as interest earned in surplus or deficit.

### **1.21 Borrowing costs**

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

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



# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

## **Accounting Policies**

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### **1.22 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

### **1.23 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

### **1.24 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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance unless it is recoverable (i.e. receivable), where it will then be raised as an asset.

### **1.25 Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the municipality has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

### **1.26 Commitments**

Commitments relate to capital projects for which funds have been committed at year end. Commitments are not recognised as a liability in the statement of financial position or as expenditure in the statement of financial performance but are included in the disclosure note.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 2. New standards and interpretations

#### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

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

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions on the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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 reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

- An entity is related to the reporting entity 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 entity or an entity related to the entity. 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); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP 32: Service Concession Arrangements: Grantor**

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 109: Accounting by Principals and Agents

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 21 (as amended 2015): Impairment of non-cash-generating assets**

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

General definitions:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Identifying an asset that may be impaired:

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Reversing an impairment loss:

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

Disclosures:

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 26 (as amended 2015): Impairment of cash-generating assets**

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

General definitions:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Cash generating assets and non-cash-generating assets:

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Disclosures:

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities

Historically, public entities have prepared financial statements in accordance with generally recognised accounting practice, unless the Accounting Standards Board (the Board) approved the application of generally accepted accounting practice for that entity. "Generally accepted accounting practice" has been taken to mean Statements of Generally Accepted Accounting Practice (Statements of GAAP), or for certain entities, International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board. Since Statements of GAAP have been withdrawn from 1 December 2012, public entities will be required to apply another reporting framework in the future.

The purpose of this Directive is to prescribe the criteria to be applied by public entities in selecting and applying an appropriate reporting framework.

The effective date of the standard is for years beginning on or after 01 April 2018.

The municipality expects to adopt the standard for the first time in the 2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### 3. Receivables from exchange transactions

Prepayments	827 696	-
Sundry suppliers	-	715 499
	<b>827 696</b>	<b>715 499</b>

The above 2015/16 receivable relates to SALGA membership invoices relating to 2016/17 Financial period that are paid in the 2015/16 Financial period in order to take advantage of the discount afforded by SALGA with regard to early payments.

The above 2014/15 receivables all relate to assets that have been paid for but were not delivered at year end. The municipality is actively following up on the matter. A significant portion of the balance (R596 962) relates to payment made for the plant procured under finance lease but not yet delivered.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>4. VAT receivable</b>		
VAT refund due from SARS	13 671 774	10 915 401
The municipality is registered for VAT on the payment basis. VAT is claimed from / paid to SARS only once payment is made to suppliers or cash is collected on vatable supplies.		
<b>5. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	20 984 046	18 903 610
Refuse	1 173 040	4 437 441
	<b>22 157 086</b>	<b>23 341 051</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors impairment	(19 288 715)	(22 672 457)
<b>Net balance</b>		
Rates	20 984 046	18 903 610
Refuse	1 173 040	4 437 441
Provision for debt impairment	(19 288 715)	(22 672 457)
	<b>2 868 371</b>	<b>668 594</b>
<b>Included in above is receivables from exchange transactions</b>		
Refuse	1 173 040	4 437 441
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	20 917 413	18 903 610
	<b>22 090 453</b>	<b>23 341 051</b>
<b>Gross balance</b>		
<b>Rates</b>		
Current (0 -30 days)	1 114 626	531 176
31 - 60 days	498 324	475 831
61 - 90 days	700 921	452 674
91 + days	18 670 175	17 443 929
	<b>20 984 046</b>	<b>18 903 610</b>
<b>Refuse</b>		
Current (0 -30 days)	67 673	93 574
31 - 60 days	31 633	89 819
61 - 90 days	52 226	88 380
91 + days	1 021 508	4 165 668
	<b>1 173 040</b>	<b>4 437 441</b>
<b>Impairment</b>		
Consumer debtors impairment	(19 288 715)	(22 672 457)

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>5. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	594 027	315 119
31 - 60 days	260 477	289 956
61 - 90 days	444 384	278 181
91 + days	13 774 450	16 184 831
	<u>15 073 338</u>	<u>17 068 087</u>
Less: Allowance for impairment	(14 373 582)	(16 691 147)
	<u><b>699 756</b></u>	<u><b>376 940</b></u>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	262 987	136 813
31 - 60 days	119 493	119 032
61 - 90 days	167 699	112 817
91 + days	6 254 225	5 181 087
	<u>6 804 404</u>	<u>5 549 749</u>
Less: Allowance for impairment	(6 498 338)	(5 386 034)
	<u><b>306 066</b></u>	<u><b>163 715</b></u>
<b>National and provincial government</b>		
Current (0 -30 days)	410 909	128 961
31 - 60 days	192 458	113 680
61 - 90 days	192 458	106 977
91 - 120 days	1 789 906	373 598
	<u>2 585 731</u>	<u>723 216</u>
Less: Allowance for impairment	-	(595 275)
	<u><b>2 585 731</b></u>	<u><b>127 941</b></u>
<b>Total</b>		
Current (0 -30 days)	623 692	580 893
31 - 60 days	1 088 564	522 668
61 - 90 days	753 147	497 974
91 - 120 days	19 691 683	21 739 515
	<u>22 157 086</u>	<u>23 341 050</u>
Less: Allowance for impairment	(19 288 715)	(22 672 456)
	<u><b>2 868 371</b></u>	<u><b>668 594</b></u>
<b>Less: Provision for debt impairment</b>		
General and specific impairment	(19 288 715)	(22 672 457)
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(22 672 457)	(20 875 259)
Contributions to allowance	3 383 742	(1 797 198)
	<u><b>(19 288 715)</b></u>	<u><b>(22 672 457)</b></u>
<b>6. Cash and cash equivalents</b>		
Cash on hand	1 353	3 451
Cash at bank	3 460 266	4 226 084
Call Investment deposits	63 315 668	140 804 807
	<u>66 777 287</u>	<u>145 034 342</u>
	<u><b>66 777 287</b></u>	<u><b>145 034 342</b></u>



# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 6. Cash and cash equivalents (continued)

The municipality had the following bank and investment accounts:

Account number / description (Continued)	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
First National Bank Limited - Account number 62562355373	437 138	-	-	437 138	-	-
First National Bank Limited - Account number 62562352410	357 143	-	-	357 143	-	-
First National Bank Limited - Account number 62562829188	23 425	-	-	23 425	-	-
First National Bank Limited - Account number 62562827364	433 699	-	-	433 699	-	-
First National Bank Limited - Account number 62562354002	359 774	-	-	359 774	-	-
First National Bank Limited - Account number 62231175953	8 700 494	6 886 128	3 651 650	3 460 266	4 225 986	(2 141 510)
Standard Bank Limited - Account Number 280775954	1 749 621	1 750 377	1 750 965	1 749 622	1 750 377	1 750 965
ABSA Bank Limited - Account number 9057233364	683 539	657 702	636 094	686 123	659 640	637 741
ABSA Bank Limited - Account Number 9056533115	43 934	42 464	41 254	44 084	42 567	41 345
First National Bank Limited - Account Number 62015966099	5 873	5 815	5 757	5 874	5 815	5 757
ABSA Bank Limited - Account Number 9205591041	1 733 796	1 667 488	1 611 434	1 740 137	1 672 215	1 615 738
First National Bank Limited - Account Number 62231177769	369 565	347 444	901 011	369 565	347 444	901 011
First National Bank Limited - Account Number 62231195323	92 424	89 438	87 337	92 524	89 438	87 337
ABSA Bank Limited - Account number 9100317908	180 875	174 082	168 287	181 536	174 575	168 737
First National Bank - Account Number 62232870487	746 572	720 363	699 893	746 573	720 363	699 893
ABSA Bank Limited - Account number 9110889747	284 263	281 560	280 088	284 626	281 687	280 169
First National Bank - Account Number 74321424942	55 457 177	134 384 097	106 846 239	55 803 825	135 060 784	107 324 899
Cash on hand	-	-	-	1 353	3 451	451
<b>Total</b>	<b>71 659 312</b>	<b>147 006 958</b>	<b>116 680 009</b>	<b>66 777 287</b>	<b>145 034 342</b>	<b>111 372 533</b>

Note 11 "Unspent conditional grants" reflects details as to which bank accounts are used for the various grants.

First National Bank Limited - Account Number 62231175953 is the municipality's primary bank account.

### 7. Investment property

Cost / Valuation	2016		2015			
	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	
Investment property	47 080 100	-	47 080 100	47 080 100	-	47 080 100

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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Figures in Rand	2016	2015
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### 7. Investment property (continued)

#### Reconciliation of investment property - 2016

	<b>Opening balance</b>	<b>Total</b>
Investment property	47 080 100	47 080 100

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#### Reconciliation of investment property - 2015

	<b>Opening balance</b>	<b>Total</b>
Investment property	47 080 100	47 080 100

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GRAP 100 Discontinued operations with an effective date 1 April 2014 was amended to exclude the requirement to separately disclose non-current asset held for sale. In accordance with the transitional provisions contained in GRAP 100.15 an amount of R957 000 previously included in non-current assets held for sale has been transferred back to Investment Property in year 2014/15.

Rental income and operating expenditure relating to investment property was identified as not being material. As such these amounts have not been separately disclosed.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 8. Property, plant and equipment

	2016		2015	
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation
			Accumulated depreciation and impairment	Carrying value
Land and Buildings	46 904 179	(21 547 271)	25 356 908	46 018 997
Other Assets	99 737 508	(23 978 239)	75 759 269	59 151 606
Infrastructure and community assets	683 921 475	(349 464 722)	334 456 753	649 961 890
Landfill site	6 336 479	(4 841 890)	1 494 589	6 336 479
WIP	87 469 160	-	87 469 160	44 936 802
<b>Total</b>	<b>924 368 801</b>	<b>(399 832 122)</b>	<b>524 536 679</b>	<b>806 405 774</b>
			<b>(331 533 986)</b>	<b>474 871 788</b>

### Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land and Buildings	26 020 905	-	-	885 182	(1 549 179)	25 356 908
Other Assets	47 693 048	41 230 741	-	-	(13 164 520)	75 759 269
Infrastructure and community assets	352 323 969	-	(2 517 045)	36 575 077	(51 925 248)	334 456 753
Landfill site	3 897 064	-	-	-	(2 402 475)	1 494 589
WIP	44 936 802	79 992 617	-	(37 460 259)	-	87 469 160
	<b>474 871 788</b>	<b>121 223 358</b>	<b>(2 517 045)</b>	<b>-</b>	<b>(69 041 422)</b>	<b>524 536 679</b>

Included in additions or plant and machinery is an amount of R34 318 050 relating to assets acquired under a finance lease in 2014/15 and R36 032 795 relating to assets acquired under finance lease in 2015/16 Financial period. Refer to note 37 for details pertaining to the lease.

GRAP 100 Discontinued operations with an effective date 1 April 2014 was amended to exclude the requirement to separately disclose non-current asset held for sale. In accordance with the transitional provisions contained in GRAP 100.15 an amount of R1 157 500 previously included in non current assets held for sale has been transferred back to property, plant and equipment and is included as part of land and buildings in Year 2014/15.

### Reconciliation of property, plant and equipment - 2015

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

	Opening balance	Additions	Change in Estimate	Disposals	Transfers	Depreciation	Total
Land and Buildings	27 395 086	134 064	-	-	-	(1 508 245)	26 020 905
Other assets	11 538 191	39 437 896	-	-	-	(3 283 039)	47 693 048
Infrastructure and community assets	388 195 919	-	-	(2 281 326)	17 614 185	(51 204 809)	352 323 969
Landfill site	2 179 106	-	4 120 433	-	-	(2 402 475)	3 897 064
WIP	17 415 566	45 135 421	-	-	(17 614 185)	-	44 936 802
	<b>446 723 868</b>	<b>84 707 381</b>	<b>4 120 433</b>	<b>(2 281 326)</b>	<b>-</b>	<b>(58 398 568)</b>	<b>474 871 788</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 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	1 206 122	(341 001)	865 121	610 417	(163 560)	446 857

### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	446 857	595 705	(177 441)	865 121

### Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	87 993	442 263	(83 399)	446 857

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>10. Payables from exchange transactions</b>		
Trade payables	7 148 710	9 187 608
Debtors with credit balances	2 022 893	670 686
Accrued leave pay	4 640 008	3 340 187
Accrued bonus	1 649 085	826 848
Contract retentions	2 120 548	221 313
Other creditors	101 404	150 496
	<b>17 682 648</b>	<b>14 397 138</b>

## 11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

### Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG) (Account Number: 74321424942)	-	15 978 536
IEC Grant	1 000 000	-
	<b>1 000 000</b>	<b>15 978 536</b>

### Movement during the year

Balance at the beginning of the year	15 978 536	20 053 536
Additions during the year	57 333 000	46 565 000
Income recognition during the year	(72 311 536)	(50 640 000)
	<b>1 000 000</b>	<b>15 978 536</b>

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

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

The reconciliation pertaining to MIG is included as part of Note 15 "Government grants and subsidies".

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 12. Provisions

#### Reconciliation of provisions - 2016

	Opening Balance	Interest	Change in estimate	Total
Environmental rehabilitation	6 914 675	-	408 312	7 322 987
Other provisions	315 243	24 406	-	339 649
	<b>7 229 918</b>	<b>24 406</b>	<b>408 312</b>	<b>7 662 636</b>

#### Reconciliation of provisions - 2015

	Opening Balance	Additions	Interest	Change in Estimate	Total
Environmental rehabilitation	2 402 846	-	391 396	4 120 433	6 914 675
Other provisions	291 694	23 549	-	-	315 243
	<b>2 694 540</b>	<b>23 549</b>	<b>391 396</b>	<b>4 120 433</b>	<b>7 229 918</b>

Analysis of provisions:

Non-current liabilities	7 322 987	6 914 675
Current liabilities	339 649	315 243
	<b>7 662 636</b>	<b>7 229 918</b>

#### Environmental rehabilitation provision

Willowvale site

The License for the closure of the Willowvale site was extended on the 08 September 2015 for a period of 2 years.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the site is expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 6% was used.

The landfill site's lifespan expectancy from the end of the financial year is expected to be 1 year 2 months.

#### Dutywa site

The License for the closure of Dutywa site was extended on the 8 September 2015 for a period of 2 years.

An environmental specialist has been appointed to assist the Municipality with the management and closure of this site. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed. Interactions with the Licensing authority are currently in progress.

Given that the sites are expected to be closed within the next 12 months the costing prepared by the environmental specialist have been used as the basis for the rehabilitation provision. Where appropriate a discount rate of 6% was used.

The landfill site is lifespan expectancy from the end of the financial year is expected to be 1 year 2 months.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand 2016 2015

### 12. Provisions (continued)

#### Elliotdale site

The Elliotdale site's license is valid until 17 December 2020, but is reviewed every 5 years.

An environmental specialist has been appointed to assist the Municipality with the management of this site. A recent review of the facilities indicated that the site needs to be upgraded to meet current environmental and legislative requirements. The environmental specialist has undertaken a site visit and prepared preliminary designs and costing of works to be completed to enable the landfill site to continue operating as envisaged. Interactions with the Licensing Authority are currently in progress.

Based on the past usage the environmental specialist estimates that the landfill capacity is adequate up to 2037 provided:

- regular site upgrades are effected,
- the operations are properly managed and
- the license is renewed every 5 years

The provision for land rehabilitation is based on the current cost of the following activities being undertaken to close the site in 2037:

- Closing 1 cell, including capping
- Rehabilitation of the Leachate Pond
- Removal of any structures
- Storm water control
- Greening of site
- Ground water monitoring

The landfill site's lifespan expectancy from the end of the financial year is expected to be 22 years. Where appropriate a discount rate of 6% was used.

#### Other Provisions

This amount comprises a provision in favour of SARS for PAYE and resultant penalties and interest relating to a lumpsum payment made to a former Municipal Manager for which no PAYE was withheld. The Municipality has requested a tax directive from SARS. The likelihood and timing of the settlement is not as yet certain.

### 13. Employee benefit obligations

#### Defined benefit plan

The municipality has an unfunded defined benefit plan that relates to long service awards. Benefits in the form of additional leave days and cash rewards accrue to employees based on the number of years of experience.

An actuarial valuation was performed using generally accepted actuarial principles.

The reporting entity and those charged with the governance of the entity are responsible for determining the assumption used in valuations of this nature and should give evidence of their approval of the assumptions.

The disclosure shown below assumes that actuarial gain and losses are recognised immediately as required in terms of GRAP 25.

#### Defined benefit obligation

Opening balance	2 393 117	1 841 507
Benefits paid	(250 325)	(206 346)
Net expense recognised in the statement of financial performance	586 062	757 956
	<b>2 728 854</b>	<b>2 393 117</b>

#### Amount recognised in surplus and deficit

Service cost	324 951	248 499
Interest cost	190 833	151 390
Actuarial losses	70 278	358 067
	<b>586 062</b>	<b>757 956</b>



# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>13. Employee benefit obligations (continued)</b>		
<b>Amount recognised in statement of financial position</b>		
Benefit obligation	2 728 854	2 393 116
<b>Reconciliation of net statement of financial position amount</b>		
Opening balance	2 393 117	1 841 507
Amount recognised in Statement of Financial Performance	586 062	757 956
Payment made to pensioners	(250 325)	(206 346)
	<b>2 728 854</b>	<b>2 393 117</b>

### Key assumptions

Discount rates used	8,77 %	8,50 %
Salary escalation rate	7,27 %	7,00 %

The above discount rates have been based on market indicators at each year end. For 2016 the rate is based on market yields on government bonds as at the end of June 2016 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation.

For the purposes of the valuation the difference between the discount rate and the salary inflation rate is more significant than the individual items. The salary inflation gap of 1.5% applied in 2016 [2015: 1.5%] is consistent with rates generally used in the market for the valuation of benefits of this nature.

The results of the valuation are sensitive to the assumptions chosen.

### Sensitivities

1% increase in discount rate	-	-
Decreases in defined benefit obligation	2 558 887	2 238 712
Percentage	6,2 %	(6,5)%
1% decrease in discount rate	-	-
Increases in defined benefit obligation	2 921 172	2 568 413
Percentage	7,1 %	7,3 %
1% increase in salary inflation	-	-
Increases in defined benefit obligation	2 922 118	2 582 358
Percentage	7,1 %	7,9 %

### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The municipality makes contributions to the following medical aid schemes:

- HOSMED
- Key health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>14. Revenue</b>		
Service charges	1 322 908	1 024 394
Rental of facilities and equipment	1 536 705	991 114
Recoveries	3 383 742	-
Other income	1 469 586	1 085 204
Interest received - investment	9 004 105	9 068 446
Property rates	7 701 146	6 867 696
Licences and permits	731 769	742 726
Government grants & subsidies	289 997 410	220 520 286
Fines and Penalties	2 208 895	392 313
	<b>317 356 266</b>	<b>240 692 179</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	1 322 908	1 024 394
Rental of facilities and equipment	1 536 705	991 114
Recoveries	3 383 742	-
Other income (Refer to note 18)	1 469 586	1 085 204
Interest earned - investments	9 004 105	9 068 446
	<b>16 717 046</b>	<b>12 169 158</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	7 701 146	6 867 696
Licence and permits	731 769	742 726
<b>Transfer revenue</b>		
Government grants & subsidies	289 997 410	220 520 286
Fines and penalties	2 208 895	392 313
	<b>300 639 220</b>	<b>228 523 021</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>15. Government grants and subsidies</b>		
Equitable share	193 756 000	162 715 000
Municipal System Improvement Grant	930 000	934 000
Integrated Electrification Programme	20 000 000	3 000 000
Finance Management Grant	1 600 000	1 600 000
Other government grants	47 874	178 286
Municipal Infrastructure Grant	72 311 536	50 640 000
Library subsidies	300 000	300 000
Extended Public Works Programme	1 052 000	1 153 000
	<b>289 997 410</b>	<b>220 520 286</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	95 893 536	57 327 000
Unconditional grants received	194 103 874	163 193 286
	<b>289 997 410</b>	<b>220 520 286</b>

### Equitable Share

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

### Finance Management Grant

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

The Financial Management Grant is a conditional grant. The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA. The focus of the FMG Grant is to build awareness and undertake training on MFMA reforms including budgeting, reporting and financial processes.

### Municipal Systems Improvement Grant

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(930 000)	(934 000)
	-	-

The Municipal Systems Improvement Grant is a conditional grant. The purpose of the MSIG is to support municipalities in building in-house capacity in terms of systems focusing on Local and Economic Development; financial viability, institutional development and good governance.

### Municipal Infrastructure Grant

Balance unspent at beginning of year	15 978 536	20 053 536
Current-year receipts	56 333 000	46 565 000
Conditions met - transferred to revenue	(72 311 536)	(50 640 000)
	-	<b>15 978 536</b>

The Municipal Infrastructure Grant is a conditional grant, the purpose of which is to provide all South Africans with at least a basic level of service through the provision of grant finance to cover the capital cost of basic infrastructure for the poor. It is part of government's overall strategy to eradicate poverty and to create conditions for local economic development. The Municipality utilises these funds to primarily fund access roads and related infrastructure.

In year 2014/15 an amount of R7,462,000 was withheld by National Treasury due to unsatisfactory spending patterns at mid year.

### IEC Grant

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand

	2016	2015
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### 15. Government grants and subsidies (continued)

Current-year receipts	1 000 000	-
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Conditions still to be met - remain liabilities (see note 11).

This Grant was received from Provincial Cooperative Governance and Traditional Affairs (COGTA) towards provision of access to voting stations in preparation of local government elections for 2016.

### EPWP

Current-year receipts	1 052 000	1 153 000
Conditions met - transferred to revenue	(1 052 000)	(1 153 000)
	-	-

The Expanded Public Works Programme (EPWP) is a conditional grant and is one of government's short-to-medium term programs aimed at alleviating and reducing unemployment. The EPWP will achieve this aim through the provision of work opportunities coupled with training.

### Integrated Electrification Programme

Current-year receipts	20 000 000	3 000 000
Conditions met - transferred to revenue	(20 000 000)	(3 000 000)
	-	-

The Integrated Electrification Programme is a conditional grant. The purpose of the Integrated Electrification Programme Grant is to facilitate the development of the electrical infrastructure grid as part of the Integrated National Electrification Programme.

### 16. Other revenue

Debt impairment recovered	3 383 742	-
Other income	1 469 586	1 085 204
	<b>4 853 328</b>	<b>1 085 204</b>

### 17. Property rates

#### Rates charged

Assessment rates	7 701 146	6 867 696
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The above amounts are net of rebates amounting to R279 387.99 (2015: R250 717)

#### Valuations

Residential	19 140 130 300	19 140 130 300
Commercial	16 068 465 800	16 068 465 800
State	15 924 730 000	15 924 730 000
Municipal	26 433 124 500	26 433 124 500
	<b>77 566 450 600</b>	<b>77 566 450 600</b>

The Applicable general rates for current financial period and its comparative year is as follows:

A general rate of R 0.14 (2016: R 0.13) is applied to residential property valuations to determine assessment rates.

A general rate of R 0.015 (2015: R 0.14) is applied to business property valuations to determine assessment rates.

A general rate of R 0.018 (2015: R 0.17) is applied to government property valuations to determine assessment rates.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>18. Service charges</b>		
Refuse removal	1 322 908	1 024 394
The amount disclosed above for revenue from service charges is in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.		
<b>19. Other income</b>		
Administration Fees	301 849	343 463
Building Plans	136 112	36 537
Burial and cemetery	3 250	2 243
Drivers and license testing ground fees	-	252 664
Public Toilets	86 394	45 956
Pound Fees	269 654	102 414
Roadworthy certificates	-	17 654
Sundry income	672 327	284 273
	<b>1 469 586</b>	<b>1 085 204</b>
<b>20. Interest received - external investments</b>		
<b>Interest revenue</b>		
Interest on bank accounts and investment balances	9 004 105	9 068 446
<b>21. Employee related costs</b>		
Bargaining council contributions	14 844	12 222
Basic	45 020 499	30 473 845
Bonus (13th cheque)	3 372 320	2 055 560
Casual wage employment	10 689 002	2 522
Cellphone Allowance	554 217	144 540
Housing benefits and allowances	1 474 473	1 197 295
Leave related costs	1 423 317	(71 099)
Long-service awards	335 737	551 610
Medical aid - company contributions	2 521 646	2 327 802
Overtime payments	4 105 128	1 228 537
Post-employment benefits	5 861 035	3 916 516
Skills Development Levy	872 427	596 826
Stand by Allowances	73 389	5 828
Travel, motor car, accommodation, subsistence and other allowances	1 062 420	581 355
Unemployment Insurance Fund	464 942	307 850
Workmens Compensation	2 189 081	-
	<b>80 034 477</b>	<b>43 331 209</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
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### 21. Employee related costs (continued)

#### Remuneration of Acting Municipal Manager

Annual remuneration	-	101 022
Contributions to UIF, medical and pension funds	-	2 042
Travel, motor car, accommodation, subsistence and other allowance	-	7 043
	<b>-</b>	<b>110 107</b>

The following officials acted as Municipal Manager:

Mr M F Nofemela (August 2014 - February 2015)

#### Remuneration of Municipal Manager

Annual remuneration	960 362	219 228
Backpay	276 456	-
Travel, motor car, accommodation, subsistence and other allowance	175 977	73 324
Contributions to UIF, medical and pension funds	72 201	3 522
	<b>1 484 996</b>	<b>296 074</b>

Mr S V Poswa was appointed Municipal Manager from March 2015

#### Remuneration of Chief Finance Officer

Annual remuneration	645 485	366 719
Backpay	72 984	23 685
Bonus	36 000	13 500
Leave pay	-	68 317
Travel, motor car, accommodation, subsistence and other allowance	276 720	69 880
Contributions to UIF, medical and pension funds	1 785	6 912
Acting allowance	-	76 921
	<b>1 032 974</b>	<b>625 934</b>

The former Chief Financial Officer, Mr S Ndakisa, resigned in November 2014

Mr X Sikobi was appointed as Chief Financial Officer from 01 July 2015

#### Remuneration of Acting Chief Financial Officer

Annual remuneration	-	129 271
Backpay	-	51 461
Bonus	-	18 212
Acting allowance	-	323 322
Travel, motor car, accommodation, subsistence and other allowance	-	4 485
Contributions to UIF, medical and pension funds	-	47 723
	<b>-</b>	<b>574 474</b>

Mr L Nondonga was appointed as acting CFO from December 2014 and Mr V Jam Jam was appointed acting Chief Financial Officer from February 2015 to June 2015

#### Remuneration of Community Services Director

Annual remuneration	778 808	713 494
Backpay	39 576	52 122
Bonus	24 000	59 063
Travel, motor car, accommodation, subsistence and other allowance	168 006	168 006
Contributions to UIF, medical and pension funds	1 785	11 478
	<b>1 012 175</b>	<b>1 004 163</b>

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Figures in Rand	2016	2015
<b>21. Employee related costs (continued)</b>		
<b>Remuneration of Acting Corporate Services Director</b>		
Annual remuneration	-	347 210
Acting allowance	-	540 683
Travel, motor car, accommodation, subsistence and other allowance	-	35 857
Contributions to UIF, medical and pension funds	-	94 523
	<b>-</b>	<b>1 018 273</b>

The following officials acted as Corporate Services Director in the year 2014/15:

Miss G Sityata (July 2014 to March 2015)

Mr Nako (April 2015 to May 2015)

### Corporate Services Director

Annual remuneration	701 635	47 268
Backpay	106 103	-
Travel, motor car, accommodation, subsistence and other allowances	209 085	-
Contributions to UIF, medical and pension funds	41 944	621
	<b>1 058 767</b>	<b>47 889</b>

Mr M P Nini was appointed as director from June 2015.

### Remuneration of Infrastructure Services Director

Annual remuneration	772 136	706 951
Backpay	39 497	52 019
Bonus	80 000	46 667
Travel, motor car, accommodation, subsistence and other allowance	116 755	132 467
Contributions to UIF, medical and pension funds	119 241	10 348
	<b>1 127 629</b>	<b>948 452</b>

Miss N Y Mqoqi was appointed as Director from 1 April 2014.

### Planning and Development Director

Annual remuneration	802 807	737 494
Backpay	39 576	52 122
Travel, motor car, accommodation, subsistence and other allowance	168 006	168 006
Contributions to UIF, medical and pension funds	1 785	11 127
	<b>1 012 174</b>	<b>968 749</b>

The Municipality has adopted a new organogram for the year commencing 1 July 2013. This resulted in "Land and Housing" department and "Local Economic Development" department being merged to form a new department called "Planning and Development". Mr C B Mqingwana was appointed as director from 04 March 2014.

## 22. Remuneration of Councillors

Council remuneration and allowances	23 984 032	21 814 912
<b>Analysis of council remuneration</b>		
Mayor	764 097	723 145
Speaker	610 106	577 576
Traditional leaders	360 000	133 450
Executive committee members	3 484 739	3 290 732
Councillors remuneration	11 937 136	10 900 973
Councillors allowances	3 085 754	1 561 297
Ward committee remuneration	3 742 200	4 627 735
	<b>23 984 032</b>	<b>21 814 908</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>23. Finance costs</b>		
Interest paid on trade and other payables	17 485	10 990
Finance cost on lease liability	40 614 245	3 433 436
Rehabilitation of landfill sites	408 312	391 397
	<b>41 040 042</b>	<b>3 835 823</b>
<b>24. Debt impairment</b>		
Contributions to debt impairment provision - consumer debtors	-	1 707 577
Bad debts written off	8 981 240	846 578
	<b>8 981 240</b>	<b>2 554 155</b>
<b>25. Administrative and other expenditure</b>		
Advertising	328 767	562 879
Audit committee fees	245 087	482 628
Auditors remuneration	3 210 820	2 893 254
Bank charges	195 618	410 168
Cleaning	403 461	356 055
Community development and public participation	1 164 971	568 391
Conferences and seminars	165 172	7 000
Consumables	635 660	1 513 604
ECDC Facilities	847 109	-
Donations	482 087	188 965
Electricity	483 112	509 971
Entertainment	1 356 667	628 332
Equipment and plant hire	849 583	399 854
Expanded Public Works Programme	3 046 720	5 621 440
Flowers	842 268	226 853
Fuel and oil	3 541 010	1 134 019
IT Expenses	1 169 312	758 077
Indigent support	4 342 348	2 454 341
Insurance	1 756 126	707 229
Lease rentals on operating lease	937 412	1 436 337
Legal expenses	3 362 110	2 866 861
Magazines, books and periodicals	214 772	381 029
Medical expenses	16 013	11 925
Motor vehicle expenses	168 164	183 181
Other expenses	7 306 137	10 281 388
Interest and Penalties	2 095 576	163 763
Postage and courier	15 972	10 105
Printing and stationery	839 706	566 217
Professional fees	1 323 137	260 184
Projects	13 150 077	9 803 467
Promotions and Branding	44 550	-
Protective clothing	526 132	631 774
Refuse	290 720	844 260
Repairs and maintenance	45 732 448	12 896 973
Security	5 878 547	3 082 273
Software expenses	671 836	482 087
Special programme	1 742 454	1 943 984
Subscriptions and membership fees	1 635 124	353 092
Telephone and fax	1 085 673	1 412 868
Tourism development	950 648	950 620
Training	1 212 771	587 635
Travel - local	6 207 551	3 332 963
Water	165 821	2 891 296
	<b>120 639 249</b>	<b>74 797 342</b>



# MBHASHE LOCAL MUNICIPALITY (EC 121)

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## Notes to the Annual Financial Statements

Figures in Rand	2016	2015
<b>26. Auditors' remuneration</b>		
Fees	3 210 820	2 893 254
<b>27. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for</b>		
• Property Plant and equipment	117 961 681	60 746 638

### 28. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include Councillors, key management personnel and close members of family.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager and supply chain officials.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public.

#### Related party balances

##### Loan accounts - Owing by related parties

N Lumkwana	-	6 776
N Mtsi	84	84
Nonjaca NV	-	5 061
N Mlungu	1 699	1 526
N Janda	2 543	2 150

##### Amounts regarding deposits received from related parties for sale of land

M Peter	58 800	58 800
C Mqingwana	62 100	62 000
M Mbomvu	15 000	15 000
M Mcotsho	20 000	20 000
N N Ndlodaka	69 000	69 000
M Noyila	15 000	15 000
M Mfecane	20 000	20 000
M Nako	48 800	68 800

In the prior years the municipality sold land to the community. Included in deposits received are the above amounts from councillors and employees of the municipality.

The land has not been transferred to the buyers. Transfer will only take place when the full price of the property has been paid.

#### Related party transactions

During the year the Municipality rendered services to various Councillors residing within its jurisdiction. These services include rates and refuse charges.

The services rendered to related parties are charged at approved tariffs that were advertised to the general public. Amounts outstanding are unsecured and will be settled in cash.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

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### 29. Unauthorised expenditure

Opening balance	57 447 698	36 929 525
Unauthorised expenditure current year - non cash item	30 796 625	20 518 173
Less: Amount approved by council	(88 244 323)	-
	<b>-</b>	<b>57 447 698</b>

### 30. Fruitless and wasteful expenditure

Opening balance	6 251 638	6 002 126
Fruitless and wasteful expenditure - current year	17 485	249 512
	<b>6 269 123</b>	<b>6 251 638</b>

#### Details / incidents of fruitless and wasteful expenditure relating to this period only

Interest on overdue accounts	17 485	10 990
Fruitless and wasteful expenditure identified by internal audit	-	238 521
	<b>17 485</b>	<b>249 511</b>

No fruitless and wasteful expenditure was written off or recovered during the year.

### 31. Irregular expenditure

Opening balance	269 573 814	169 551 923
Add: Irregular Expenditure - current year	75 959 604	100 021 891
Less: Irregular expenditure - written off by council	(114 548 925)	-
	<b>230 984 493</b>	<b>269 573 814</b>

During the council meeting held on the 26th August 2015 the council resolved to write off irregular expenditure incurred in the previous financial years.

There were no criminal or disciplinary steps taken as consequence management for above expenditure as the results of the independent review found that the municipality did not suffer any financial loss as a result of incurred such expenditure.

#### Details of irregular expenditure – current year

Expenditure was more than R2 000 up to R10 000 and was procured without obtaining at least 3 written price quotations and the deviation was not approved by the CFO or his designate.	None - this was due non compliance with technical legislative requirements	983 064
Expenditure was more than R10 000 up to R200 000 and was procured without obtaining at least 3 written price quotations and the deviation was not approved by the CFO or his designate.	None - this was due non compliance with technical legislative requirements	70 453 638
Tender requirements not fully adhered to	None - this was due non compliance with technical legislative requirements	274 096 715
		<b>345 533 417</b>

#### Analysis of Irregular Expenditure Balance - current year

Irregular Expenditure identified by A2A KOPANO Investigation - Recurring from prior years	75 577 220	99 306 690
Medichex Employer contribution - unaccredited medical aid	382 384	715 201
	<b>75 959 604</b>	<b>100 021 891</b>

Deviations to the value of R74 828 320 (2014:353 475.61 - restated) were approved during the financial period.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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### 32. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government - SALGA Fees

Opening balance	557 850	435 873
Current year subscription / fee	1 150 210	593 850
Amount paid - current year	(1 160 210)	(36 000)
Amount paid - previous years	(131 000)	(435 873)
	<b>416 850</b>	<b>557 850</b>

#### Audit fees

Current year subscription / fee	3 647 258	2 736 483
Amount paid - current year	(3 647 258)	(2 736 483)
	-	-

#### PAYE and UIF

Current year subscription / fee	13 239 021	9 992 282
Amount paid - current year	(13 239 021)	(9 992 282)
	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	7 621 899	9 589 386
Amount paid - current year	(7 621 899)	(9 589 386)
	-	-

The municipality does not contribute to councillors' medical aid and pension plans. Refer to Note 28 "Related parties" for disclosure of amounts owed by councillors.

#### VAT

VAT receivable	13 671 774	10 915 401
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All VAT returns for the financial period except December and January were submitted by the due dates.

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned. Refer to note 44

#### Incident

Other minor breaches	13 737 681	546 045
Information technology upgrade	-	310 078
Upgrading of electricity services	-	3 000 000
Upgrading of road infrastructure	-	70 972 197
Financial support to LED projects	4 898 800	-
Renovations to Municipal sites	1 235 941	-
	<b>19 872 422</b>	<b>74 828 320</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 33. Contingencies

#### Contingent liabilities

##### Litigation matters:

The municipality was party to the following litigations, however the financial impact has not been finalised as of yet:

<b>The municipality is currently party to the following litigation:</b>	<b>Projected cost</b>
Mbhashe Local Municipality vs Incremate (Pty) Ltd	60 000 000
Mbhashe Local Municipality vs Maqhula	8 000
Notyesi Inc. vs Mbhashe Local Municipality	35 230
Mbhashe Local Municipality vs Landisile Mithi and others	119 303
Mbhahse Local Municipality vs B.S. Titus Holdings and BP Garage	90 000
Mbhashe Local Municipality vs Mfecane Mbonvu and Janda	105 136
Madingana and others vs Mbhashe Local Municipality	150 000
Neville Borman and Botha vs Mbhashe Local Municipality	40 000
Moses Mbambo vs Mbhashe LM and others	400 000
S.Nginda - Contract Management (Legal Advisory)	300 000
Contract Vetting - S. Nginda (Legal Advisory)	8 000
Land Invaders - Elliotdale	150 000
Centrepoint	8 000 000
Mbhashe vs Juspo	60 000
Shack Demolition in Dutywa CBD	150 000
	<b>69 615 669</b>

The following are litigations against the Municipality for which no estimate is available:

Mbhashe Local Municipality vs Zizi Agricultural Co-op and another

Mbhashe Local Municipality vs Mthetheleli Bhele and others

Mbhashe Local Municipality vs Somhlahlo

Sabelo Dumezweni vs Mbhashe Local Municipality and others

Mbhashe Local Municipality vs Pakama Gatyana

Mbhashe Local Municipality vs Nkosinathi Ndlodaka

Mbhashe Local Municipality vs Thembelani Marafane

Mangathi Community vs Mbhashe Local Municipality

Mputhi vs Mbhashe Local Municipality

Mawethu Sakwe vs Mbhashe Local Municipality

Balintulo CC vs Mbhashe Local Municipality

Sicelo Gobeni vs Mbhashe Local Municipality

Selinda Sondli vs Mbhashe Local Municipality

Sapokazi Manxiwa vs Mbhashe Local Municipality.

Vuyokazi Nosilela vs Mbhashe Local Municipality

Zola Majebe vs Mbhashe Local Municipality

Sima Mlakuhlwa vs Mbhashe Local Municipality

Blaize Point CC vs Mbhashe Local Municipality

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 33. Contingencies (continued)

SASSA vs Mbhashe Local Municipality

Tkei Youth Dev. Project - Golf Academy vs Mbhashe Local Municipality

Various Tenants vs Mbhashe Local Municipality

A detailed register of litigation matters is maintained and available for inspection at the Municipality's registered office.

### 34. Cash generated from operations

(Deficit) surplus	(28 956 399)	33 603 491
<b>Adjustments for:</b>		
Depreciation and amortisation	69 116 580	58 473 922
Loss/(gain) on sale of assets and liabilities	2 517 045	2 184 695
Debt impairment	8 981 240	2 554 155
Movements in operating lease assets and accruals	(14 108)	-
Movements in retirement benefit assets and liabilities	335 737	551 610
Movements in provisions	432 718	4 535 378
Other non cash movement as a result of change in accounting for a lease debtor and prior period errors.	101 283	(1 271 638)
<b>Changes in working capital:</b>		
Receivables from exchange transactions	(112 197)	(715 499)
Consumer debtors	(11 181 017)	796 228
Other receivables from non-exchange transactions	268 227	149 464
Payables from exchange transactions	3 285 510	6 042 182
VAT	(2 756 373)	(8 281 368)
Unspent conditional grants and receipts	(14 978 536)	(4 075 000)
	<b>27 039 710</b>	<b>94 547 620</b>

### 35. Risk management

#### Financial risk management

The Municipality is exposed to the following risks:

- market risk (including interest rate risk);
- credit risk; and
- liquidity risk

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The municipality does not enter into or trade in financial instruments for speculative purposes.

#### Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and cash flow requirements.

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

The Municipality's investment portfolio consists of short term deposits and current accounts with a notice period of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

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### 35. Risk management (continued)

#### Interest rate risk

Market risk is the risk that changes in market prices, such as interest rates will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Market risk consists primarily of interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing.

The exposure to interest rate risk is limited as the municipality's investment portfolio is entirely cash based. The Municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. There has been no change since the previous financial year to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

#### Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the entity's operations, the municipality has an obligation to provide services to all qualifying people in its area. As such, the municipality is not able to select only creditworthy counterparts.

Potential concentrations of credit rate risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of consumers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors, including an inaccurate and unreliable customer database. The municipality has started the process of cleansing its trade receivable portfolio to ensure completeness of its trade receivables. All policies affecting trade receivables have been reviewed and updated to assist the municipality in the cleansing process. Refer note 4 for more detailed information on the composition of the trade receivables portfolio.

Except for trade receivables which have already been impaired, the following financial assets are exposed to limited credit risk at year end:

<b>Cash and cash equivalents (including investments) are held with the following counter parties:</b>	<b>2016</b>	<b>2015</b>
ABSA Bank	2 936 505	2 830 684
First National Bank (Primary Bank)	62 250 183	140 449 830
Standard Bank	1 749 622	1 750 377

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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### 36. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
<b>Heritage assets which fair values cannot be reliably measured: (Para .94)</b>						
Heritage Assets which fair values cannot be reliably measured	9	-	9	9	-	9

#### Reconciliation of heritage assets 2016

	Opening balance	Total
<b>Heritage assets which fair values cannot be reliably measured: (Para .94)</b>		
Historical monuments	9	9

#### Reconciliation of heritage assets 2015

	Opening balance	Total
<b>Heritage assets which fair values cannot be reliably measured: (Para .94)</b>		
Historical monuments	9	9

#### Heritage assets which fair values cannot be reliably measured

##### Graves, Caves and Memorial Sites

The Municipality's heritage assets consists of graves,grave sites,traditional dwelling and caves. Their fair value cannot be reliably measured. Fair value cannot be determined reliably due to nature of the assets. The assets have been allocated a nominal value of R9 for record keeping.

Following is the list of heritage assets:

. Graves (Gcaleka's Grave,King Hintsa's Grave and King Sarhili's Grave)  
 Memorial sites (Nqadu Great Place,Fort Bowker and Fort Malan Memorial)  
 (Sinqumeni Caves,Ngqamakhwe Rock Art and Ludiza Cave)  
 House  
 House

. Caves  
 . Mhlakaza's  
 . Nongqawuse's

### 37. Operating lease liability

Non-current liabilities	-	(3 169)
Current liabilities	-	(10 939)
	-	<b>(14 108)</b>

#### Future minimum lease payments

-Within one year		10 939
-In second to the fifth year inclusive	3 168	-
-Sixth year and above		

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 37. Operating lease liability (continued)

#### Operating leases - as lessee (expense)

Minimum lease payments due		
-Within one year	1 658 803	74 603
-In second to fifth year inclusive	2 494 360	19 084
		At the
Statement of Financial Position date, where the municipality is a lessee under operating leases, it will have an		operating lease liability.
Operating lease payments represent rentals payable by the municipality for certain of its office equipment. No contingent		rental is
payable.		
The municipality is party to one lease commitment, which is a lease of a photocopiers. The lease will come to an end as		at 31 July
2018.		



# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

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### 38. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	288 150	556 377
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### Receivables from non-exchange transactions

#### Balance as at 30 June 2016

	Gross Balances	Provision for doubtful debts	Net balance
Recoveries of staff expenses	220 174	(220 174)	-
SARS debtor	322 827	(268 227)	54 600
Other debtors	338 695	(105 146)	233 549
	<b>881 696</b>	<b>(593 547)</b>	<b>288 149</b>

### 39. Finance lease obligation

#### Finance lease

#### Minimum lease payments due

- within one year	54 668 714	18 535 587
- in second to fifth year inclusive	29 995 161	24 714 116
	84 663 875	43 249 703
less: future finance charges	(37 962 623)	(13 070 750)
<b>Present value of minimum lease payments</b>	<b>46 701 252</b>	<b>30 178 953</b>

#### Present value of minimum lease payments due

- within one year	24 665 534	10 281 999
- in second to fifth year inclusive	22 035 717	19 896 954
	<b>46 701 251</b>	<b>30 178 953</b>

During the year and the 2014/15 Mbashe Local Municipality entered into a finance lease to purchase items of plant and equipment for the implementation of infrastructure related projects. The finance lease is for the period of 3 years with instalments payable monthly and bears an implicit interest rate of 32.25%(started 2014/15) 113.89%(started 2015/16) per annum. At the end of the lease period ownership of all assets will transfer to Mbashe Local Municipality.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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## Notes to the Annual Financial Statements

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### 40. Financial instruments disclosure

#### Categories of financial instruments

Financial instruments are classified in the following categories:

Financial assets: At amortised cost

Financial liabilities: At amortised cost

The classification of financial instruments is determined at initial recognition based on the purpose for which the financial assets are acquired or liabilities assumed. The amounts relating to financial instruments reflected below approximates fair value.

#### 2016

##### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	827 696	827 696
Receivables from non-exchange transactions	288 150	288 150
Consumer debtors	3 184 455	3 184 455
Cash held with bank institutions	66 777 287	66 777 287
Vat receivable	13 671 774	13 671 774
	<b>84 749 362</b>	<b>84 749 362</b>

##### Financial liabilities

	At amortised cost	Total
Accrued bonus	1 649 085	1 649 085
Staff leave accrual	4 640 008	4 640 008
Trade payables	16 986 148	16 986 148
Provisions	9 104 923	9 104 923
Sundry creditors	101 404	101 404
Contract retentions	1 798 403	1 798 403
Finance lease obligation	46 701 251	46 701 251
	<b>80 981 222</b>	<b>80 981 222</b>

Interest charged to overdue trade debtor accounts:

No interest is charged on over due trade debtor accounts. Had interest been charged at the prime interests rate the effects based on best estimate are as follows:

The net effect is not considered to have a material impact on the users understanding of the financial statements.

Interest charge at prime interest	-	2 160 329
Interest that would have been included in the impairment of debtors	-	(2 157 980)
	<b>-</b>	<b>2 349</b>

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### Financial instruments disclosure (continued)

2015

#### Financial assets

	At amortised cost	Total
Receivables from non-exchange transactions	556 377	556 377
Consumer debtors	668 594	668 594
Cash held with bank institutions	145 030 891	145 030 891
Trade and other receivables from exchange transactions	715 499	715 499
Vat receivable	10 915 401	10 915 401
	<b>157 886 762</b>	<b>157 886 762</b>

#### Financial liabilities

	At amortised cost	Total
Accrued bonus	826 848	826 848
Staff leave accrual	3 340 187	3 340 187
Trade payables	9 187 608	9 187 608
Provisions	7 229 918	7 229 918
Payments received in advance	670 686	670 686
Sundry creditors	150 496	150 496
Contract retentions	76 397	76 397
Operating lease liability	14 108	14 108
Operating lease liability	30 178 953	30 178 953
	<b>51 675 201</b>	<b>51 675 201</b>

#### 41. Depreciation and amortisation

Property, plant and equipment	69 116 580	58 473 922
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#### 42. Rental of facilities and equipment

##### Premises

Premises	1 127 442	767 338
Rental of Halls	186 839	106 220
Rentals of Billboards	222 424	117 556
	<b>1 536 705</b>	<b>991 114</b>
Premises	1 536 705	991 114
Garages and parking	-	-
Facilities and equipment	-	-

# MBHASHE LOCAL MUNICIPALITY (EC 121)

Annual Financial Statements for the year ended 30 June 2016

## Notes to the Annual Financial Statements

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### 43. Prior period errors

During the 2014/15 Audit period, the PPE note per the Annual Financial Statement was different from the Fixed Asset Register. There were journals in the general ledger that were not accounted for in the Fixed Asset Register. The second restatement is as result of Council Resolution which was taken for written off certain debtors from the system. In addition to the PPE issues raised by AG our Service Provider A2A Kopano discovered some movable assets that were indicated as disposed off last year in the asset register and then depreciated those from the date of purchase as a result our depreciation figure had be restated

43.1 Accumulated surplus balance as at 1 July 2015 as previously reported

#### Accumulated surplus

Opening balance at 1 July 2015 as previously reported	-	613 863 001
Reversal and reallocation of unsupported journals of prior year for disposals and additions	-	287 473
Correction of prior year depreciation	-	(3 206 647)
Restatement of contract retention	-	144 375
Net effect of remapping expenses that were incorrectly capitalised	-	(991 005)
	-	<b>610 097 197</b>

43.2 Restatement of prior period figures as a result of errors identified:

**Restatement of prior period figures as a result of errors identified:  
The amounts reported in the 2014/15 annual financial statements have been restated for the errors identified below. A summary of the adjustments follows:  
Statement of Financial Performance**

Surplus for the year as previously reported for the year ended 30 June 2015	-	36 359 531
Correcting depreciation raised in the prior year (2014/15)	-	(1 765 034)
Net effect of Expenses that were incorrectly mapped to Capital in the previous year	-	(991 005)
	-	<b>33 603 492</b>

Details of the above movements are provided below:

### 43.3 Statement of financial position

#### Property, plant and equipment

Balance previously reported as at 30 June 2015	-	478 493 225
Correction of depreciation of prior years as well as disposals - restatement	-	(3 621 437)
	-	<b>474 871 788</b>

#### Payables from exchange transactions

Balance previously reported as at 30 June 2015	-	14 252 771
Correction of contract retentions	-	144 376
Correction of casting error on prior year note	-	(9)
	-	<b>14 397 138</b>

### 44. 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 and includes a note to the annual financial statements.

### 45. Budget differences

#### Material differences between budget and actual amounts

45.1 The Service charges are reflecting a positive variance, this is mainly caused by the number of debtor accounts in the billing system vs the general valuation roll. The municipality has taken a decision to rectify this by writing off these accounts.

# MBHASHE LOCAL MUNICIPALITY (EC 121)

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## Notes to the Annual Financial Statements

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### 45. Budget differences (continued)

45.2 The Municipality increased its collection with regards to rentals due to an enhanced lease register and implementation of efficient controls.

45.3 The negative variance is a result of withdrawals by council from our reserves to enhance service delivery backlogs. The budget figure also included VAT refunds that are not necessarily our own generated revenue.

45.4 This positive variance is a result of debtors impairment that has gone down due to invalid and municipal accounts that has been written off. The municipality also embarked on an exercise to fully implement a council resolution taken in October 2013 to write off takeon balances that was not fully implemented. This also reduced the impairment provision by a significant amount resulting in favourable movement (i.e. income)

45.5 The negative variance resulted from the withdrawals made by council from reserves to fastrack service delivery targets, these withdrawals will be refunded during the 2016/17 financial period.

45.6 The reason for the positive variance is that at mid-year the actual billing was slightly higher than budget projection and therefore the municipality adjusted its budget upwards.

45.7 The municipality was not able to re-open its license testing centre during the year under review, only leaners licenses were issued and therefore the budget had to be adjusted which led to a negative variance.

45.8 Grants are reflecting a positive variance due to the fact that the Municipality had to adjust its grants budget downwards due to an error that was made in the original budget for councillor allowances. The difference reflects Capital MIG portion of the grants.

45.9 The positive variance is caused by the collection rate that has increased in traffic fines. One of the main contributors to this variance is increase in human capital in the law enforcement department, which resulted in more traffic officers and capacity and enforcement of laws and by laws.

45.10 During the year the Municipality entered into a lease agreement to acquire additional plant and machinery, the variance is as result of the depreciation of the new Plant and Machinery.

45.11 Finance lease entered into for the acquisition of plant

45.12 This variance relates to the write - off which took place during the year, which relate to the 2013 council resolution that was not implemented fully and the clearing of invalid accounts and tenant accounts from debtors books.

45.13 The municipality restated the fixed asset register in 2015/16 which resulted in significant variances between the budget and actual figures.

45.14 The actual amount relates to refuse removal which is included under receivables from non- exchange transactions in the budget.

45.15 Actual amount has taken impairment into consideration.

45.16 The municipality budgeted for VAT under other income on the SoFP.

45.17 Actual amount has taken impairment into consideration.

45.18 The budget figure is based on prior year closing figures, the actual is closing for the current year.

45.19 There has been no movement in investment property, therefore budget has to be zero.

45.20 Actual amount includes historical costs for PPE, unlike the budget which only focuses on additions.

45.21 This budget is under general expenses on the SoFP.

45.22 The municipality had paid most of its creditors at year - end compared to the budgeted amount.

45.23 Unspent portion relates to IEC grant for the government elections which was received in June 2015

45.24 This is budgeted under General Expenses on the Statement of Financial Performance.

45.25 This relates to provision from prior years and taxes not withheld from Mr Somana

45.26 This amount relates to the lease that the municipality entered into for plant acquisition, the municipality budget for the payments under the income statement vote.

# **MBHASHE LOCAL MUNICIPALITY (EC 121)**

Annual Financial Statements for the year ended 30 June 2016

## **Notes to the Annual Financial Statements**

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### **45. Budget differences (continued)**

45.27 This is budgeted under Personnel costs in the SoFP.

45.28 This relates to provisions of which a major contributor is landfill sites that are budgeted under General Expenses on the SoFP.