



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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

General Information

Nature of business and principal activities

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

Grading of local authority

Low capacity municipality

Accounting Officer

S G Sotshongaye

Registered office

96 LG Mabindla Avenue
Qumbu

MEMBERS OF COUNCIL

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

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

TRADITIONAL LEADERS TO PARTICIPATE IN MHLONTLO MUNICIPALITY COUNCIL

| | |
|---------------------------|-----------------|
| Nkosinathi Matshanda | MAQAKAMBENI T/C |
| Luyanda Mditshwa | KHETHANI T/C |
| Sizwe Siyoyo | AMACWERA T/C |
| Busisiwe Gloria Mcotshana | Masizakhe T/C |

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

General Information

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

Bankers

FNB - QUMBU

Auditors

Auditor General South Africa

Relevant Legislation

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

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Abbreviations

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

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

The financial statements set out on pages 6 to 85, which have been prepared on the going concern basis, were approved by the on 31 August 2016 and were signed on its behalf by:


S G Sotshongaye
Municipal Manager

21/08/2016

Qumbu

MHLONTLO MUNICIPALITY
MUNICIPAL MANAGER
2016 -08- 31
Signature:.....
QUMBU & TSOLO

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

1. Review of activities

Main business and operations

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

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

2. Going concern

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

The municipality as at 30 June 2016 has an operating deficit of R22 841 407 (2015: R31 715 891). The deficit is mainly due to non cash year end adjustment such as depreciation and amortisation and also provision for debt impairments.

3. Subsequent events

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

| | Notes | 2016 R | 2015 Restated* R |
|--|-------|--------------------|------------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 2 | 10 497 000 | 10 497 000 |
| Receivables from non-exchange transactions | 3 | 18 171 014 | 2 644 886 |
| VAT receivable | 4 | 2 855 705 | 2 668 906 |
| Receivables from exchange transactions | 5 | 39 193 | 354 832 |
| Cash and cash equivalents | 6 | 25 925 715 | 15 376 924 |
| | | 57 488 627 | 31 542 548 |
| Non-Current Assets | | | |
| Investment property | 7 | 19 202 155 | 19 202 155 |
| Property, plant and equipment | 8 | 665 618 855 | 715 295 135 |
| Intangible assets | 9 | 490 991 | 851 626 |
| Heritage assets | 10 | 210 810 | 210 810 |
| | | 685 522 811 | 735 559 726 |
| Non-Current Assets | | 685 522 811 | 735 559 726 |
| Current Assets | | 57 488 627 | 31 542 548 |
| Total Assets | | 743 011 438 | 767 102 274 |
| Liabilities | | | |
| Current Liabilities | | | |
| Payables from exchange transactions | 11 | 7 808 116 | 9 803 721 |
| Employee benefit obligation | 12 | 7 842 898 | 6 654 682 |
| Unspent conditional grants and receipts | 13 | 1 631 277 | 1 662 192 |
| Provisions | 14 | 3 550 000 | 5 000 000 |
| | | 20 832 291 | 23 120 595 |
| Non-Current Liabilities | | | |
| Employee benefit obligation | 12 | 4 017 000 | 3 132 000 |
| Provisions | 14 | 1 666 890 | 1 513 016 |
| | | 5 683 890 | 4 645 016 |
| Non-Current Liabilities | | 5 683 890 | 4 645 016 |
| Current Liabilities | | 20 832 291 | 23 120 595 |
| Liabilities of disposal groups | | - | - |
| Total Liabilities | | 26 516 181 | 27 765 611 |
| Assets | | 743 011 438 | 767 102 274 |
| Liabilities | | (26 516 181) | (27 765 611) |
| Net Assets | | 716 495 257 | 739 336 663 |
| Accumulated surplus | | 716 495 257 | 739 336 663 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

| | Notes | 2016 R | 2015 Restated* R |
|---|-------|----------------------|------------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 15 | 1 157 510 | 572 850 |
| Commission received | | 173 337 | 151 658 |
| Rental of facilities and equipment | | 46 161 | 45 737 |
| Income from agency services | | 853 904 | 799 500 |
| Licences and permits | | 1 488 639 | 1 303 861 |
| Other income | 16 | 1 458 041 | 1 073 132 |
| Interest received | 17 | 4 397 033 | 1 872 015 |
| Total revenue from exchange transactions | | 9 574 625 | 5 818 753 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 18 | 31 807 393 | 9 239 805 |
| Transfer revenue | | | |
| Government grants and subsidies | 19 | 220 166 350 | 190 759 210 |
| Public contributions and donations | | - | 8 000 |
| Other revenue | | | |
| Fines | | 476 921 | 254 800 |
| Total revenue from non-exchange transactions | | 252 450 664 | 200 261 815 |
| | | 9 574 625 | 5 818 753 |
| | | 252 450 664 | 200 261 815 |
| Total revenue | | 262 025 289 | 206 080 568 |
| Expenditure | | | |
| Personnel | 20 | (76 666 723) | (68 472 348) |
| Remuneration of councillors | 21 | (16 611 097) | (15 167 982) |
| Depreciation and amortisation | 22 | (97 690 900) | (95 049 918) |
| Finance costs | 23 | (258 000) | (234 000) |
| Debt impairment | 24 | (12 393 000) | (2 170 277) |
| Repairs and maintenance | 25 | (3 192 332) | (2 068 869) |
| Contracted services | 26 | (5 094 291) | (2 926 206) |
| Operating grant expenditure | 27 | (25 877 127) | (11 306 002) |
| Loss on disposal of assets | 28 | (396 424) | - |
| General Expenses | 29 | (45 466 578) | (39 786 152) |
| Operating leases | 29 | (714 348) | (714 348) |
| Interest on landfill | 14 | (153 874) | (127 356) |
| Total expenditure | | (284 514 694) | (238 023 458) |
| | | - | - |
| Total revenue | | 262 025 289 | 206 080 568 |
| Total expenditure | | (284 514 694) | (238 023 458) |
| Operating deficit | | (22 489 405) | (31 942 890) |
| Actuarial (loss) / gain | | (352 000) | 227 000 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

| | Note(s) | 2016 R | 2015 Restated* R |
|-----------------------------|---------|---------------------|------------------------|
| Deficit before taxation | | (22 841 405) | (31 715 890) |
| Taxation | | - | - |
| Deficit for the year | | (22 841 405) | (31 715 890) |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

| | | Accumulated surplus R | Total net assets R |
|---|----|-----------------------------|--------------------------|
| Opening balance as previously reported | | 144 648 478 | 144 648 478 |
| Adjustments | | | |
| Correction of errors (Refer to note 36) | 37 | 626 404 075 | 626 404 075 |
| Balance at 01 July 2014 as restated* | | 771 052 553 | 771 052 553 |
| Changes in net assets | | | |
| Deficit for the year | | (31 715 890) | (31 715 890) |
| Total changes | | (31 715 890) | (31 715 890) |
| Restated* Balance at 01 July 2015 | | 739 336 662 | 739 336 662 |
| Changes in net assets | | | |
| Deficit for the year | | (22 841 405) | (22 841 405) |
| Total changes | | (22 841 405) | (22 841 405) |
| Balance at 30 June 2016 | | 716 495 257 | 716 495 257 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Cash Flow Statement

| | Notes | 2016 R | 2015 Restated* R |
|---|-------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Rates and service charges | | 5 174 614 | 5 199 622 |
| Grants | | 220 166 350 | 190 759 210 |
| Interest income | | 4 397 033 | 1 872 015 |
| Other receipts | | 4 145 003 | 3 855 687 |
| | | <u>233 883 000</u> | <u>201 686 534</u> |
| Payments | | | |
| Employee costs | | (92 500 731) | (80 159 073) |
| Suppliers | | (82 552 988) | (61 448 751) |
| Finance costs | | (258 000) | (234 000) |
| | | <u>(175 311 719)</u> | <u>(141 841 824)</u> |
| Total receipts | | 233 883 000 | 201 686 534 |
| Total payments | | (175 311 719) | (141 841 824) |
| Net cash flows from operating activities | 31 | <u>58 571 281</u> | <u>59 844 710</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 8 | (48 050 409) | (46 843 038) |
| Proceeds from sale of property, plant and equipment | 8 | 27 920 | - |
| Net cash flows from investing activities | | <u>(48 022 489)</u> | <u>(46 843 038)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 10 548 792 | 13 001 672 |
| Cash and cash equivalents at the beginning of the year | | 15 376 923 | 2 375 252 |
| Cash and cash equivalents at the end of the year | 6 | <u>25 925 715</u> | <u>15 376 924</u> |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Statement of Financial Performance

Revenue

Revenue from exchange transactions

| | | | | | | |
|---|------------------|----------------|------------------|------------------|-----------------|--|
| Service charges | 1 153 397 | (92 158) | 1 061 239 | 1 157 510 | 96 271 | |
| Rendering of services | - | 188 949 | 188 949 | 173 337 | (15 612) | |
| Rental of facilities and equipment | 46 161 | (300) | 45 861 | 46 161 | 300 | |
| Income from agency services | 852 329 | 1 575 | 853 904 | 853 904 | - | |
| Licences and permits | 1 488 639 | - | 1 488 639 | 1 488 639 | - | |
| Other income | 1 382 248 | 40 977 | 1 423 225 | 1 458 041 | 34 816 | |
| Interest received | 3 697 113 | 699 920 | 4 397 033 | 4 397 033 | - | |
| Total revenue from exchange transactions | 8 619 887 | 838 963 | 9 458 850 | 9 574 625 | 115 775 | |

Revenue from non-exchange transactions

Taxation revenue

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

Transfer revenue

| | | | | | | |
|-------------------------------|-------------|---------|--------------------|-------------|----------------|------|
| Government grants & subsidies | 219 996 350 | 170 000 | 220 166 350 | 220 166 350 | - | |
| Fines | 82 000 | - | 82 000 | 476 921 | 394 921 | 45.1 |

| | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|----------------|--|
| Total revenue from non-exchange transactions | 149 105 208 | 102 950 535 | 252 055 743 | 252 450 664 | 394 921 | |
|---|--------------------|--------------------|--------------------|--------------------|----------------|--|

| | | | | | | |
|--|-----------|---------|------------------|-----------|----------------|--|
| 'Total revenue from exchange transactions' | 8 619 887 | 838 963 | 9 458 850 | 9 574 625 | 115 775 | |
|--|-----------|---------|------------------|-----------|----------------|--|

| | | | | | | |
|--|-------------|-------------|--------------------|-------------|----------------|--|
| 'Total revenue from non-exchange transactions' | 149 105 208 | 102 950 535 | 252 055 743 | 252 450 664 | 394 921 | |
|--|-------------|-------------|--------------------|-------------|----------------|--|

| | | | | | | |
|----------------------|--------------------|--------------------|--------------------|--------------------|----------------|--|
| Total revenue | 157 725 095 | 103 789 498 | 261 514 593 | 262 025 289 | 510 696 | |
|----------------------|--------------------|--------------------|--------------------|--------------------|----------------|--|

Expenditure

| | | | | | | |
|-------------------------------|----------------------|----------------------|----------------------|----------------------|---------------------|------|
| Personnel | (77 084 196) | 1 654 491 | (75 429 705) | (76 666 723) | (1 237 018) | 45.2 |
| Remuneration of councillors | (16 980 579) | 141 769 | (16 838 810) | (16 611 097) | 227 713 | 45.2 |
| Depreciation and amortisation | (17 395 683) | (78 418 399) | (95 814 082) | (97 690 900) | (1 876 818) | 45.2 |
| Finance costs | - | - | - | (258 000) | (258 000) | 45.3 |
| Debt impairment | - | - | - | (12 393 000) | (12 393 000) | 45.4 |
| Repairs and maintenance | (2 950 079) | (277 973) | (3 228 052) | (3 192 332) | 35 720 | 45.2 |
| Contracted Services | (5 142 457) | 48 166 | (5 094 291) | (5 094 291) | - | |
| Operating grant expenditure | (26 464 100) | 518 211 | (25 945 889) | (25 877 127) | 68 762 | 45.2 |
| General Expenses | (46 607 603) | (83 103 485) | (129 711 088) | (46 334 800) | 83 376 288 | 45.6 |
| Total expenditure | (192 624 697) | (159 437 220) | (352 061 917) | (284 118 270) | 67 943 647 | |

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|----------------------------|---------------------|---------------------|----------------------|---|---|-----------|
| | R | R | R | R | R | |
| | 157 725 095 | 103 789 498 | 261 514 593 | 262 025 289 | 510 696 | |
| | (192 624 697) | (159 437 220) | (352 061 917) | (284 118 270) | 67 943 647 | |
| Operating deficit | (34 899 602) | (55 647 722) | (90 547 324) | (22 092 981) | 68 454 343 | |
| Loss on disposal of assets | 23 110 | 27 920 | 51 030 | (396 424) | (447 454) | 45.7 |
| Actuarial loss | - | - | - | (352 000) | (352 000) | 45.8 |
| | 23 110 | 27 920 | 51 030 | (748 424) | (799 454) | |
| | (34 899 602) | (55 647 722) | (90 547 324) | (22 092 981) | 68 454 343 | |
| | 23 110 | 27 920 | 51 030 | (748 424) | (799 454) | |
| Deficit | (34 876 492) | (55 619 802) | (90 496 294) | (22 841 405) | 67 654 889 | |
| Deficit | (34 876 492) | (55 619 802) | (90 496 294) | (22 841 405) | 67 654 889 | |
| Taxation | - | - | - | - | - | |

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Statement of Financial Position

Assets

Current Assets

| | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|--------------------|-------|
| Inventories | 16 062 397 | (5 565 397) | 10 497 000 | 10 497 000 | - | |
| Receivables from non-exchange transactions | - | 24 267 741 | 24 267 741 | 18 171 014 | (6 096 727) | 45.9 |
| VAT receivable | - | 111 527 | 111 527 | 2 855 705 | 2 744 178 | 45.10 |
| Receivable from exchange transactions | - | 730 059 | 730 059 | 39 193 | (690 866) | 45.11 |
| Cash and cash equivalents | - | 12 505 125 | 12 505 125 | 25 925 715 | 13 420 590 | 45.12 |
| | 16 062 397 | 32 049 055 | 48 111 452 | 57 488 627 | 9 377 175 | |

Non-Current Assets

| | | | | | | |
|-------------------------------|-------------------|--------------------|-------------------|--------------------|--------------------|-------|
| Investment property | 27 442 135 | (330 300) | 27 111 835 | 19 202 155 | (7 909 680) | 45.13 |
| Property, plant and equipment | 39 603 854 | (1 550 358) | 38 053 496 | 665 618 855 | 627 565 359 | 45.14 |
| Intangible assets | - | (218 725) | (218 725) | 490 991 | 709 716 | 45.15 |
| Heritage assets | - | - | - | 210 810 | 210 810 | 45.16 |
| | 67 045 989 | (2 099 383) | 64 946 606 | 685 522 811 | 620 576 205 | |

| | | | | | | |
|--|-------------------|-------------------|--------------------|--------------------|--------------------|--|
| Non-Current Assets | 16 062 397 | 32 049 055 | 48 111 452 | 57 488 627 | 9 377 175 | |
| Current Assets | 67 045 989 | (2 099 383) | 64 946 606 | 685 522 811 | 620 576 205 | |
| Non-current assets held for sale (and) (assets of disposal groups) | - | - | - | - | - | |
| Total Assets | 83 108 386 | 29 949 672 | 113 058 058 | 743 011 438 | 629 953 380 | |

Liabilities

Current Liabilities

| | | | | | | |
|---|---|-------------------|-------------------|-------------------|--------------------|-------|
| Payables from exchange transactions | - | 10 286 989 | 10 286 989 | 7 808 118 | (2 478 871) | 45.17 |
| Employee benefit obligation | - | - | - | 7 842 898 | 7 842 898 | 45.18 |
| Unspent conditional grants and receipts | - | 30 915 | 30 915 | 1 631 277 | 1 600 362 | 45.19 |
| Provisions | - | - | - | 3 550 000 | 3 550 000 | 45.20 |
| | - | 10 317 904 | 10 317 904 | 20 832 293 | 10 514 389 | |

Non-Current Liabilities

| | | | | | | |
|-----------------------------|---|------------|-------------------|------------------|-------------------|-------|
| Employee benefit obligation | - | - | - | 4 017 000 | 4 017 000 | 45.21 |
| Provisions | - | - | - | 1 666 890 | 1 666 890 | 45.22 |
| | - | - | - | 5 683 890 | 5 683 890 | |
| | - | 10 317 904 | 10 317 904 | 20 832 293 | 10 514 389 | |
| | - | - | - | 5 683 890 | 5 683 890 | |
| | - | - | - | - | - | |

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--------------------------|--------------------|-------------------|---------------------|---|---|-----------|
| | R | R | R | R | R | |
| Total Liabilities | - | 10 317 904 | 10 317 904 | 26 516 183 | 16 198 279 | |
| Assets | 83 108 386 | 29 949 672 | 113 058 058 | 743 011 438 | 629 953 380 | |
| Liabilities | - | (10 317 904) | (10 317 904) | (26 516 183) | (16 198 279) | |
| Net Assets | 83 108 386 | 19 631 768 | 102 740 154 | 716 495 255 | 613 755 101 | |
| Net Assets | | | | | | |
| Accumulated surplus | 83 108 386 | 19 631 768 | 102 740 154 | 716 495 255 | 613 755 101 | |

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Cash Flow Statement

Cash flows from operating activities

Receipts

| | | | | | | |
|-----------------------|--------------------|---------------------|--------------------|--------------------|---------------------|-------|
| Ratepayers and others | 9 453 415 | 9 376 585 | 18 830 000 | 5 237 246 | (13 592 754) | 45.23 |
| Grants | 176 695 000 | (40 537 000) | 136 158 000 | 190 759 210 | 54 601 210 | 45.24 |
| Other receipts | - | - | - | 3 752 308 | 3 752 308 | 45.25 |
| | 186 148 415 | (31 160 415) | 154 988 000 | 199 748 764 | 44 760 764 | |

Payments

| | | | | | | |
|---|-------------------|---------------------|----------------------|-------------------|---------------------|-------|
| Suppliers and employees | (138 367 661) | 19 928 661 | (118 439 000) | (141 594 644) | (23 155 644) | 45.26 |
| Total receipts | 186 148 415 | (31 160 415) | 154 988 000 | 199 748 764 | 44 760 764 | |
| Total payments | (138 367 661) | 19 928 661 | (118 439 000) | (141 594 644) | (23 155 644) | |
| Net cash flows from operating activities | 47 780 754 | (11 231 754) | 36 549 000 | 58 154 120 | 21 605 120 | |

| | | | | | | |
|--|------------|--------------|-------------------|------------|-------------------|--|
| Net increase/(decrease) in cash and cash equivalents | 47 780 754 | (11 231 754) | 36 549 000 | 58 154 120 | 21 605 120 | |
|--|------------|--------------|-------------------|------------|-------------------|--|

| | | | | | | |
|---|-------------------|---------------------|-------------------|-------------------|-------------------|--|
| Cash and cash equivalents at the end of the year | 47 780 754 | (11 231 754) | 36 549 000 | 58 154 120 | 21 605 120 | |
|---|-------------------|---------------------|-------------------|-------------------|-------------------|--|

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Financial Statements

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

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

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

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

These accounting policies are consistent with the previous year.

1.1 Presentation currency

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

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

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

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

therefore as follows:

Standards Issued and Effective

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

Standards Issued, Not Yet Effective Date

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

Interpretations - Approved and not yet effective

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation

Funds

- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting
- IGRAP 6 - Loyalty Programmes
- IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non-cash Assets to Owners
- IGRAP 10 - Assets Received from Customers
- IGRAP 11 - Consolidation - Special Purpose Entities

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

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

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

1.3 Going concern assumption

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

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables and Loans and receivables

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

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

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

Provisions

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Contingent provisions on entity combinations

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

Post retirement and other benefits

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

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

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

Effective interest rate

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

Basis for determination of debt impairment

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

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

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

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.5 Investment property (continued)

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

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

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

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

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

| Item | Useful life |
|----------------------|----------------|
| Property - land | indefinite |
| Property - buildings | 50 - 100 years |

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

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

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

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

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.7 Intangible assets

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

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

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.7 Intangible assets (continued)

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

| Item | Useful life |
|--------------------------|-------------|
| Computer software, other | 3 - 5 years |

1.8 Heritage assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.8 Heritage assets (continued)

Transfers

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

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

Derecognition

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

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

1.9 Financial instruments

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

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

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

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

A financial asset is:

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

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

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.9 Financial instruments (continued)

Classification

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

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

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

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

1.10 Tax

Value added tax

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

1.11 Leases

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.11 Leases (continued)

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

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.12 Inventories

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

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

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

- distribution at no charge or for a nominal charge; or

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

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

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

1.13 Impairment of cash-generating assets

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Mhlontlo Local Municipality

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Mhlontlo Local Municipality

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Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.14 Impairment of non-cash-generating assets

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

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

Identification

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Mhlontlo Local Municipality

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Accounting Policies

1.15 Employee benefits

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

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

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

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

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.16 Provisions and contingencies (continued)

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

1.17 Revenue from exchange transactions

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

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

Measurement

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

Service charges

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

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

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

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

Interest income

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

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

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

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

Rental income

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

Mhlontlo Local Municipality

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Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

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

Measurement

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

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

Fines

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

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

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

1.19 Comparative figures

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

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

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. The presentation and classification of items in the current year is consistent with prior years, except as otherwise indicated.

The nature and reasons for the reclassifications and restatements are disclosed in note 37 to the financial statements.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

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

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

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

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

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

1.23 Budget information

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

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.23 Budget information (continued)

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

1.24 Related parties

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

A related party is a person or an entity:

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.24 Related parties (continued)

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

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

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

Management personnel include:

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Accounting Policies

1.25 Unpaid conditional government grants and receipts

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

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

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

1.26 Capital commitments

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|-------------------|------------------|
| | R | R |
| 2. Inventories | | |
| Residential houses | 10 497 000 | 10 497 000 |
| Inventories relate to residential houses. | | |
| 3. Receivables from non-exchange transactions | | |
| Traffic fines | 748 043 | 353 122 |
| Rates | 18 025 833 | 14 344 601 |
| Banking suspense | 18 014 | 95 |
| Allowance for impairment | (620 876) | (12 052 932) |
| | 18 171 014 | 2 644 886 |

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

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

Consumer debtors pledged as security

No consumer debtors have been pledged as security.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|-----------|
| | R | Restated* |
| | R | R |

6. Cash and cash equivalents

Cash and cash equivalents consist of:

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

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

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

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

Credit rating

| | | |
|------|-------------------|-------------------|
| BAA1 | <u>23 925 458</u> | <u>15 377 479</u> |
|------|-------------------|-------------------|

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | | | 2015 | | |
|--|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | R | | | Restated* R | | |
| 6. Cash and cash equivalents (continued) | | | | | | |
| The municipality had the following bank accounts | | | | | | |
| Account number / description | Bank statement balances | | | Cash book balances | | |
| | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2016 | 30 June 2015 | 30 June 2014 |
| FNB - Business Call Account: Revolving Fund - 61399068117 | 17 423 520 | 7 201 916 | 441 689 | 17 423 519 | 7 201 916 | 441 689 |
| FNB - Commercial Fixed Maturity Notice: Electrification Prog - 74231136926 | - | 532 178 | 4 698 886 | - | 532 178 | 4 698 886 |
| FNB - Business NSTD Call: Equitable Share - 62027945809 | 3 156 246 | 282 622 | 15 129 368 | 3 156 246 | 282 622 | 15 129 368 |
| FNB - Public Sector Cheque Account: Gqunu Lots - 62020395390 | 699 208 | 701 546 | 762 801 | 699 208 | 701 546 | 762 801 |
| FNB - Public Sector Cheque Account: MIG - 62170844221 | 134 911 | 134 916 | 10 628 342 | 134 911 | 134 916 | 10 628 342 |
| FNB - Commercial Money Market Investment: FMG - 62280641244 | (14) | 10 000 | 442 150 | (14) | 10 000 | 442 150 |
| FNB - Commercial Call Account: Local Economic Dev - 62075571713 | 396 304 | 395 403 | 390 627 | 396 304 | 395 403 | 390 627 |
| FNB - Commercial Call Account: Municipal IDP - 62075570137 | 1 000 | 1 000 | 1 000 | 1 000 | 1 000 | 1 000 |
| FNB - 7 Day Interest Plus: 7 Day Notice - 7466814934 | 10 000 | 10 000 | 10 000 | 10 000 | 10 000 | 10 000 |
| FNB - Commercial Money Market Investment: Housing Project - 62280645345 | 735 893 | 736 061 | 898 446 | 735 893 | 736 061 | 898 446 |
| FNB - Commercial Money Market Investment: MSIG - 62280642416 | 9 986 | 56 181 | 369 037 | 9 986 | 56 181 | 369 037 |
| FNB - Public Sector Cheque Account - 629929800300 | 3 358 406 | 5 290 491 | 1 363 965 | 3 358 407 | 5 314 740 | 1 366 435 |
| Total | 25 925 460 | 15 352 314 | 35 136 311 | 25 925 460 | 15 376 563 | 35 138 781 |

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

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

7. Investment property

| | 2016 | | | 2015 | | |
|---------------------|---------------------|---|-------------------|---------------------|---|-------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 19 202 155 | - | 19 202 155 | 19 202 155 | - | 19 202 155 |

Reconciliation of investment property - 2016

| | Opening balance | Total |
|---------------------|--------------------|------------|
| Investment property | 19 202 155 | 19 202 155 |

Reconciliation of investment property - 2015

| | Opening balance | Total |
|---------------------|--------------------|------------|
| Investment property | 19 202 155 | 19 202 155 |

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

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

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

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

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

8. Property, plant and equipment

| | 2016 | | | 2015 | | |
|------------------|----------------------|---|--------------------|----------------------|---|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 35 900 788 | - | 35 900 788 | 35 900 788 | - | 35 900 788 |
| Buildings | 25 251 840 | (10 736 377) | 14 515 463 | 25 251 840 | (10 108 886) | 15 142 954 |
| Infrastructure | 1 166 299 801 | (662 547 762) | 503 752 039 | 1 151 630 364 | (568 765 403) | 582 864 961 |
| Community assets | 40 085 859 | (17 458 765) | 22 627 094 | 40 085 859 | (16 496 065) | 23 589 794 |
| Other assets | 27 966 995 | (5 917 392) | 22 049 603 | 22 416 418 | (4 512 630) | 17 903 788 |
| Work-in-progress | 60 949 775 | - | 60 949 775 | 33 864 744 | - | 33 864 744 |
| Landfill site | 8 050 524 | (2 226 431) | 5 824 093 | 8 050 524 | (2 022 418) | 6 028 106 |
| Total | 1 364 505 582 | (698 886 727) | 665 618 855 | 1 317 200 537 | (601 905 402) | 715 295 135 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

| | Opening balance | Additions | Disposals | Transfers | Depreciation | Total |
|------------------|--------------------|-------------------|--------------------|--------------|---------------------|--------------------|
| Land | 35 900 788 | - | - | - | - | 35 900 788 |
| Buildings | 15 142 954 | - | - | - | (627 491) | 14 515 463 |
| Infrastructure | 582 864 961 | - | - | 14 669 437 | (93 782 359) | 503 752 039 |
| Community assets | 23 589 794 | - | - | - | (962 700) | 22 627 094 |
| Other assets | 17 903 788 | 7 155 941 | (1 256 424) | - | (1 753 702) | 22 049 603 |
| Work-in-progress | 33 864 744 | 41 754 468 | - | (14 669 437) | - | 60 949 775 |
| Landfill site | 6 028 106 | - | - | - | (204 013) | 5 824 093 |
| | 715 295 135 | 48 910 409 | (1 256 424) | - | (97 330 265) | 665 618 855 |

Reconciliation of property, plant and equipment - 2015

| | Opening balance | Additions | Transfers | Depreciation | Total |
|------------------|--------------------|-------------------|--------------|---------------------|--------------------|
| Land | 35 900 788 | - | - | - | 35 900 788 |
| Buildings | 15 770 445 | - | - | (627 491) | 15 142 954 |
| Infrastructure | 634 606 074 | - | 39 755 525 | (91 496 638) | 582 864 961 |
| Community assets | 24 552 494 | - | - | (962 700) | 23 589 794 |
| Other assets | 19 268 584 | 33 645 | - | (1 398 441) | 17 903 788 |
| Work-in-progress | 26 810 876 | 46 809 393 | (39 755 525) | - | 33 864 744 |
| Landfill site | 6 232 119 | - | - | (204 013) | 6 028 106 |
| | 763 141 380 | 46 843 038 | - | (94 689 283) | 715 295 135 |

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

8. Property, plant and equipment (continued)

* - Prior period restatement

Refer to Note 37 for detailed breakdown of opening balance adjustments.

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

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

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

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

9. Intangible assets

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

Reconciliation of intangible assets - 2016

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

Reconciliation of intangible assets - 2015

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

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

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

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

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

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

10. Heritage assets

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

Reconciliation of heritage assets 2016

| | Opening balance | Total |
|-----------------|--------------------|---------|
| Heritage assets | 210 810 | 210 810 |

Reconciliation of heritage assets 2015

| | Opening balance | Total |
|-----------------|--------------------|---------|
| Heritage assets | 210 810 | 210 810 |

Age and/or condition of heritage assets

The municipality owns the following heritage asset:

The mayoral chain.

11. Payables from exchange transactions

| | | |
|--|------------------|------------------|
| Trade payables | 3 971 214 | 3 230 006 |
| Payments received in advanced - Consumer debtors | 1 626 215 | 848 112 |
| Unallocated Deposits | 235 412 | 218 177 |
| Payroll control | 75 009 | 3 881 840 |
| Creditors accruals | 1 899 180 | 1 624 500 |
| Debtors suspense | 1 086 | 1 086 |
| | 7 808 116 | 9 803 721 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|---|---------|----------------|
| | R | Restated* R |
| 12. Employee benefit obligation | | |
| Bonuses | | |
| Bonuses are paid out to all employees, excluding some senior managers, in the month of their birthdays each year and are based on a 13th monthly basic salary. | | |
| Defined Benefit Plan | | |
| Long service awards | | |
| The obligation in respect of the long service awards is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2016 by One Pangaea Financial using the Projected Unit Credit Method. | | |
| Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the municipality's policy which complies with the minimum thresholds per the collective agreement of 21 February 2011, signed by the Bargaining Council. The basis on which this was calculated is as follows: | | |
| - After 5 Continuous Years of Service - 2% of Basic Annual Salary and 5 days accumulative leave | | |
| - After 10 Continuous Years of Service - 4% of Basic Annual Salary and 10 days accumulative leave | | |
| - After 15 Continuous Years of Service - 8% of Basic Annual Salary and 20 days accumulative leave | | |
| - After 20 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave | | |
| - After 25 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave | | |
| - After 30 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave | | |
| - After 35 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave | | |
| - After 40 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave | | |
| - After 45 Continuous Years of Service - 12% of Basic Annual Salary and 30 days accumulative leave | | |
| The estimated contributions for the next financial year: | | |
| Current service cost | 468 000 | 463 000 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 R | 2015 Restated* R | | |
|---|--------------------|------------------------|-----------------------------|------------------|
| 12. Employee benefit obligation (continued) | | | | |
| The amounts recognised in the statement of financial position are as follows: | | | | |
| Carrying value | | | | |
| Bonus accrual | 1 504 619 | 1 213 873 | | |
| Leave pay accrual | 6 338 279 | 5 440 809 | | |
| Long service awards | 4 017 000 | 3 132 000 | | |
| | 11 859 898 | 9 786 682 | | |
| Non-current liabilities | 4 017 000 | 3 132 000 | | |
| Current liabilities | 7 842 898 | 6 654 682 | | |
| | 11 859 898 | 9 786 682 | | |
| Reconciliation of employee benefits - 2016 | | | | |
| | Opening balance | Additions | Utilised during the year | Total |
| Bonus accrual | 1 213 873 | 1 504 619 | (1 213 873) | 1 504 619 |
| Leave pay accrual | 5 440 809 | 6 338 279 | (5 440 809) | 6 338 279 |
| | 6 654 682 | 7 842 898 | (6 654 682) | 7 842 898 |
| Reconciliation of employee benefits - 2015 | | | | |
| | Opening balance | Additions | Utilised during the year | Total |
| Bonus accrual | 1 128 474 | 1 213 873 | (1 128 474) | 1 213 873 |
| Leave pay accrual | 3 709 621 | 5 440 809 | (3 709 621) | 5 440 809 |
| | 4 838 095 | 6 654 682 | (4 838 095) | 6 654 682 |
| Long service awards | | | | |
| Changes in the present value of the defined benefit obligation are as follows: | | | | |
| Opening balance | | 3 132 000 | | 2 807 000 |
| Benefits paid | | (193 000) | | (145 000) |
| Net expense recognised in the statement of financial performance | | 1 078 000 | | 470 000 |
| | | 4 017 000 | | 3 132 000 |
| Net expense recognised in the statement of financial performance | | | | |
| Current service cost | | 468 000 | | 463 000 |
| Interest cost | | 258 000 | | 234 000 |
| Actuarial losses / (gains) | | 352 000 | | (227 000) |
| | | 1 078 000 | | 470 000 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|-----------|
| | R | Restated* |
| | R | R |

12. Employee benefit obligation (continued)

Key assumptions used

Assumptions used at the reporting date:

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

The SA85-90 mortality table was used.

The normal retirement age is assumed to be 65.

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

Accounting Standard GRAP 25 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations."

Due to guidance received from the auditing profession, the methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2015 the duration of liabilities was 9.32 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2016 is 9.06% per annum. The assumed discount rate used at the previous valuation, 30 June 2015, was 8.50% per annum.

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

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

12. Employee benefit obligation (continued)

Other assumptions

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

| | One percentage point increase | One percentage point decrease |
|---|--|--|
| Effect on the aggregate of the service cost and interest cost | 865 000 | 964 000 |
| Effect on defined benefit obligation | 3 681 000 | 4 405 000 |

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

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| | R | R | R | R | R |
| Defined benefit obligation | 4 017 000 | 3 132 000 | 2 807 000 | 2 353 000 | 1 911 000 |

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

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

Movement during the year

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

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

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

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

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

* See Note 37

Mhlontlo Local Municipality

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| | 2016 | 2015 |
|--|------|-----------|
| | R | Restated* |
| | | R |

14. Provisions

Reconciliation of provisions - 2016

| | Opening Balance | Additions | Utilised during the year | Change in discount factor | Total |
|------------------------------|------------------|------------------|--------------------------|---------------------------|------------------|
| Environmental rehabilitation | 1 513 016 | - | - | 153 874 | 1 666 890 |
| Legal proceedings | 5 000 000 | 3 550 000 | (5 000 000) | - | 3 550 000 |
| | 6 513 016 | 3 550 000 | (5 000 000) | 153 874 | 5 216 890 |

Reconciliation of provisions - 2015

| | Opening Balance | Additions | Utilised during the year | Change in discount factor | Total |
|------------------------------|------------------|------------------|--------------------------|---------------------------|------------------|
| Environmental rehabilitation | 1 373 347 | - | - | 139 669 | 1 513 016 |
| Legal proceedings | 3 800 000 | 5 000 000 | (3 800 000) | - | 5 000 000 |
| | 5 173 347 | 5 000 000 | (3 800 000) | 139 669 | 6 513 016 |

| | | |
|-------------------------|------------------|------------------|
| Non-current liabilities | 1 666 890 | 1 513 016 |
| Current liabilities | 3 550 000 | 5 000 000 |
| | 5 216 890 | 6 513 016 |

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 1 666 890 to restore the sites at the end of its useful lives. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

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

Environmental rehabilitation provision

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The sites is expected to be closed in 2043, after which rehabilitation will take place over the course of the next 9 to 10 years after which the site is expected to be fully rehabilitated. The landfill sites valuation was performed by DB Grobler. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:

* See Note 37

Mhlontlo Local Municipality

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| | 2016 | 2015 |
|--|------|-----------|
| | R | Restated* |
| | R | R |

14. Provisions (continued)

- The sizes of the landfill sites is estimated to be 50512 square metres.
- The CPIX (4.7%, 2014: 6.6%) was used to adjust the cost as it is the only determining factor year on year.
- Where there are no calculated site classifications, an estimate has been assumed for the classification based on local information of waste volumes and leachate. The valuation above assumes a worst case scenario, and assumes the Department of Water Affairs will strictly apply regulations.
- The cost values used are estimates only, based on previous works and escalated to current values.
- All historical and permitting information regarding the landfill sites was provided by the Municipality.

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

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

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

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

15. Service charges

Refuse

| | | |
|------------------------------------|------------------|----------------|
| Industrial / Commercial | 322 500 | 117 966 |
| Consumers | 748 690 | 408 445 |
| National and provincial government | 86 320 | 46 439 |
| | 1 157 510 | 572 850 |

16. Other income

| | | |
|-------------------------|------------------|------------------|
| Advertising bill boards | 61 416 | 44 774 |
| Business Licence | 38 786 | 53 360 |
| Cemetery fee - burials | 15 560 | 10 439 |
| Clearance certificate | 1 252 | 1 266 |
| Overdeposit / banking | - | 3 |
| Pound fees | 171 560 | 270 130 |
| Pound sales | 973 129 | 610 132 |
| Refund | 46 587 | 6 362 |
| Sale of wood | 123 | 44 |
| Sundry income | 34 521 | 179 |
| Tender fees | 112 438 | 71 229 |
| Plan fees | 2 669 | 5 214 |
| | 1 458 041 | 1 073 132 |

* See Note 37

Mhlontlo Local Municipality

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| | 2016 | 2015 |
|---|--------------------|--------------------|
| | R | Restated* R |
| 17. Interest received | | |
| Interest revenue | | |
| Interest from investments | 3 559 343 | 1 211 288 |
| Interest charged on trade and other receivables | 837 690 | 660 727 |
| | 4 397 033 | 1 872 015 |
| | - | - |
| | 4 397 033 | 1 872 015 |
| 18. Property rates | | |
| Rates received | | |
| Consumers | 2 485 601 | 495 404 |
| Industrial / Commercial | 5 115 379 | 1 295 121 |
| National and provincial government | 24 250 404 | 8 471 269 |
| Small holdings and farms | 167 135 | 1 359 804 |
| Less: Income forgone - rebates | (211 126) | (2 381 793) |
| | 31 807 393 | 9 239 805 |
| Valuations | | |
| Valuations on land and buildings are performed every 4 years. The next general valuation will come into effect on 1 July 2018, based on exemption applied for and approved. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. | | |
| 19. Government grants and subsidies | | |
| Operating grants | | |
| Equitable share | 159 404 000 | 127 895 000 |
| Training - LGSETA | 1 063 435 | 1 715 738 |
| | 160 467 435 | 129 610 738 |
| Conditional grants | | |
| EPWP - Casual workers | 1 000 000 | 1 221 000 |
| Municipal Finance Management Grant | 1 875 000 | 1 800 000 |
| Electrification program | 13 530 915 | 4 311 095 |
| Library Assistance | 170 000 | 170 000 |
| MIG grant | 42 193 000 | 52 712 377 |
| MSIG grant | 930 000 | 934 000 |
| | 59 698 915 | 61 148 472 |
| | 220 166 350 | 190 759 210 |

* See Note 37

Mhlontlo Local Municipality

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| | 2016 | 2015 |
|--|------------------|------------------|
| | R | Restated* R |
| 19. Government grants and subsidies (continued) | | |
| Equitable Share | | |
| In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members as well as the operations of the municipality. | | |
| All registered indigents receive a monthly subsidy of R - (2015: R -), which is funded from the grant. | | |
| MIG grant | | |
| Balance unspent at beginning of year | - | 37 377 |
| Current-year receipts | 42 193 000 | 52 675 000 |
| Conditions met - transferred to revenue | (42 193 000) | (52 712 377) |
| | <u>-</u> | <u>-</u> |
| All the conditions have been met and all funds have been spent, overspending has been financed through equitable share. | | |
| The municipality was advanced R12 000 000 on the 26th July 2014 from the 2014/15 allocation. The portion was be deducted from the amount payable in 2014/2015. | | |
| Gqunu lots | | |
| Balance unspent at beginning of year | <u>1 053 752</u> | <u>1 053 752</u> |
| This is a grant that is actually for community projects, all its expenditure depends on their activities which are also in phases and only the tractor that has been bought in this financial year. There also commitments towards this vote for the purchase of the plot. | | |
| Qumbu Pilot Housing | | |
| Balance unspent at beginning of year | <u>62 525</u> | <u>62 525</u> |
| The project started in December and some other projects could not continue due to price increases within the suppliers. Qumbu and disaster houses are spent in this grant. | | |
| LED | | |
| Balance unspent at beginning of year | <u>15 000</u> | <u>15 000</u> |
| Unspent amount relates to Sinakho coffin manufacture project. Prior period figures have been restated. | | |
| FMG | | |
| Current-year receipts | 1 875 000 | 1 800 000 |
| Conditions met - transferred to revenue | (1 875 000) | (1 800 000) |
| | <u>-</u> | <u>-</u> |

* See Note 37

Mhlontlo Local Municipality

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Notes to the Financial Statements

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

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|-------------------|-------------------|
| | R | Restated* |
| | | R |
| 20. Employee related costs | | |
| Basic | 44 059 475 | 39 949 686 |
| Acting allowances | - | 36 682 |
| Back pay | 1 036 844 | 164 346 |
| Bonus | 3 096 340 | 2 532 166 |
| Medical aid - employer contribution | 4 904 455 | 4 418 474 |
| UIF | 343 953 | 399 370 |
| SDL | 720 509 | 653 811 |
| Other payroll levies | 15 839 | 16 482 |
| Contribution to leave pay provision charge | 897 470 | 1 731 188 |
| Pension Fund - employer contribution | 5 278 165 | 4 972 343 |
| Travel, motor car, accommodation, subsistence and other allowances | 8 413 571 | 6 538 874 |
| Overtime payments | 2 084 184 | 2 273 388 |
| WCA | 441 242 | 378 163 |
| Contribution provision for bonus | 290 745 | 85 399 |
| Casual Workers | 168 765 | 87 581 |
| Employee related expenses | - | 5 250 |
| Housing benefits and allowances | 2 441 517 | 2 246 164 |
| Long term leave contribution | 275 000 | 318 000 |
| Leave encashment | 844 964 | 504 251 |
| Standby allowance | 608 145 | 498 845 |
| Cellphone allowance | 745 540 | 661 885 |
| | 76 666 723 | 68 472 348 |

Remuneration of Municipal Manager - S G Sotshongaye

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

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

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

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

Remuneration of the Community Manager - Y M Yilo

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

Remuneration of the Technical Manager - TP Mase

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|-------------------|-------------------|
| | R | Restated* R |
| 20. Employee related costs (continued) | | |
| Remuneration of the Corporate Services Manager - L Matiwane | | |
| Annual Remuneration | 709 470 | 566 558 |
| Car Allowance | 248 939 | 172 399 |
| Contributions to UIF, Medical and Pension Funds | 1 785 | 70 545 |
| Housing Allowance | 55 884 | 71 243 |
| Cellphone Allowance | - | 5 200 |
| Acting Allowance | - | 20 855 |
| Back pay | 76 299 | - |
| Re-imbursive Travel Allowance | 34 169 | - |
| | 1 126 546 | 906 800 |
| L Matiwane acted as Municipal Manager from 21 August 2014 to 30 November 2014. | | |
| Remuneration of the Local Economic and Rural Development Manager - Z Zipete | | |
| Annual Remuneration | 709 470 | 702 591 |
| Car Allowance | 248 939 | 156 674 |
| Contributions to UIF, Medical and Pension Funds | 1 785 | 24 053 |
| Housing Allowance | 20 332 | - |
| Back pay | 76 299 | - |
| Re-imbursive Travel Allowance | 64 734 | - |
| | 1 121 559 | 883 318 |
| 21. Remuneration of councillors | | |
| Mayor | 803 432 | 754 121 |
| Councillors | 15 807 665 | 14 413 861 |
| | 16 611 097 | 15 167 982 |
| Breakdown of councillors' remuneration | | |
| Mayor's Allowance | 821 890 | 754 121 |
| Speaker's Allowance | 657 853 | 639 842 |
| Chief Whip | 607 863 | 581 642 |
| Councillors Allowance | 14 543 409 | 13 110 527 |
| Contributions to Medical | 55 137 | 58 732 |
| | 16 686 152 | 15 144 864 |
| 22. Depreciation and amortisation | | |
| Property, plant and equipment | 97 330 265 | 94 689 283 |
| Intangible assets | 360 635 | 360 635 |
| | 97 690 900 | 95 049 918 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|---|-------------------|-------------------|
| | R | Restated* R |
| 23. Finance costs | | |
| Interest on long service awards | 258 000 | 234 000 |
| 24. Debt impairment | | |
| Consumer debtors | 12 393 000 | 2 170 277 |
| <p>The prior period payment history has been applied to the outstanding debtors as at year end and this indicated that payment rates have deteriorated in the last year due to economic downturn. Consumer debtors provided for impairment in prior years have been written off during the current year per the council resolution.</p> | | |
| 25. Repairs and maintainence | | |
| Buildings | 1 037 643 | 109 094 |
| Equipment | 464 702 | 542 213 |
| Network and hardware support | 294 807 | 555 234 |
| Public safety | 244 460 | 248 578 |
| Streets lights and access roads | 815 777 | 158 833 |
| Motor vehicle repairs | 334 939 | 454 915 |
| | 3 192 328 | 2 068 867 |
| 26. Contracted services | | |
| Security services | 5 094 291 | 2 926 206 |
| 27. Operating grant expenditure | | |
| Other subsidies | | |
| Electrification program | 12 299 570 | 3 781 662 |
| EPWP Program | 2 423 513 | 1 381 496 |
| Indigent subsidy | 9 711 808 | 5 786 600 |
| FMG Interns | 1 269 202 | 232 560 |
| MSIG | - | 123 684 |
| SETA | 173 034 | - |
| | 25 877 127 | 11 306 002 |
| 28. Loss on disposal of assets | | |
| Net book value of assets disposed of | (396 424) | - |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|------------------------------------|-------------------|-------------------|
| | R | Restated* R |
| 29. General expenses | | |
| Accounting fees | 167 750 | 200 641 |
| Advertising | 469 475 | 277 515 |
| Animal Feed | 86 432 | 57 225 |
| Auditors remuneration | 2 886 281 | 3 329 005 |
| Bank charges | 154 931 | 184 613 |
| Community development and training | 318 892 | 94 200 |
| Conferences and seminars | 249 700 | 551 977 |
| Consulting and professional fees | 148 898 | 2 058 782 |
| Consumables | 365 712 | 525 320 |
| Contribution for legal fees | 6 776 602 | 7 929 289 |
| Crime prevention | 4 950 | 751 |
| Council meetings | - | 4 500 |
| Electricity purchase | 1 178 259 | 1 124 422 |
| Entertainment | 891 450 | 53 666 |
| Fuel and oil | 1 777 606 | 1 709 313 |
| Hiring charges | 1 576 383 | 329 533 |
| Incorporation costs | 2 920 | 500 285 |
| Interest and penalties | 38 23 452 | 644 078 |
| Insurance - general | 334 429 | 358 747 |
| Medical expenses | 45 322 | 700 |
| Motor vehicle expenses | 195 889 | 185 139 |
| Packaging | - | 5 054 |
| Office expenses | 14 866 | 14 911 |
| Postage and courier | 2 060 | 5 027 |
| Pest control | 37 977 | 23 500 |
| Printing and stationery | 1 874 406 | 1 150 346 |
| Promotions | - | 400 371 |
| Protective clothing | 810 823 | 155 445 |
| Public participation | 2 288 499 | 203 800 |
| Restructuring | 153 874 | 139 669 |
| Software expenses | 977 751 | 542 852 |
| Project maintenance costs | 3 623 418 | 3 767 000 |
| Subscriptions and membership fees | 840 408 | 688 172 |
| Survey and planning | 3 485 998 | 224 463 |
| Telephone and fax | 2 896 794 | 3 421 249 |
| Tourism development | - | 7 574 |
| Training | 2 092 231 | 2 965 634 |
| Travel - local | 2 810 252 | - |
| Ward committee stipend | 6 082 209 | 6 078 740 |
| | 45 646 899 | 39 913 508 |
| 30. Auditors' remuneration | | |
| Fees | 2 886 281 | 3 329 005 |

* See Note 37

Mhlontlo Local Municipality

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Notes to the Financial Statements

| | 2016 | 2015 |
|--|-------------------|-------------------|
| | R | Restated* R |
| 31. Cash generated from operations | | |
| (Deficit) / surplus | (22 841 405) | (31 715 890) |
| Adjustments for: | | |
| Depreciation and amortisation | 97 690 900 | 95 049 918 |
| Gain (loss) on sale of assets and liabilities | 368 505 | (227 000) |
| Debt impairment | 12 393 000 | 2 170 277 |
| Increase in employment benefit obligations | 2 073 216 | 2 141 587 |
| Increase in provisions | (1 296 126) | 1 339 669 |
| Changes in working capital: | | |
| Inventories | - | 9 319 |
| Consumer debtors | (12 077 361) | (2 789 496) |
| Other receivables from non-exchange transactions | (15 526 132) | 300 286 |
| Payables from exchange transactions | (1 995 602) | (4 188 668) |
| VAT | (186 799) | (1 896 820) |
| Unspent conditional grants and receipts | (30 915) | (348 472) |
| | 58 571 281 | 59 844 710 |

32. Risk management

Financial risk management

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

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

Liquidity risk

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

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

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

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

* See Note 37

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| | 2016 | 2015 |
|--|------|-----------|
| | R | Restated* |
| | | R |

32. Risk management (continued)

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

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

Market risk

Interest rate risk

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

Price risk

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

33. Unauthorised expenditure

| | | |
|--|-------------------|-------------------|
| Opening balance | 61 045 087 | 50 772 818 |
| Unauthorised expenditure in the current year | 15 733 866 | 10 272 269 |
| Written off | (61 045 087) | - |
| | 15 733 866 | 61 045 087 |

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

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

| Detailed breakdown of unauthorised expenditure per Vote - Operating | 2016 R (Actual) | 2016 R (Budget) | 2016 R (Variance) | Unauthorised |
|---|-----------------------|-----------------------|-------------------------|-------------------|
| Executive and Council | 52 296 594 | 46 555 683 | (5 740 911) | - |
| Finance and Administration | 54 123 558 | 68 656 222 | 14 532 664 | 14 532 664 |
| Planning and Development | 13 722 502 | 14 677 470 | 954 968 | 954 968 |
| Public Safety | 18 325 725 | 18 437 924 | 112 199 | 112 199 |
| Waste Management | 14 368 181 | 14 502 216 | 134 035 | 134 035 |
| Road Transport | 121 025 509 | 120 476 750 | (548 759) | - |
| | 273 862 069 | 283 306 265 | 9 444 196 | 15 733 866 |

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

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

* See Note 37

Mhlontlo Local Municipality

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| | 2016 | 2015 | |
|---|-------------------|----------------------|-------------------|
| | R | Restated* R | |
| 34. Financial instruments disclosure | | | |
| Categories of financial instruments | | | |
| 2016 | | | |
| Financial assets | | | |
| | At fair value | At amortised cost | Total |
| Receivables from non-exchange transactions | - | 18 171 014 | 18 171 014 |
| Receivables from exchange transactions | - | 39 193 | 39 193 |
| Bank balances | 3 358 662 | - | 3 358 662 |
| Short term deposits | 22 567 052 | - | 22 567 052 |
| | 25 925 714 | 18 210 207 | 44 135 921 |
| Financial liabilities | | | |
| | | At amortised cost | Total |
| Trade and other payables from exchange transactions | | 7 808 116 | 7 808 116 |
| 2015 | | | |
| Financial assets | | | |
| | At fair value | At amortised cost | Total |
| Receivables from non-exchange transactions | - | 2 644 886 | 2 644 886 |
| Receivables from exchange transactions | - | 354 832 | 354 832 |
| Bank balances | 5 315 294 | - | 5 315 294 |
| Short term deposits | 10 061 822 | - | 10 061 822 |
| | 15 377 116 | 2 999 718 | 18 376 834 |
| Financial liabilities | | | |
| | | At amortised cost | Total |
| Payables from exchange transactions | | 9 803 721 | 9 803 721 |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

35. Contingent liabilities

Bank guarantees

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

Legal proceedings

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

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

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

The municipality will incur approximately R800 000 (Eight Hundred Thousand Rand) on legal fees including fees of applicants attorneys.

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

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

The municipality won this application against Gqesha Nozolile and 4 Others and applicants lodged an appeal to Supreme Court of Appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court. The municipality will incur approximately R850 000 (Eight Hundred and Fifty Thousand Rand) on legal fees including fees of applicants attorneys.

Mavuso Kholiswa vs Mhlontlo Local Municipality Case Number 3434/2014

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

In this matter the municipality will incur approximately R1000 000 (One Million Rand) on legal fees including fees of applicants attorneys.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|-----------|
| | R | Restated* |
| | | R |

35. Contingent liabilities (continued)

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

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

In this matter the municipality will incur approximately R900 000 (Nine Hundred Thousand Rand) on legal fees including fees of applicants attorneys.

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|----------------------------|----------------|----------------|
| | R | Restated* R |
| 36. Related parties | | |
| Relationships | | |
| Mayor | R M Giyose | |
| Speaker | X D Nkompela | |
| Chief Whip | N M Mvanyashe | |
| Exco Councillor | N Mtwazi | |
| Exco Councillor | N Konza | |
| Exco Councillor | M Mabono | |
| Exco Councillor | E Pula | |
| Exco Councillor | N Magodla | |
| Exco Councillor | X Mpatane | |
| Exco Councillor | N Dywili | |
| Exco Councillor | M G Jara | |
| Exco Councillor | Z Nondaka | |
| Councillor | S N Matanzima | |
| Councillor | L L Mkhondwena | |
| Councillor | N Qhezu | |
| Councillor | X B Ngoma | |
| Councillor | V Mnyanda | |
| Councillor | L Hlabiso | |
| Councillor | N Gcaba | |
| Councillor | Y H Guqa | |
| Councillor | Z Ngoni | |
| Councillor | Z I Tshungwana | |
| Councillor | N E Sigwili | |
| Councillor | Z W Nondaka | |
| Councillor | A M Dawedi | |
| Councillor | X Mswelanto | |
| Councillor | S Sogaxakanxa | |
| Councillor | M Soyekwa | |
| Councillor | L H Ludidi | |
| Councillor | G Kiviet | |
| Councillor | M Mfamela | |
| Councillor | M S Mathe | |
| Councillor | N Nodlela | |
| Councillor | Z Feni | |
| Councillor | N C Ncalo | |
| Councillor | N V Masangwana | |
| Councillor | S T Msongelwa | |
| Councillor | M C Socikwa | |
| Councillor | N Songca | |
| Councillor | R N Mvamveki | |
| Councillor | S N Salaze | |
| Councillor | N R Matomane | |
| Councillor | N P Mkontwana | |
| Councillor | J M Jikijela | |
| Councillor | M Macingwane | |
| Councillor | N T Ngquka | |
| Councillor | S S Mbangata | |
| Councillor | N R Ngewu | |
| Councillor | Y Yaso | |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|---|------|---------------------------------|
| | R | Restated* R |
| 36. Related parties (continued) | | |
| Councillor | | N Mdwayi |
| Councillor | | S Songca |
| Traditional leaders to participate in Mhlontlo Municipality Council | | N Matshanda |
| Traditional leaders to participate in Mhlontlo Municipality Council | | L Mditshwa |
| Traditional leaders to participate in Mhlontlo Municipality Council | | S Siyoyo |
| Traditional leaders to participate in Mhlontlo Municipality Council | | B G Mcotshana |
| Traditional leaders to participate in Mhlontlo Municipality Council | | V L Majeke |
| Traditional leaders to participate in Mhlontlo Municipality Council | | S Madolo |
| Traditional leaders to participate in Mhlontlo Municipality Council | | V E Ludidi |
| Traditional leaders to participate in Mhlontlo Municipality Council | | S Mcelu |
| Traditional leaders to participate in Mhlontlo Municipality Council | | L Ngudle |
| Traditional leaders to participate in Mhlontlo Municipality Council | | K H Ngoni |
| Chief Financial Officer | | N Boti |
| Municipal Manager | | S G Sotshongaye |
| Community Manager | | Y M Yilo |
| Technical Manager | | T P Mase |
| Corporate Services Manager | | L Matiwane |
| Local Economic and Rural Development Manager | | Z Zipete |
| District Municipality that Mhlontlo forms part of | | O R Tambo District Municipality |
| Close family member of key management | | None |

Transactions with related parties were concluded at arm's length

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

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

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 | | |
|--|----------------------------|-------------------|--------------------|------------------|
| | R | Restated* R | | |
| 37. Prior period errors | | | | |
| 2015 Opening balances | | | | |
| Statement of Financial Position | Previously reported | Adjustment | As restated | Reference |
| Receivables from non-exchange transactions | 483 838 | (379 433) | 104 405 | 1 |
| Property, Plant and Equipment | 127 409 628 | 635 731 752 | 763 141 380 | 2 |
| Investment property | 27 111 835 | (7 909 680) | 19 202 155 | 3 |
| Intangible Assets | 1 187 159 | 25 102 | 1 212 261 | 4 |
| Heritage Assets | 119 400 | 91 410 | 210 810 | 5 |
| Payables from exchange transactions | (12 283 457) | (1 708 929) | (13 992 386) | 6 |
| Provisions | (1 927 200) | 553 853 | (1 373 347) | 7 |
| Accumulated surplus | (144 648 478) | (626 404 075) | (771 052 553) | |
| | (2 547 275) | - | (2 547 275) | |

The opening balances for 2015 have been restated as follows:

1. The reconciliation of the creditors was reperformed and the payments made in advance to a creditor was correctly accounted for retrospectively. In addition the application of IGRAP 1 has been retrospectively corrected and included in non exchange transactions.
2. During the initial implementation of GRAP, the requirements of GRAP 17 regarding application and review of residual values, review of useful lives and assessment of assets for indicators of impairment were not complied with. During the previous financial period the existence of assets on the asset register was not confirmed by physical verification of all assets. During the current financial period these requirements were met and In addition, the property, plant and equipment, investment property and intangible asset registers were reconstructed. The effects of the prior period errors were corrected retrospectively.
3. The investment property was reconstructed and the effects of the prior period errors were corrected retrospectively .
4. Heritage Assets have been revalued and the revaluing has been performed retrospectively and also the memorial stone has been removed as it is part of the Municipal Office building entrance and it has been included as part of the Property, plant and equipment.
5. The restatement in payables from exchange transactions is due to the restatement of provision on retention and surety as part of the property plant and equipment restatement in point 2 above and the effect has been performed retrospectively.
6. The provision for landfill site calculation has been reperformed due to the fact that the land has also been revalued as part of the restatement of property, plant and equipment in point 2 above and the calculation has been retrospectively corrected and also the leave provision has been restated after reperforming the leave reconciliations and effect has been corrected retrospectively.

Current year comparatives

| Statement of Financial Performance | Previously Stated | Adjustments | Restated 2015 | Reference |
|------------------------------------|-------------------|-------------|---------------|-----------|
|------------------------------------|-------------------|-------------|---------------|-----------|

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | | | 2016 | 2015 |
|--|--------------------------|--------------------|----------------------|------------------|
| | | | R | Restated* R |
| 37. Prior period errors (continued) | | | | |
| Income | | | | |
| Property rates | (9 078 232) | (161 173) | (9 239 405) | 7 |
| Fines | - | 111 201 | 111 201 | 7 |
| Other income | 1 072 953 | 177 | 1 073 130 | 7 |
| Expenditure | | | | |
| Personnel costs | 68 078 365 | 393 983 | 68 472 348 | 8 |
| Remuneration of councillors | 15 144 864 | 23 118 | 15 167 982 | 8 |
| Depreciation and amortisation | 15 229 009 | 79 820 909 | 95 049 918 | 9 |
| Debt impairment | 2 170 170 | 107 | 2 170 277 | 7 |
| Repairs and maintenance | 1 881 327 | 187 542 | 2 068 869 | 10 |
| Grants and subsidies paid | 11 277 285 | 28 717 | 11 306 002 | 10 |
| General expenses | 39 736 816 | 751 369 | 40 488 185 | 10 |
| Interest on landfill | 127 356 | 12 313 | 139 669 | 11 |
| Loss on disposal of assets | 144 183 | (144 583) | (400) | 12 |
| | 145 784 096 | 81 023 680 | 226 807 776 | |
| Statement of Financial Position | | | | |
| | Previously stated | Adjustments | Restated 2015 | Reference |
| Assets | | | | |
| Consumer debtors | 2 627 799 | 156 417 | 2 784 216 | 13 |
| Receivables from non-exchange transactions | 483 838 | (268 339) | 215 499 | 14 |
| VAT receivable | 2 737 328 | (68 422) | 2 668 906 | 15 |
| Investment property | 27 111 835 | (7 909 680) | 19 202 155 | 16 |
| Property, plant and equipment | 159 198 842 | 556 096 293 | 715 295 135 | 17 |
| Intangible assets | 814 819 | 36 807 | 851 626 | 18 |
| Heritage assets | 119 400 | 91 410 | 210 810 | - |
| Liabilities | | | | |
| Payables from exchange transactions | (7 446 660) | (2 357 061) | (9 803 721) | 20 |
| Provisions - non-current | (2 053 480) | 540 464 | (1 513 016) | 21 |
| Accumulated surplus | (193 018 771) | (546 317 889) | (739 336 660) | 22 |
| | (9 425 050) | - | (9 425 050) | |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|-----------|
| | R | Restated* |
| | R | R |

37. Prior period errors (continued)

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

Property rates

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

Personnel costs and remuneration of councillors

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

Depreciation and amortisation

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

Repairs and maintenance, Grants and subsidies, General expenses

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

Interest on Landfill

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

Loss on disposal of assets

12. During the current financial period these requirements were met and In addition, the property, plant and equipment, investment property and intangible asset registers were reconstructed. The effects of the prior period errors were corrected retrospectively.

Consumer debtors,

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

Receivables from non-exchange transactions

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

VAT receivable

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

Investment property

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|-----------|
| | R | Restated* |
| | | R |

37. Prior period errors (continued)

Property, plant and equipment

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

17.2 The valuation of the landfill site was performed by an engineer and the cost and accumulated depreciation on landfill sites were corrected retrospectively.

Intangible assets

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

Heritage Assets

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

Payables from exchange transactions

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

Provisions

21. The calculation of the provision for rehabilitation of environment was reformed by an engineer in accordance with GRAP 19 and the provision was corrected retrospectively.

Accumulated Surplus

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

Irregular expenditure

| | Previously stated | Adjustments | Restated 2014 |
|-----------------|--------------------|-------------|----------------------|
| Opening balance | 169 850 513 | - | 169 850 513 |
| Current year | 1 061 887 | - | 1 061 887 |
| | 170 912 400 | | - 170 912 400 |

The CFO reviewed all payments made in the 2011/12 to 2015/16 financial years and updated the irregular expenditure listings with items that met the definition according to paragraph 1 of the Municipal Finance Management Act.

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

38. Fruitless and wasteful expenditure

| | | |
|---|----------------|----------------|
| Opening balance | 858 741 | 215 129 |
| Fruitless and wasteful expenditure - current year | 23 549 | 643 612 |
| | 882 290 | 858 741 |

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|---|----------------------|-------------|
| | R | Restated* |
| | | R |
| 38. Fruitless and wasteful expenditure (continued) | | |
| Recoverability of all fruitless and wasteful expenditure will be evaluated by council in terms of section 32 of MFMA. No Steps have been taken at this stage to recover any monies. | | |
| 39. Irregular expenditure | | |
| Opening balance | 170 912 400 | 169 850 513 |
| Add: Irregular Expenditure - current year | 44 150 | 1 061 887 |
| Less: Amounts condoned | (170 956 550) | - |
| | <u>- 170 912 400</u> | |

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

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

Details of irregular expenditure – current year

| | | |
|---|--|--------|
| Non-compliance with supply chain management | Disciplinary steps taken/criminal proceedings No disciplinary steps have been instituted as yet | 44 150 |
|---|--|--------|

40. Deviation from supply chain management regulations

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

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

Goods and services to the value of R451,928 were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

A register containing the details of the deviations is available for inspection.

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

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

42. Operating lease

This committed expenditure relates to capital and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|---|-------------------|-------------------|
| | R | Restated* R |
| 42. Operating lease (continued) | | |
| Operating leases - as lessee (expense) | | |
| - Due within one year | 714 348 | 714 348 |
| - Due within 2 to 5 years | 238 116 | 952 464 |
| | 952 464 | 1 666 812 |
| <p>Operating lease payments represent rentals payable by the municipality for certain of its office equipment.</p> <p>Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable.</p> | | |
| 43. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Infrastructure | 25 018 361 | 22 384 615 |
| • Community | - | 24 558 891 |
| • Other assets | - | 1 936 649 |
| | 25 018 361 | 48 880 155 |
| <p>This committed expenditure relates to roads and other infrastructure developments, the purchase of a refuse truck and the building of town halls and other community assets and will be financed by available bank facilities, retained surpluses, as well as Grant funding and existing cash resources.</p> | | |
| 44. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government | | |
| Opening balance | (483 743) | (483 743) |
| Current year subscription / fee | 1 281 303 | 804 700 |
| Amount paid - current year | (797 560) | (695 453) |
| Amount paid - previous years | - | (109 247) |
| | - | (483 743) |
| Audit fees | | |
| Current year subscription / fee | 2 886 281 | 3 316 463 |
| Amount paid - current year | (2 886 281) | (3 316 463) |
| | - | - |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------------------|------------------|
| | R | Restated* R |
| 44. Additional disclosure in terms of Municipal Finance Management Act (continued) | | |
| PAYE and UIF | | |
| Opening balance | 3 081 709 | - |
| Current year subscription / fee | 15 278 028 | 12 600 935 |
| Amount paid - current year | (19 019 384) | (9 519 226) |
| | <u>(659 647)</u> | <u>3 081 709</u> |
| 2015/16 closing balance consists of amounts due for July 2014, August 2014, May & June 2015. | | |
| Pension and Medical Aid Contributions | | |
| Current year subscription / fee | 16 454 122 | 14 416 894 |
| Amount paid - current year | (16 454 122) | (14 416 894) |
| | <u>-</u> | <u>-</u> |
| VAT | | |
| VAT receivable | <u>2 855 705</u> | <u>2 668 906</u> |
| All VAT returns have been submitted by the due date throughout the year. | | |
| 45. Other revenue | | |
| Other income | <u>1 458 041</u> | <u>1 073 132</u> |

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

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

Explanation of material variances

STATEMENT OF FINANCIAL PERFORMANCE

REVENUE

45.5 – Fines

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

EXPENDITURE

45.2 - The variance is trivial and immaterial

45.3 – Finance Costs

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

45.4 – Debt Impairment

Budget was under stated.

45.6– General Expenses

45.7 - Loss on disposal

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

45.8- Actuarial Loss

Calculations were only performed at year end.

STATEMENT OF FINANCIAL POSITION

CURRENT ASSETS

45.9 - Receivables from non-exchange transactions

Under estimation on impairment of rates in the budget.

45.10 – VAT Receivable

Budget understated

45.11– Receivables from exchange

Under estimation on impairment of refuse in the budget.

45.12- Cash & Cash Equivalents

Budget understated

NON CURRENT ASSETS

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

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

45.13– Investment Properties

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

45.14 - Property, plant and equipment

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

45.15 – Intangible assets

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

45.16 – Heritage assets

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

45.17 – Payables from exchange transactions

Over estimation in the budget.

45.18 - Employee Benefit Obligation

Under estimation on budg

45.19 - Unspent Conditional Grants

Under estimation on budget

45.20 - Provision

Budget was under stated

45.21 Employee benefit obligation

Budget was under stated

45.22

Budget was under stated

CASH FLOW STATEMENT

45.23 - Ratepayer and others

Under collection on rates and refuse.

45.24 - Grants

Budget was understated

45.25- Other Receipts

Budget was understated

45.26 - Payments

Budget was understated.

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

* See Note 37

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2016

Notes to the Financial Statements

| | 2016 | 2015 |
|--|------|----------------|
| | R | Restated* R |

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

The municipality has the deficit of R- 22 841 407, There are two major factors that had an impact on this. The was a huge debt impairment to the amount of R12 393 000 nd also the restatement of property plant and equipment which led to an increase in the depreciation amount to the value of R97 690 846 (2015: R95 049 918) and also the municipality is constantly receiving the refunds from SARS. These two form part of the current assets and have a bearing on the surplus for the previous year. In order for the municipality to be able to utilise the funds the operating expenditure to be funded by these current assets has to be budgeted for in the statement of financial performance. It should also be noted that even though the operating expenditure is provided for in the statement of financial performance, corresponding revenue cannot be included in the statement of financial performance as per GRAP statements. This is simply because the revenue was already recognised so its part of the surplus for that year the current assets relates to. Therefore the operating expenditure incurred funded by those current assets is mostly the cause of the deficit, not that there was no cash available.

47. Events after the reporting date

No significant events have occurred after the reporting date

* See Note 37