



**MHLONTLO LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017**

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

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

Medium capacity municipality

Accounting Officer

S G Sotshongaye

Registered office

96 LG Mabindla Avenue
Qumbu

MEMBERS OF COUNCIL

11 August 2016- 30 June 2017

Mayor	Cllr. N.Dywili
Speaker	Cllr. M.G.Jara
Chief Whip	Cllr. N.M. Mvanyashe
Exco Councillor	Cllr. N.P.B. Ludidi
Exco Councillor	Cllr. S.S. Mbangata
Exco Councillor	Cllr. N.E. Sigwili
Exco Councillor	Cllr. E.Pula
Exco Councillor	Cllr. V. Mnyanda
Exco Councillor	Cllr. M. Lingela
Exco Councillor	Cllr. N. Zikolo
Exco Councillor	Cllr. G. Mazitshana
Exco Councillor	Cllr. M.Mabono

1 July 2016 - 10 August 2016

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

2015-2017

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

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General Information

Councillor	Z.W. Nondaka	Councillor	J.M. Jikijela
Councillor	A.M. Dawedi	Councillor	M. Macingwane
Councillor	X. Mswelanto	Councillor	N.T. Ngquke
Councillor	S. Sogxakanxa	Councillor	S.S. Mbangata
Councillor	M. Soyekwa	Councillor	N.R. Ngewu
Councillor	L.H. Ludidi	Councillor	Cllr.Y. Yaso
Councillor	G. Kiviet	Councillor	Cllr.N.Mdwayi
Councillor	M. Mfamela	Councillor	Cllr.Z.Songca
Councillor	E.L. Xwayi	Councillor	N.T. Ngquke
Councillor	A.L. Tono	Councillor	D Guqa
Councillor	B.S. Mbewu	Councillor	G. Matyeni
Councillor	P. Ntobongwana	Councillor	K. Mpula
Councillor	Z. Nondaka	Councillor	N. Zikolo
Councillor	S. Qangani	Councillor	M. Ncaphayi
Councillor	M.D. Manzi	Councillor	T. Mgaweni
Councillor	S.S. Sopangisa	Councillor	M. Lingela
Councillor	Z. Botya	Councillor	Cllr. Z. Ntshiba
Councillor	B. Honono	Councillor	P. Mdinwa
Councillor	L.P. Dlova	Councillor	S. Ntunkunzezi
Councillor	Z. Makinana	Councillor	Z. Renene
Councillor	B.B. Mthitshane	Councillor	M.N. Mpheleli
Councillor	M.S. Ngewu	Councillor	M.S. Mathe
Councillor	P.N. Mdemka	Councillor	Q. Mandleni
Councillor	S. Maham	Councillor	N.V. Ncapayi
Councillor	E.N. Sikwatsha		

TRADITIONAL LEADERS

Nkosinathi Matshanda	Maqakambeni T/C
Luyanda Mditshwa	Khethani T/C
Sizwe Siyoyo	Amacwera T/C
Busisiwe Gloria Mcothshana	Masizakhe T/C
Victor Loyiso Majeke	Bhele T/C
Siyanda Madolo	
Vuyani Ephriam Ludidi	Hlubi T/C
Siviwe Mcelu	Ebhotwe T/C
Linda Ngudle	Khambi 20 T/C
K.Hanyisa Ngoni	Mbalisweni T/C

Bankers

FNB - QUMBU

Auditors

Auditor General South Africa

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

General Information

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 Regulation
Housing Act (Act no 107 of 1997)
Municipal Property Rates Act (Act no 6 of 2004)
Skills Development Act (Act no. 9 of 1999)
Employment Equity Act (Act no, 55 of 1998)
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
SALGBC Leave Regulations

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised 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 2017

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the 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 (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied (except where there has been a change in accounting policy) 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 2018 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 have been examined by the municipality's external auditors and their report is presented on page 6.

The financial statements set out on pages 6 to 76, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2017:

S G Sotshongaye
Municipal Manager

Qumbu



Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2017.

1. Review of activities

Main business and operations

The municipality is engaged in 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 Structures Act 117 of 1998- Municipal Systems Act 32 of 2000 and various other acts and regulations 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

We draw attention to the fact that at 30 June 2017, the municipality had accumulated deficits of 45 685 464 and that the municipality's total assets exceed its liabilities by 630 190 606. The deficit is mainly due to non-cash year end adjustments such as depreciation, amortisation and provision for debt impairments.

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.

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 2017

Statement of Financial Position as at 30 June 2017

	Notes	2017	2016
Assets			
Current Assets			
Inventories	2	5 228 800	5 228 800
Receivables from non-exchange transactions	4	28 522 475	19 753 921
Cash and cash equivalents	6	36 997 413	25 925 715
		77 799 080	53 803 334
Non-Current Assets			
Investment property	7	13 434 514	13 451 360
Property, plant and equipment	8	572 494 280	634 446 569
Intangible assets	9	349 453	490 991
Heritage assets	10	210 810	210 810
		586 489 057	648 599 730
Non-Current Assets		586 489 057	648 599 730
Current Assets		77 799 080	53 803 334
Total Assets		664 288 137	702 403 064
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	6 044 447	7 818 928
Employee benefit obligation	12	10 417 414	7 842 898
Unspent conditional grants and receipts	13	2 255 533	1 631 277
Provisions	14	9 420 777	3 550 000
		28 138 171	20 843 103
Non-Current Liabilities			
Employee benefit obligation	12	4 213 000	4 017 000
Provisions	14	1 746 360	1 666 890
		5 959 360	5 683 890
Non-Current Liabilities		5 959 360	5 683 890
Current Liabilities		28 138 171	20 843 103
Total Liabilities		34 097 531	26 526 993
Assets		664 288 137	702 403 064
Liabilities		(34 097 531)	(26 526 993)
Net Assets		630 190 606	675 876 071
Accumulated surplus		630 190 606	675 876 071

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Statement of Financial Performance

	Notes	2017	2016
Revenue			
Revenue from exchange transactions			
Service charges	15	1 278 064	1 157 510
Rental of facilities and equipment		48 707	46 161
Agency services		1 033 693	853 904
Licences and permits		1 429 644	1 488 639
Actuarial gain		558 000	(352 000)
Other income	16	1 434 779	1 430 121
Interest received	17	4 694 214	4 397 033
Total revenue from exchange transactions		10 477 101	9 021 368
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	33 561 153	31 807 393
Transfer revenue			
Government grants and subsidies	19	228 288 299	220 462 609
Fines, Penalties and Forfeits		255 900	476 921
Commission received		182 090	173 337
Total revenue from non-exchange transactions		262 287 442	252 920 260
		10 477 101	9 021 368
		262 287 442	252 920 260
Total revenue		272 764 543	261 941 628
Expenditure			
Employee related costs	20	(79 785 425)	(76 744 083)
Remuneration of councillors	21	(16 521 311)	(16 514 056)
Depreciation and amortisation	22	(114 404 536)	(96 390 072)
Finance costs	23	(357 000)	(258 000)
Lease rentals on operating lease		(923 258)	(640 222)
Debt Impairment	24	(19 348 018)	(12 393 000)
Repairs and maintenance	25	(3 253 735)	(2 984 709)
Contracted services	26	(4 768 058)	(3 525 469)
Operating grant expenditure	27	(21 682 581)	(25 877 127)
Loss on disposal of assets and liabilities	28	(2 065 505)	(407 101)
General Expenses	29	(55 261 108)	(46 044 585)
Interest on landfill	14	(79 470)	(153 874)
Total expenditure		(318 450 005)	(281 932 298)
		-	-
Total revenue		272 764 543	261 941 628
Total expenditure		(318 450 005)	(281 932 298)
Operating surplus/deficit		-	-
Deficit before taxation		(45 685 462)	(19 990 670)
Taxation		-	-
Deficit for the year		(45 685 462)	(19 990 670)

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Opening balance as previously reported	705 732 384	705 732 384
Adjustments		
Correction of errors (Refer to note 36)	(9 865 643)	(9 865 643)
Balance at 01 July 2015 as restated*	695 866 741	695 866 741
Changes in net assets		
Deficit for the year	(19 990 670)	(19 990 670)
Total changes	(19 990 670)	(19 990 670)
Balance at 01 July 2016	675 876 068	675 876 068
Changes in net assets		
Deficit for the year	(45 685 462)	(45 685 462)
Total changes	(45 685 462)	(45 685 462)
Balance at 30 June 2017	630 190 606	630 190 606

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Cash Flow Statement

	Notes	2017	2016
Cash flows from operating activities			
Receipts			
Rates and service charges		2 578 404	3 349 927
Grants		228 039 551	220 462 609
Interest income		4 694 214	4 397 033
Other receipts		4 942 812	4 145 003
		<u>240 254 981</u>	<u>232 354 572</u>
Payments			
Employee costs		(87 585 975)	(92 403 688)
Suppliers		(86 880 939)	(81 682 933)
Finance costs		(357 000)	(258 000)
		<u>(174 823 914)</u>	<u>(174 344 621)</u>
Total receipts		240 254 981	232 354 572
Total payments		(174 823 914)	(174 344 621)
Net cash flows from operating activities	31	<u>65 431 067</u>	<u>58 009 951</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(54 248 385)	(47 489 080)
Proceeds from sale of property, plant and equipment	8	-	27 920
Purchase of other intangible assets	9	(110 984)	-
		<u>(54 359 369)</u>	<u>(47 461 160)</u>
Net increase/(decrease) in cash and cash equivalents		11 071 698	10 548 791
Cash and cash equivalents at the beginning of the year		25 925 715	15 376 924
Cash and cash equivalents at the end of the year	6	<u>36 997 413</u>	<u>25 925 715</u>

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

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
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 220 294	(48 755)	1 171 539	1 278 064	106 525	47.1
Rendering of services	-	-	-	-	-	
Rental of facilities and equipment	45 892	2 815	48 707	48 707	-	
Agency services	825 599	332 516	1 158 115	1 033 693	(124 422)	47.2
Licences and permits	1 515 606	(87 813)	1 427 793	1 429 644	1 851	47.1
Actuarial gain	-	-	-	558 000	558 000	47.3
Other income	14 191 881	-	14 191 881	1 434 779	(12 757 102)	47.4
Interest received	4 694 214	-	4 694 214	4 694 214	-	
Total revenue from exchange transactions	22 493 486	198 763	22 692 249	10 477 101	(12 215 148)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	15 662 648	18 109 631	33 772 279	33 561 153	(211 126)	47.1
Transfer revenue						
Government grants & subsidies	228 288 299	-	228 288 299	228 288 299	-	
Commission received	255 900	-	255 900	255 900	-	
Commission received	182 090	-	182 090	182 090	-	
Total revenue from non-exchange transactions	244 388 937	18 109 631	262 498 568	262 287 442	(211 126)	
'Total revenue from exchange transactions'	22 493 486	198 763	22 692 249	10 477 101	(12 215 148)	
'Total revenue from non-exchange transactions'	244 388 937	18 109 631	262 498 568	262 287 442	(211 126)	
Total revenue	266 882 423	18 308 394	285 190 817	272 764 543	(12 426 274)	
Expenditure						
Personnel	(88 267 313)	288 460	(87 978 853)	(79 785 425)	8 193 428	47.1
Remuneration of councillors	(17 292 705)	1 715 586	(15 577 119)	(16 521 311)	(944 192)	47.1
Depreciation and amortisation	(3 735 195)	(96 257 868)	(99 993 063)	(114 404 536)	(14 411 473)	47.5
Finance costs	-	-	-	(357 000)	(357 000)	47.6
Lease rentals on operating lease	-	(923 258)	(923 258)	(923 258)	-	
Debt Impairment	(19 876 150)	(4 958 313)	(24 834 463)	(19 348 018)	5 486 445	47.7
Bad debts written off	-	-	-	-	-	
Repairs and maintenance	-	(3 253 735)	(3 253 735)	(3 253 735)	-	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

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
Contracted Services	-	(4 768 058)	(4 768 058)	(4 768 058)	-	
Operating grant expenditure	(21 682 581)	-	(21 682 581)	(21 682 581)	-	
Cost of housing sold	-	-	-	-	-	
General Expenses	(64 615 023)	13 777 493	(50 837 530)	(55 340 579)	(4 503 049)	47.8
Total expenditure	(215 468 967)	(94 379 693)	(309 848 660)	(316 384 501)	(6 535 841)	
	266 882 423	18 308 394	285 190 817	272 764 543	(12 426 274)	
	(215 468 967)	(94 379 693)	(309 848 660)	(316 384 501)	(6 535 841)	
Operating deficit	51 413 456	(76 071 299)	(24 657 843)	(43 619 958)	(18 962 115)	
Loss on disposal of assets	-	-	-	(2 065 505)	(2 065 505)	47.9
	51 413 456	(76 071 299)	(24 657 843)	(43 619 958)	(18 962 115)	
	-	-	-	(2 065 505)	(2 065 505)	
Deficit	51 413 456	(76 071 299)	(24 657 843)	(45 685 463)	(21 027 620)	
Deficit	51 413 456	(76 071 299)	(24 657 843)	(45 685 463)	(21 027 620)	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	51 413 456	(76 071 299)	(24 657 843)	(45 685 463)	(21 027 620)	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

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
Statement of Financial Position						
Assets						
Current Assets						
Inventories	16 273 742	(10 704 097)	5 569 645	5 228 800	(340 845)	47.1
Receivables from exchange transactions	482 320	-	482 320	482 320	-	
Receivables from non-exchange transactions	27 214 342	18 720 948	45 935 290	28 522 475	(17 412 815)	47.10
VAT receivable	2 036 197	2 966 761	5 002 958	6 568 072	1 565 114	47.11
Cash and cash equivalents	15 585 365	25 176 848	40 762 213	36 997 413	(3 764 800)	47.1
	61 591 966	36 160 460	97 752 426	77 799 080	(19 953 346)	
Non-Current Assets						
Investment property	27 111 835	(8 026 198)	19 085 637	13 434 514	(5 651 123)	47.12
Property, plant and equipment	215 990 613	378 515 504	594 506 117	572 494 280	(22 011 837)	47.13
Intangible assets	627 631	22 513	650 144	349 453	(300 691)	47.14
Heritage assets	119 400	(119 400)	-	210 810	210 810	47.15
	243 849 479	370 392 419	614 241 898	586 489 057	(27 752 841)	
Non-Current Assets	61 591 966	36 160 460	97 752 426	77 799 080	(19 953 346)	
Current Assets	243 849 479	370 392 419	614 241 898	586 489 057	(27 752 841)	
Total Assets	305 441 445	406 552 879	711 994 324	664 288 137	(47 706 187)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	2 132 821	(1 870 601)	262 220	6 044 449	5 782 229	47.16
Employee benefit obligation	-	10 000 000	10 000 000	10 417 414	417 414	47.1
Unspent conditional grants and receipts	-	-	-	2 255 533	2 255 533	47.17
Provisions	-	9 000 000	9 000 000	9 420 777	420 777	47.1
	2 132 821	17 129 399	19 262 220	28 138 173	8 875 953	
Non-Current Liabilities						
Employee benefit obligation	-	383 467	383 467	4 213 000	3 829 533	47.18
Provisions	-	1 746 000	1 746 000	1 746 360	360	
	-	2 129 467	2 129 467	5 959 360	3 829 893	
	2 132 821	17 129 399	19 262 220	28 138 173	8 875 953	
	-	2 129 467	2 129 467	5 959 360	3 829 893	
	-	-	-	-	-	
Total Liabilities	2 132 821	19 258 866	21 391 687	34 097 533	12 705 846	
Assets	305 441 445	406 552 879	711 994 324	664 288 137	(47 706 187)	
Liabilities	(2 132 821)	(19 258 866)	(21 391 687)	(34 097 533)	(12 705 846)	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

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
Net Assets	303 308 624	387 294 013	690 602 637	630 190 604	(60 412 033)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Accumulated surplus	303 308 624	387 294 013	690 602 637	630 190 604	(60 412 033)	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

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 Municipal Finance Management Act (Act 56 of 2003).

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 (except where specified) in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period (except where specified).

1.1 Presentation currency

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

1.2 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.

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

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

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1.3 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.

1.4 Investment property

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

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

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

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1.4 Property, plant and equipment (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.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

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

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

Mhlontlo Local Municipality

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Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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 - 15 years
• Pedestrian malls	10 - 15 years
• Sewerage	10 - 15 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.

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.

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Accounting Policies

1.5 Property, plant and equipment (continued)

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.

1.6 Intangible assets

An asset is identifiable if it either:

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.6 Intangible assets (continued)

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	Depreciation method	Average useful life
Computer software, other	Straight line	3-6 years

1.7 Heritage assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Transfers

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

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

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

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Accounting Policies

1.8 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.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

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.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

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.

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Accounting Policies

1.8 Financial instruments (continued)

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.

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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 unutilised 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;

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Accounting Policies

1.8 Financial instruments (continued)

- 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.

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 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.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

1.9 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.

1.10 Leases

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

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

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 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.

1.11 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
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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1.11 Inventories (continued)

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

1.12 Impairment of cash-generating assets

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

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

Value in use

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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1.12 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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1.12 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.

1.13 Impairment of non-cash-generating assets

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

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

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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

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

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.

1.14 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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Employee benefits (continued)

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.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

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

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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

1.14 Employee benefits (continued)

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.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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.

1.15 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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

1.15 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

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.

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

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

1.16 Revenue from exchange transactions (continued)

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.

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

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.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

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

1.17 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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

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

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.

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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

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

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.

1.18 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.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year 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.

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

1.22 Budget information

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.

1.23 Related parties

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Accounting Policies

1.23 Related parties (continued)

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

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

Notes to the Financial Statements

	2017	2016
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2. Inventories		
Residential houses	5 228 800	5 228 800
Inventories relate to residential houses.		
3. Receivables from exchange transactions		
Refuse Removal	6 555 804	5 505 932
Allowance for Impairment	(6 073 484)	(5 466 739)
	482 320	39 193

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

3. Receivables from exchange transactions (continued)

Refuse		
Current (0-30 days)	304 042	59 456
31 - 60 days	98 504	86 337
61 - 90 days	97 218	85 677
91 - 120 days	96 563	85 560
121 - 365 days	5 959 477	5 188 902
Impairment	(6 073 484)	(5 466 739)
	482 320	39 193

Summary of debtors by customer classification

Consumers		
Current (0 - 30 days)	191 982	57 801
31 - 60 days	62 919	57 150
61- 90 days	62 301	56 790
91 - 120 days	61 850	56 674
121 - 365 days	4 585 371	4 011 550
	4 964 423	4 239 965

Industrial/ commercial		
Current (0 - 30 days)	82 396	21 498
31 - 60 days	26 172	21 301
61- 90 days	25 866	21 301
91 - 120 days	25 807	21 301
121 - 365 days	1 048 749	891 890
	1 208 990	977 291

National and provincial government		
Current (0 - 30 days)	29 664	1 376
31 - 60 days	9 413	7 886
61- 90 days	9 052	7 586
91 - 120 days	8 905	7 586
121 - 365 days	325 357	264 242
	382 391	288 676

Total		
Current (0 - 30 days)	304 042	59 456
31 - 60 days	98 504	86 337
61- 90 days	97 218	85 677
91 - 120 days	96 563	85 560
121 - 365 days	5 959 477	5 188 902
Subtotal	6 555 804	5 505 932
Less: Allowance for impairment	(6 073 484)	(5 466 739)
	482 320	39 193

Reconciliation of allowance for impairment

Balance at the beginning of the year	(5 466 739)	(21 546 864)
Contributions to allowance	(606 745)	(5 466 739)
Reversal of allowance	-	21 546 864
	(6 073 484)	(5 466 739)

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

	2017	2016
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4. Receivables from non-exchange transactions		
Sundry Customers	1 015 644	992 721
Rates	46 919 986	17 864 260
OR Tambo Security Services Debt	-	1 568 822
Allowance for impairment	(19 413 155)	(671 882)
	<u>28 522 475</u>	<u>19 753 921</u>

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

4. Receivables from non-exchange transactions (continued)

Rates

Current (0 - 30 days)	3 410 995	16 988 114
31 - 60 days	1 124 808	16 966
61 - 90 days	1 122 783	16 900
91 -120 days	1 116 775	16 882
121 - 365 days	40 144 625	986 971
Impairment	(18 762 532)	-
	28 157 454	18 025 833

Summary of debtors by customer classification

Consumers

Current (0 - 30 days)	1 045 040	725 259
31 - 60 days	336 157	5 612
61 -90 days	334 131	5 546
91 -120 days	328 123	5 528
121 - 365 days	4 888 856	420 221
	6 932 307	1 162 166

Industrial / commercial

Current (0 - 30 days)	289 338	435 400
31 - 60 days	96 446	11 354
61 -90 days	96 446	11 354
91 -120 days	96 446	11 354
121 - 365 days	1 226 337	513 591
	1 805 013	983 053

National and provincial government

Current (0 - 30 days)	2 076 616	15 827 485
31 - 60 days	692 205	-
61 -90 days	692 205	-
91 -120 days	692 205	-
121 - 365 days	34 029 435	53 159
	38 182 666	15 880 644

Total

Current (0 - 30 days)	3 410 995	16 988 144
31 - 60 days	1 124 808	16 966
61 -90 days	1 122 783	16 900
91 -120 days	1 116 775	16 882
121 - 365 days	40 144 625	986 971
Subtotal	46 919 986	18 025 863
Less: Allowance for impairment	(18 762 532)	-
	28 157 454	18 025 863

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

4. Receivables from non-exchange transactions (continued)

Reconciliation of allowance for impairment

Opening balance	-	(11 915 214)
Contributions to allowance	18 762 532	-
Less: Impairment	-	11 915 214
	18 762 532	-

Sundry Customers

Traffic fines	906 643	974 707
Payroll debtors	100 749	18 014
Less: Impairment	(650 623)	(671 882)
	356 769	320 839

5. VAT

VAT	6 568 072	2 855 705
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Vat receivable balance includes the monies due from SARS for the VAT periods May 2017 and June 2017 as well as the VAT on trade debtors' and trade creditors' balances at year end.

An amount of R 8 660 310 has been received in the current year and therefore recoverability of the amount receivable from SARS is not remote.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 484	257
Bank balances	5 425 575	3 358 406
Short-term deposits	31 569 354	22 567 052
	<u>36 997 413</u>	<u>25 925 715</u>

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	
Other	- 23 925 458

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2017	30 June 2016	30 June 2015	30 June 2017	30 June 2016	30 June 2015
FNB - Business Call Account: Revolving Fund - 61399068117	22 963 143	17 423 520	7 201 916	22 963 143	17 423 519	7 201 916
FNB - Commercial Fixed Maturity Notice: Electrification Prog - 74231136926	55 472	-	532 178	55 472	-	532 178
FNB - Business NSTD Call: Equitable Share - 62027945809	6 672 776	3 156 246	282 622	6 672 776	3 156 246	282 622
FNB - Public Sector Cheque Account: Gqunu Lots - 62020395390	571 251	699 208	701 546	571 251	699 208	701 546
FNB - Public Sector Cheque Account: MIG - 62170844221	134 905	134 911	134 916	134 905	134 911	134 916
FNB - Commercial Money Market Investment: FMG - 62280641244	9 985	(14)	10 000	9 985	(14)	10 000
FNB - Commercial Call Account: Local Economic Dev - 62075571713	396 304	396 304	395 403	396 304	396 304	395 403
FNB - Commercial Call Account: Municipal IDP - 62075570137	10 000	1 000	1 000	10 000	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	735 713	735 893	736 061	735 713	735 893	736 061
Market Investment - MSIG Public Sector Cheque Account -FNB	9 806	9 986	56 181	9 806	9 986	56 181
	5 425 575	3 358 406	5 290 491	5 321 696	3 358 407	5 314 740
Total	36 994 930	25 925 460	15 352 314	36 891 051	25 925 460	15 376 563

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 Equivalent 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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

7. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	13 434 514	-	13 434 514	13 451 360	-	13 451 360

Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	13 451 360	(16 846)	13 434 514

Reconciliation of investment property - 2016

	Opening balance	Depreciation	Total
Investment property	13 468 206	(16 846)	13 451 360

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.

Details of valuation

The effective date of the revaluations was 30 June 2017. Revaluations were performed by an independent valuer, not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

Amounts recognised in surplus and deficit for the year.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

8. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12 813 541	-	12 813 541	12 813 541	-	12 813 541
Buildings	27 077 783	(11 389 767)	15 688 016	25 251 840	(10 736 377)	14 515 463
Infrastructure	172 148 599	(759 172 743)	412 975 856	147 482 835	(651 453 317)	496 029 518
Community assets	55 859 953	(18 497 569)	37 362 384	40 085 859	(17 458 765)	22 627 094
Other assets	28 798 405	(7 423 962)	21 374 443	28 561 245	(6 284 907)	22 276 338
Work-in-progress	67 026 797	-	67 026 797	60 360 522	-	60 360 522
Landfill site	7 895 223	(2 641 980)	5 253 243	8 050 524	(2 226 431)	5 824 093
Total	371 620 301	(799 126 021)	572 494 280	322 606 366	(688 159 797)	634 446 569

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	12 813 541	-	-	-	-	12 813 541
Buildings	14 515 463	-	(4 613)	1 883 605	(706 439)	15 688 016
Infrastructure	496 029 518	-	(1 285 919)	28 164 173	(109 931 916)	412 975 856
Community assets	22 627 094	162 000	(39 663)	15 896 312	(1 283 359)	37 362 384
Other assets	22 276 338	3 011 780	(2 200 429)	-	(1 713 246)	21 374 443
Work-in-progress	60 360 522	52 700 280	-	(46 034 005)	-	67 026 797
Landfill site	5 824 093	89 915	(149 998)	-	(510 767)	5 253 243
	634 446 569	55 963 975	(3 680 622)	(89 915)	(114 145 727)	572 494 280

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	12 813 541	-	-	-	-	12 813 541
Buildings	15 142 954	-	-	-	(627 491)	14 515 463
Infrastructure	573 764 593	-	-	14 669 437	(92 404 512)	496 029 518
Community assets	23 589 794	-	-	-	(962 700)	22 627 094
Other assets	18 229 293	7 155 941	(1 295 021)	-	(1 813 875)	22 276 338
Work-in-progress	33 864 744	41 165 215	-	(14 669 437)	-	60 360 522
Landfill site	6 028 106	-	-	-	(204 013)	5 824 093
	683 433 025	48 321 156	(1 295 021)	-	(96 012 591)	634 446 569

* - 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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

9. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 853 954	(1 504 501)	349 453	1 861 704	(1 370 713)	490 991

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	490 991	110 984	(10 561)	(241 961)	349 453

Reconciliation of intangible assets - 2016

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

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.

10. Heritage assets

	2017			2016		
	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 2017

	Opening balance	Total
Heritage assets	210 810	210 810

Reconciliation of heritage assets 2016

	Opening balance	Total
Heritage assets	210 810	210 810

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

10. Heritage assets (continued)

Age and/or condition of heritage assets

The municipality owns the following heritage asset:

The mayoral chain.

11. Payables from exchange transactions

Trade payables	2 516 755	3 540 783
Payments received in advanced - Consumer debtors	1 915 367	1 626 215
Unallocated Deposits	167 353	235 412
Payroll control	247 954	75 009
Creditors accruals	1 197 018	2 340 423
Debtors suspense	-	1 086
	6 044 447	7 818 928

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	555 000	468 000
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Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

12. Employee benefit obligation (continued)

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Bonus accrual	1 662 368	1 504 619
Leave pay accrual	8 755 046	6 338 279
Long service awards	4 213 000	4 017 000
	14 630 414	11 859 898
<hr/>		
Non-current liabilities	4 213 000	4 017 000
Current liabilities	10 417 414	7 842 898
	14 630 414	11 859 898

Reconciliation of employee benefits - 2017

	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 504 619	-	157 749	1 662 368
Leave pay accrual	6 338 279	8 755 046	(6 338 279)	8 755 046
	7 842 898	8 755 046	(6 180 530)	10 417 414

Reconciliation of employee benefits - 2016

	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 213 873	1 504 619	(1 213 873)	1 504 619
Leave pay accrual	5 363 449	6 415 639	(5 440 809)	6 338 279
	6 577 322	7 920 258	(6 654 682)	7 842 898

Long service awards

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

Opening balance	4 017 000	3 132 000
Benefits paid	(158 000)	(193 000)
Net expense recognised in the statement of financial performance	354 000	1 078 000
	4 213 000	4 017 000

Net expense recognised in the statement of financial performance

Current service cost	555 000	468 000
Interest cost	357 000	258 000
Actuarial (gains) losses	(558 000)	352 000
	354 000	1 078 000

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

12. Employee benefit obligation (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,67 %	9,06 %
Expected rate of return on assets	5,47 %	6,68 %
Expected rate of return on reimbursement rights	6,47 %	7,68 %
Actual return on reimbursement rights	2,07 %	1,28 %

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 2016 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 2017 is 8.67% per annum. The assumed discount rate used at the previous valuation, 30 June 2016, was 9.06% 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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

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	907 000	758 000
Effect on defined benefit obligation	4 584 000	3 885 000

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

	2017	2016	2015	2014	2013
Defined benefit obligation	4 213 000	4 017 000	3 132 000	2 807 000	2 353 000

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Gqunu lots	926 756	1 053 752
Qumbu Pilot Housing	62 525	62 525
LED	15 000	15 000
Tsitsa Falls Fire Management	500 000	500 000
EPWP - DEDEAT	751 252	-
	2 255 533	1 631 277

Movement during the year

Balance at the beginning of the year	1 631 277	1 662 192
Additions during the year	73 752 000	58 498 000
Income recognition during the year	(73 127 744)	(58 528 915)
	2 255 533	1 631 277

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

14. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	1 666 890	-	-	79 470	1 746 360
Legal proceedings	3 550 000	9 420 777	(3 550 000)	-	9 420 777
	5 216 890	9 420 777	(3 550 000)	79 470	11 167 137

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

Non-current liabilities	1 746 360	1 666 890
Current liabilities	9 420 777	3 550 000
	11 167 137	5 216 890

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 1 746 360 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. 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:

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.

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

15. Service charges

Industrial / Commercial	365 394	322 500
Consumers	799 238	748 690
National and provincial government	113 432	86 320
	1 278 064	1 157 510

16. Other income

Advertising bill boards	59 683	61 416
Overdeposit / banking	1	-
Sundry income	400	6 601
Clearance certificate	933	1 252
Cemetery fee - burials	18 075	15 560
Pound fees	148 211	171 560
Pound sales	867 897	973 129
Tender fees	211 829	112 438
Sale of wood	-	123
Business Licence	122 571	38 786
Refund	1	46 587
Plan fees	4 228	2 669
Photocopy and faxes	950	-
	1 434 779	1 430 121

17. Interest received

Interest revenue		
Interest from investments	3 918 122	3 559 343
Interest charged on trade and other receivables	776 092	837 690
	4 694 214	4 397 033

18. Property rates

Rates received

Consumers	2 485 601	2 485 601
Industrial / Commercial	5 115 379	5 115 379
National and provincial government	26 004 164	24 250 404
Small holdings and farms	167 135	167 135
Less: Income forgone - rebates	(211 126)	(211 126)
	33 561 153	31 807 393

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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

19. Government grants and subsidies

Operating grants

Equitable share	154 313 000	159 404 000
Training - LGSETA	848 465	1 359 694
	<u>155 161 465</u>	<u>160 763 694</u>

Conditional grants

EPWP - Casual workers	1 231 090	1 000 000
FMG	2 010 000	1 875 000
Electrification program	12 500 000	13 530 915
Library Assistance	350 000	170 000
MIG grant	3 040 022	3 914 891
Gqunu Lots	126 996	-
MSIG grant	-	930 000
EPWP - DEDEAT	248 748	-
	<u>19 506 856</u>	<u>21 420 806</u>
MIG Grant	53 619 978	38 278 109
	<u>174 668 321</u>	<u>182 184 500</u>

Equitable Share

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

MIG grant

Current-year receipts	56 660 000	42 193 000
Conditions met - transferred to revenue	(56 660 000)	(42 193 000)
	<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 R15 000 000 on the 26th March 2017 from the 2016/17 allocation.

Gqunu lots

Balance unspent at beginning of year	1 053 752	1 053 752
Conditions met - transferred to revenue	(126 996)	-
	<u>926 756</u>	<u>1 053 752</u>

This is a grant that is actually for community projects, all its expenditure depends on their activities which are also in phases.

Qumbu Pilot Housing

Balance unspent at beginning of year	<u>62 525</u>	<u>62 525</u>
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Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

19. Government grants and subsidies (continued)

LED

Balance unspent at beginning of year	15 000	15 000
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Unspent amount relates to Sinakho coffin manufacture project. Prior period figures have been restated.

FMG

Current-year receipts	2 010 000	1 875 000
Conditions met - transferred to revenue	(2 010 000)	(1 875 000)
	<hr/>	<hr/>
	-	-

All the conditions have been met and all funds have been spent.

MSIG

Current-year receipts	-	930 000
Conditions met - transferred to revenue	-	(930 000)
	<hr/>	<hr/>
	-	-

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

The MSIG was not received for the year ended 2017 as per the DORA Act.

Library Assistance

Current-year receipts	350 000	170 000
Conditions met - transferred to revenue	(350 000)	(170 000)
	<hr/>	<hr/>
	-	-

All the conditions have been met and all funds have been spent.

EPWP - Casual workers

Current-year receipts	1 232 000	1 000 000
Conditions met - transferred to revenue	(1 232 000)	(1 000 000)
	<hr/>	<hr/>
	-	-

All the conditions have been met and all funds have been spent.

INEP Electrification

Balance unspent at beginning of year	-	530 915
Current-year receipts	12 500 000	13 000 000
Conditions met - transferred to revenue	(12 500 000)	(13 530 915)
	<hr/>	<hr/>
	-	-

All the conditions have been met and all funds have been spent.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

19. Government grants and subsidies (continued)

Tsitsa Falls Fire Management

Balance unspent at beginning of year	500 000	500 000
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Conditions still to be met - remain liabilities (see note 13).

EPWP - DEDEAT

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(248 748)	-
	751 252	-

Conditions still to be met - remain liabilities (see note 13).

20. Employee related costs

Basic	40 173 719	44 059 475
Back pay	129 763	1 036 844
Bonus	3 113 174	3 096 340
Medical aid - employer contribution	4 885 092	4 904 455
UIF	422 948	343 953
SDL	653 457	720 509
Other payroll levies	17 177	15 839
Contribution to leave pay provision charge	2 416 767	974 830
Pension Fund - employer contribution	5 510 502	5 278 165
Travel, motor car, accommodation, subsistence and other allowances	7 887 072	8 413 571
Overtime payments	2 394 381	2 084 184
WCA	-	441 242
Contribution provision for bonus	157 749	290 745
Casual Workers	124 055	168 765
Housing benefits and allowances	2 358 732	2 441 517
Long term leave contribution	397 000	275 000
Leave encashment	959 352	844 964
Standby allowance	673 094	608 145
Cellphone allowance	698 087	745 540
	72 972 121	76 744 083

Remuneration of Municipal Manager - S G Sotshongaye

Annual Remuneration	806 936	746 649
Car Allowance	290 187	291 748
Contributions to UIF, Medical and Pension Funds	1 870	1 785
Back pay	85 571	85 132
Re-imbursive travel allowance	-	88 240
Skills Development Levy	11 247	-
Leave encashment	-	111 666
	1 195 811	1 325 220

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

20. Employee related costs (continued)

Remuneration of Chief Finance Officer - N Boti

Annual Remuneration	820 424	830 656
Car Allowance	194 243	177 814
Contributions to UIF, Medical and Pension Funds	1 870	1 785
Housing Allowance	40 509	34 718
Back pay	20 775	76 299
Cellphone Allowance	30 000	30 000
Re-imbursive travel allowance	9 040	7 304
Skills Development Levy	11 313	-
	1 128 174	1 158 576

Remuneration of the Community Manager - Y M Yilo

Annual Remuneration	756 196	709 470
Car Allowance	194 243	196 889
Contributions to UIF, Medical and Pension Funds	1 870	1 785
Housing Allowance	135 035	127 010
Back pay	20 775	76 299
Skills Development Levy	10 674	-
	1 118 793	1 111 453

Remuneration of the Technical Manager - TP Mase

Annual Remuneration	700 330	758 009
Car Allowance	252 387	209 299
Contributions to UIF, Medical and Pension Funds	1 870	1 785
Cellphone Allowance	134 834	46 986
Back pay	20 775	76 299
Re-imbursive travel allowance	-	24 476
Skills Development Levy	10 578	-
	1 120 774	1 116 854

Remuneration of the Corporate Services Manager - L Matiwane

Annual Remuneration	756 196	709 470
Car Allowance	271 940	248 939
Contributions to UIF, Medical and Pension Funds	1 870	1 785
Housing Allowance	59 415	55 884
Skills Development Levy	10 539	-
Back pay	20 775	76 299
Re-imbursive travel allowance	4 138	34 169
	1 124 873	1 126 546

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

20. Employee related costs (continued)

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

Annual Remuneration	756 196	709 470
Car Allowance	271 940	248 939
Contributions to UIF, Medical and Pension Funds	1 870	1 785
Housing Allowance	20 631	20 332
Back pay	20 775	76 299
Re-imbursive travel allowance	42 928	64 734
Skills Development Levy	10 539	-
	1 124 879	1 121 559

21. Remuneration of councillors

Mayor	740 443	803 432
Councillors	15 780 868	15 710 624
	16 521 311	16 514 056

22. Depreciation and amortisation

Property, plant and equipment	114 145 729	96 012 591
Investment property	16 846	16 846
Intangible assets	241 961	360 635
	114 404 536	96 390 072

23. Finance costs

Interest on long service awards	357 000	258 000
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24. Debt impairment

Consumer debtors	19 348 018	12 393 000
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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.

25. Repairs and maintenance

Buildings	505 214	1 037 643
Plant and Equipment	800 978	464 702
Network and hardware support	94 220	294 807
Public safety	268 981	244 460
Streets lights and access roads	1 260 642	815 777
Motor vehicle repairs	424 002	334 939
	3 354 037	3 192 328

26. Contracted services

Security services	4 768 058	3 525 469
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Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

27. Operating grant expenditure

Other subsidies

Electrification program	14 927 553	12 299 570
EPWP Program	3 399 917	2 423 513
Indigent subsidy	2 686 579	9 711 808
FMG Interns	214 737	1 269 202
SETA	-	173 034
EPWP - DEDEAT	29 500	-
Tsitsa Falls Fire Management	424 295	-
	21 682 581	25 877 127

28. Loss on disposal of assets

Net book value of assets disposed of	(2 065 505)	(407 101)
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Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

29. General expenses

Accounting fees	-	167 750
Actuarial loss	486 634	469 475
Animal Feed	3 525 598	2 886 281
Bank charges	110 760	154 931
Burials and memorial services	66 866	-
Consulting and professional fees	4 086 353	148 898
Burials and memorial services	746 511	365 712
Entertainment	1 829 071	891 450
Interest and penalties	345 287	23 452
Animal Feed	168 398	86 432
Hiring charges	1 252 860	1 576 383
Insurance - general	188 182	334 429
Community development and training	590 125	318 892
Electricity purchase	19 136	249 700
Incorporation costs	-	2 920
Medical expenses	500	45 322
Motor vehicle expenses	254 505	207 707
Pest control	7 310	37 977
Insurance - general	1 744 840	1 777 606
Postage and courier	1 196	2 060
Printing and stationery	1 711 065	2 070 210
Protective clothing	356 192	810 823
Project maintenance costs	7 502 886	3 623 418
Software expenses	701 859	977 751
Subscriptions and membership fees	955 659	840 408
Project overhead expenses	3 910 662	2 896 794
Training	2 404 272	2 388 490
Travel - local	4 674 119	2 810 252
Office expenses	27 847	14 866
Electricity purchase	1 012 272	1 178 259
Audit committee expenses	199 576	47 679
Crime prevention	-	4 950
Disaster costs	354 000	-
Public participation	1 254 746	2 288 499
Ward committee stipend	4 581 976	6 082 209
Underdeposit banking	125	-
Contribution for legal fees	9 993 520	6 776 602
Survey and planning	196 200	3 485 998
	55 261 108	46 044 585

30. Auditors' remuneration

Fees	3 525 598	2 886 281
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Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

31. Cash generated from operations

(Deficit) / surplus	(45 685 462)	(19 990 670)
Adjustments for:		
Depreciation and amortisation	114 404 536	96 390 072
Gain on sale of assets and liabilities	2 065 505	435 021
Debt impairment	19 348 018	12 393 000
Increase in employment benefit obligations	2 770 516	2 150 575
Increase in provisions	5 950 247	(1 296 126)
Changes in working capital:		
Receivables from exchange transactions	(174 870)	(185 547)
Receivables from non-exchange transactions	(29 953 650)	(27 673 807)
Other receivables from non-exchange transactions	1 568 822	(1 568 822)
Payables from exchange transactions	(1 774 484)	(2 426 031)
VAT	(3 712 367)	(186 799)
Unspent conditional grants and receipts	624 256	(30 915)
	65 431 067	58 009 951

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.

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

Financial instrument	2017	2016
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Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

32. Risk management (continued)

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	79 286 295	61 045 087
Unauthorised expenditure in the current year	15 484 810	18 241 208
	94 771 105	79 286 295

The opening balance of irregular expenditure has been investigated as per section 32 of MFMA and tabled to the council. The municipality is awaiting for a response from treasury for condonment.

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 2017.

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

	2017 R (Actual)	2017 R (Budget)	2017 R (Variance)	Unauthorised
Executive and Council	50 020 338	49 368 756	(651 582)	651 582
Finance and Administration	73 803 516	80 796 360	6 992 844	-
Planning and Development	17 904 029	17 139 644	(764 385)	764 385
Public Safety	19 493 014	19 202 556	(290 458)	290 458
Waste Management	1 536 044	15 696 929	14 160 885	-
Road Transport	141 982 215	128 203 830	(13 778 385)	13 778 385
	304 739 156	310 408 075	5 668 919	15 484 810

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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

34. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Receivables from non-exchange transactions	-	28 511 223	28 511 223
Receivables from exchange transactions	-	482 320	482 320
Bank balances	5 428 059	-	5 428 059
Short term deposits	31 569 355	-	31 569 355
	36 997 414	28 993 543	65 990 957

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	6 065 385	6 065 385

2016

Financial assets

	At fair value	At amortised cost	Total
Receivables from non-exchange transactions	-	19 753 921	19 753 921
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	19 793 114	45 718 828

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	7 818 929	7 818 929

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

35. Contingent liabilities

Bank guarantees	135 000	135 000
Pending legal claims	3 250 000	3 500 000
	3 385 000	3 635 000

Bank guarantees

Guarantees to the value of R135 000 have been obtained from First National Bank on the FNB Revolving Deposit account 61399068117 concerning the responsibility in terms of the Minerals and Petroleum Resources Development Act of 2002 which is incumbent on Mhlontlo Municipality to execute the environmental management plan in terms of the provisions of the said Act for the rehabilitation of Borrow Pit 1 - 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

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

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

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

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

Mavuso Kholiswa vs Mhlontlo Local Municipality Case Number 3434/2014

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

35. Contingent liabilities (continued)

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

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

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

Makaziwe Mgobozi vs Mhlontlo Local Municipality Case Number 70/2017

This is an urgent application that was brought on urgent basis by the applicants seeking that Mhlontlo Local Municipality must attend to the leakage of water in a particular area in town.

The municipality opposed this application and the matter is still pending before high court Mthatha. We are still waiting for trial Date to be allocated by the Register.

In this matter the municipality lose this matter in court court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R800 000.00(Eight Hundred Thousand Rand).

Gwele Sinethemba vs Mhlontlo Local Municipality case Number 988/2016

This is an application that was brought on agent basis by Mhlontlo Local Municipality against Sinethemba Gwele and 8 others who were errating site at Qumbu ERF 102. The municipality successfully got an interim interdict that all applicants or whoever whose is erracting structure at erf 102 Qumbu is hereby interdicted .

An amount of R600 000.00 (Six Hundred Thousand Rand Only) may be incurred by paying the applicants legal team if the Municipality may lose the case.

Chief Mzwamandla Horatius Njikelana & another vs Mhlontlo Local Municipality case number. 3456/2016

This is an applicant that was brought on urgent basis by chief Mzwamandla horatius Njikelana & another against Mhlontlo local municipality claiming demolition their structures at commonage of erf 102 Qumbu.

In this matter the Municipality will incur approximately R 1 200 000.00 (one million two hundred thousand only) including fees of application for attorneys.

An amount of R700 000.00 (Seven Hundred Thousand Rand Only) may be incurred by paying the applicants legal team if the Municipality may lose the case.

Vokon African PTY (LTD) VS Mhlontlo local municipality case number 227/2015

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

35. Contingent liabilities (continued)

This is an application that was brought against Mhlontlo local by applicants attorneys in respect of work which was not finished by applicants who were demanding payments. The Municipality opposed their application and the matter is still pending before court and waiting a date in an opposed.

In this matter the Municipality will incur approximately R 1 200 000.00 (One million two hundred thousand rand only) it include fees for application for attorneys.

An amount of R800 000.00 (Eight Hundred Thousand Rand Only) may be incurred by paying the applicants legal team if the Municipality may lose the case.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

35. Contingent liabilities (continued)

2016

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

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

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

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

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

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

Mavuso Kholiswa vs Mhlontlo Local Municipality Case Number 3434/2014

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

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

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

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

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

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

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

36. Related parties

1 July 2016 - 10 August 2016

Mayor
Speaker
Chief Whip
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor

o

R M Giyose
X D Nkompela
N M Mvanyashe
N Mtwazi
N Konza
M Mabono
E Pula
N Magodla
X Mpatane
N Dywili
M G Jara
Z Nondaka

11 August 2016- 30 June 2017

Mayor
Speaker
Chief Whip
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor
Exco Councillor

N. Dywili
Cllr. M.G. Jara
Cllr. N.M. Mvanyashe
Cllr. N.P.B. Ludidi
Cllr. S.S. Mbangata
Cllr. N.E. Sigwili
Cllr. E.Pula
Cllr. V. Mnyanda
Cllr. M. Lingela
Cllr. N. Zikolo
Cllr. G. Mazitshana
Cllr. M.Mabono

Other councillors 1 July 2015- 30 June 2017

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

36. Related parties (continued)

Councillor M. Ncokotwana
Councillor S.N. Matanzima
Councillor L.L. Mkhondweni
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. Sogxakanxa
Councillor M. Soyekwa
Councillor L.H. Ludidi
Councillor G. Kiviet
Councillor M. Mfamela
Councillor E.L. Xwayi
Councillor A.L. Tono
Councillor B.S. Mbewu
Councillor P. Ntobongwana
Councillor Z. Nondaka
Councillor S. Qangani
Councillor M.D. Manzi
Councillor S.S. Sopangisa
Councillor Z. Botya
Councillor B. Honono
Councillor L.P. Dlova
Councillor Z. Makinana
Councillor B.B. Mthitshane
Councillor M.S. Ngewu
Councillor P.N. Mdemka
Councillor S. Maham

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. Ngquke
Councillor S.S. Mbangata
Councillor N.R. Ngewu
Councillor Cllr.Y. Yaso
Councillor Cllr.N.Mdwayi
Councillor Z.Songca
Councillor N.T. Ngquke
Councillor D Guqa
Councillor G. Matyeni
Councillor K. Mpula
Councillor N. Zikolo
Councillor M. Ncaphayi
Councillor T. Mgaweni
Councillor M. Lingela
Councillor Cllr. Z. Ntshiba
Councillor P. Mdinwa
Councillor S. Ntukuntezi
Councillor Z. Renene
Councillor M.N. Mpheleli
Councillor M.S. Mathe
Councillor Q. Mandleni
Councillor N.V. Ncapayi

Traditional leaders to participate in Mhlontlo Municipality Council
Traditional leaders to participate in Mhlontlo Municipality Council
Traditional leaders to participate in Mhlontlo Municipality Council
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Traditional leaders to participate in Mhlontlo Municipality Council
Traditional leaders to participate in Mhlontlo Municipality Council
Traditional leaders to participate in Mhlontlo Municipality Council
Traditional leaders to participate in Mhlontlo Municipality Council
Chief Financial Officer
Municipal Manager
Community Manager
Technical Manager
Corporate Services Manager
Local Economic and Rural Development Manager
District Municipality that Mhlontlo forms part of

N Matshanda
L Mditshwa
S Siyoyo
B G Mcotshana
V L Majeke
S Madolo
V E Ludidi
S Mcelu
L Ngudle
K H Ngoni
N Boti
S G Sotshongaye
Y M Yilo
T P Mase
L Matiwane
Z Zipete
O R Tambo District Municipality

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

36. Related parties (continued)

Close family member of key management	None
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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.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

37. Prior period errors

2016 Opening balances

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Property, Plant and Equipment	687 180 647	(3 747 623)	683 433 024	A1
Investment property	19 102 483	(5 634 277)	13 468 206	A2
Payables from exchange transactions	9 761 221	(483 743)	9 277 478	A3
	-	-	-	-
Accumulated surplus	(705 732 384)	9 865 643	(695 866 741)	
	10 311 967	-	10 311 967	

The opening balances for 2016 have been restated as follows:

A1. The restatement is as result of New cadestral in Tsolo Maps and this is a derecognition of old everns that was registered at the surveyor general and included in the investment register and a recognition of new registered everns.

A2. This restatement is as a result of removal of duplicates in movable and Infrastructure registers and also correction of error on infrastructure due to a project in progress erroneously included in the infrastructure register as completed when performing physical verication.

A3. This is a SALGA levy that was processed in an incorrect period.

Current year comparatives

Statement of Financial Performance	Previously Stated	Adjustments	Restated 2016	Reference
Income				
Expenditure				
Depreciation and amortisation	97 707 746	(1 317 674)	96 390 072	4
Contracted services	5 094 291	(1 568 822)	3 525 469	5
Loss on disposal of assets	368 505	66 516	435 021	6
	103 170 542	(2 819 980)	100 350 562	

Statement of Financial Position	Previously stated	Adjustments	Restated 2016	Reference
Assets				
Receivables from non-exchange transactions	-	1 568 822	1 568 822	A5
Investment property	19 085 637	(5 634 277)	13 451 360	A7
Property, plant and equipment	637 504 367	(3 057 799)	634 446 568	A8
Liabilities				
Payables from exchange transactions	-	105 507	105 507	A9
Accumulated surplus	(193 018 771)	7 017 747	(186 001 024)	10
	463 571 233	-	463 571 233	

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

37. Prior period errors (continued)

The comparative figures for 2016 have been restated as a result of -

Depreciation and amortisation

A4. This restatement is as a result of removal of duplicates in movable and Infrastructure registers and also correction of error on infrastructure due to a project in progress erroneously included in the infrastructure register as completed when performing physical verification.

Contracted services

A5. This is an OR Tambo District Municipality Debt that for Security Services to the previous Municipal Speaker which was not raised in the prior year.

Loss on disposal of assets

A6. Bng movable assets that were inaccurately disposed prior year. Please see note 4 above.

Investment property

A7. Please refer to Note 1 above on restatement on investment property.

Property, plant and equipment

A8. This restatement is as a result of removal of duplicates in movable and Infrastructure registers and also correction of error on infrastructure due to a project in progress erroneously included in the infrastructure register as completed when performing physical verification.

Payables from exchange transactions

A9. This is a SALGA levy that was processed in an incorrect period and also the adjustment on provision to retention and surety.

Accumulated Surplus

A10. This is the cumulative effect of the errors in the opening balance as well as the corrections during 2015.

38. Fruitless and wasteful expenditure

Opening balance	915 619	858 741
Fruitless and wasteful expenditure - current year	345 656	56 878
	1 261 275	915 619

The opening balance of Fruitless and wasteful expenditure has been investigated as per section 32 of MFMA and tabled to the council. The municipality is awaiting for a response from treasury for condonment.

Fruitless and wasteful expenditure in the current year is as result of interest and penalties on overdue suppliers' accounts.

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

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

39. Irregular expenditure

Opening balance	182 597 247	130 723 444
Add: Irregular Expenditure - current year	26 326 326	51 873 803
	208 923 573	182 597 247

The opening balance of irregular expenditure has been investigated as per section 32 of MFMA and tabled to the council. The municipality is awaiting for a response from treasury for condonment.

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

40. Expenditure under investigation

Opening balance	82 097 043	82 097 043
Incurred - current year	-	-
	82 097 043	82 097 043

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

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

41. Deviation from supply chain management regulations

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

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

Goods and services to the value of R34,950 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 who considered them and subsequently approved the deviation from the normal supply chain management regulations.

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

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

The councillors do not have any arrear debts in 2017. This disclosure is for comparative purposes only.

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

43. Operating lease

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

Operating leases - as lessee (expense)

- Due within one year	1 258 269	238 116
- Due within 2 to 5 years	2 201 970	-
	3 460 239	238 116

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

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

44. Commitments

Already contracted for but not provided for

Already contracted for but not provided for

• Infrastructure Assets	39 059 590	36 813 220
• Other Assets	178 518	-
• Community Assets	89 915	-
	39 328 023	36 813 220

Capital expenditure

• Goods and services	3 253 036	1 477 862
• Operating leases	3 622 583	238 116
	6 875 619	1 715 978

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

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	(483 743)
Current year subscription / fee	871 650	1 281 303
Amount paid - current year	(871 650)	(797 560)
	-	-

Audit fees

Current year subscription / fee	3 525 598	2 886 281
Amount paid - current year	(3 525 598)	(2 886 281)
	-	-

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

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

PAYE and UIF

Opening balance	-	3 081 709
Current year subscription / fee	13 581 019	15 278 028
Amount paid - current year	(13 581 019)	(19 019 384)
	-	(659 647)

Pension and Medical Aid Contributions

Current year subscription / fee	10 395 594	16 454 122
Amount paid - current year	(10 395 594)	(16 454 122)
	-	-

VAT

VAT receivable	6 568 072	2 855 705
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All VAT returns have been submitted by the due date throughout the year.

46. Other revenue

Actuarial gain / (Loss)	558 000	(352 000)
Other income	1 434 779	1 430 121
	1 992 779	1 078 121

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

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

Explanation of material variances

STATEMENT OF FINANCIAL PERFORMANCE

REVENUE

47.1

The variance is trivial and immaterial

47.2 – Agency Fees

This was an over estimation on agency in the budget

47.3 – Actuarial Gain

This was not budgeted due to the fact this is non cash item that is estimated by actuaries at year end.

47.4 – Other Income

This is due to internal reserves.

EXPENDITURE

47.5 – Depreciation and amortisation

This is due to prior year restatement on assets and this was not budgeted for in the approved budget.

47.6 – Finance Costs

This was not budgeted due to the fact this is non cash item that is estimated by actuaries at year end

47.7 – Debt Impairment

Budget was over stated.

47.8– General Expenses

This due to under budgeting and also a provision for legal expenses raised at year end.

47.9 - Loss on disposal

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

STATEMENT OF FINANCIAL POSITION

CURRENT ASSETS

47.10 - Receivables from non-exchange transactions

Under estimation on impairment of rates in the budget.

47.11 – VAT Receivable

Budget understated

47.1- Cash & Cash Equivalents

The variance is trivial and immaterial

NON CURRENT ASSETS

47.12– Investment Properties

This is due to prior year restatement on assets and this was not budgeted for in the approved budget.

47.13 - Property, plant and equipment

This is due to prior year restatement on assets and this was not budgeted for in the approved budget.

47.14 – Intangible assets

Budget overstated

47.15 – Heritage assets

Budget understated

Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2017

Notes to the Financial Statements

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

47.16 – Payables from exchange transactions

Over estimation in the budget.

47.17 - Employee Benefit Obligation

Under estimation on budget

47.18 - Unspent Conditional Grants

Under estimation on budget

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

The municipality has the deficit of R- 45 685 462, There are two major factors that had an impact on this. The was a huge debt impairment to the amount of R19 348 018 nd also the restatement of property plant and equipment which led to an increase in the depreciation amount to the value of R114 404 536 (2015: R96 390 072) and also the municipality is constantly receiving the refunds from SARS. These two form part of the current assets and have a bearing on the surplus for the previous year. In order for the municipality to be able to utilise the funds the operating expenditure to be funded by these current assets has to be budgeted for in the statement of financial performance. It should also be noted that even though the operating expenditure is provided for in the statement of financial performance, corresponding revenue cannot be included in the statement of financial performance as per GRAP statements. This is simply because the revenue was already recognised so its part of the surplus for that year the current assets relates to. Therefore the operating expenditure incurred funded by those current assets is mostly the cause of the deficit, not that there was no cash available.

48. Events after the reporting date

No significant events have occurred after the reporting date