



O LOCAL MUNICIPALITY

MHLONTLO LOCAL MUNICIPALITY FOREWORD

The functions of the Council centres around promoting the interests of its ratepayers, employees residents and customers by striving to render the highest quality of services, advancing the interests of its employees by providing safe, secure and satisfying working environments.

A further important challenge facing Council is to improve the financial position of Mhlontlo Local Municipality. In particular an improvement in the collection of long outstanding debtor's balances is critical if the Council it to achieve its goals. The unfortunate part is that the unemployment rate in the area has worsened causing many residents not to be able to pay for services. Our ability to render services will be threatened in our financial status and we hope that workable solutions will be found soon challenge.

As we strive towards impacting rural livelihood for the better in local Municipality of Mhlontlo, amongst the compliance issues is the submission of the Annual Financial Statements (AFS) as prescribed in section 126 of the Local Government: Municipal Finance Management Act 56 of 2003

I therefore submit 2009/10 Annual Financial Statements which are compliant to GRAP standards although fully complied with these standards we have use Directive four. The Council remains committed to meeting the challenges it faces and hopefully in future years, I will be able to report positively on the progress we have made in this regard.

In conclusion I would like to express my appreciation to my fellow Council members, the Municipal Manager, The Chief Financial Officer and all other staff for their support, cooperation and hard work during the year under review.

MAYOR AND CHAIRMAN OF EXECUTIVE COMMITTEE

ANNUAL FINANCIAL STATEMENTS

for

MHLONTLO LOCAL MUNICIPALITY

for the year ended 30 June: 2011

Province: Eastern Cape

AFS rounding: R'000 (i.e. to the nearest R100,000)

Contact Information:	
Name of Municipal Manager:	TP Mase (Acting)
Name of Chief Financial Officer:	N Ponco
Contact telephone number:	047-553 7000
Contact e-mail address:	nponco@mhlontlomun.gov.za
Name of contact at provincial treasury:	
Contact telephone number:	
Contact e-mail address:	
Name of relevant Auditor:	Auditor General
Contact telephone number:	
Contact e-mail address:	
Name of contact at National Treasury:	Keitumetse Malebye
Contact telephone number:	keitumetse.malebye@treasury.gov.z
Contact e-mail address:	012 315 5989

MHLONTLO LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2011

2010 **2011**

General information

Members of the Executive Council

Mayor	Hon. M. Socikwa	Hon. T Sabisa
Speaker	Z. Malangeni	N. Mtwazi
Head - Economic Development	N. Dyule	Z. Songca
Head - Technical and Infrastructure	M. Jara	X. Mpatane
Head - Corporate Services	CM Kondlo	CM Khondlo
Head - Budget and Treasurer	N. Ntobongwana	M.G Jara
Head - Community services	N. Mthwazi	N. Dywili
Head - SPU	N. Ndude	N. Konza
Head - Planning & Development	S. Songca	R.M Giyose
Head - Disaster		E. Pula
Head - Sport		N. Magodia

Chief Whip	T. Sabisa	X.D Nkompela
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Ordinary councillors

M. Ncoothwana	M. Ncoothwana
R.N Matomana	S.N Matanzima
L.N Madikida	L.L. Mkhondweni
S. N Salaza	N.Qhezu
M. Katiya	X.B Ngoma
L. Hlabiso	L. Hlabiso
V. Mnyanda	V. Mnyanda
N.T Ngquke	N. Gcaba
T.S Msongelwa	Y.H Guqa
M. Macingwane	Z. Ngoni
RN Mvamveki	B. Mqovula
ZN Nondaka	NE Sigwili
RN Giyose	Z.W. Nondaka
L. Manentsa	A.M Dawedi
NP Dolo	X. Mswelanto
J.M Jikijela	S. Sogxakanxa
M.S Mathe	M. Soyekwa
E. Jubase	L.H. Ludidi
NV Masangwana	J.M. Jikijela
E. Pula	M. Mfamela
P,P Bevu	M.S. Mathe
NP Dlabathi	N. Nondlela
NM Somhlahlo	N.N Gomo
N. Konza	N.C Ncalo
N. Mkontwana	N.V. Masangwana
X. Mpatane	S.T Msongelwa
V. Nduku	M.C Socikwa
A. Gqada	S. N Songca
Y. Yaso	S.N Salaze
L. Mlamla	N. R Matomane
CM Mneni	N. P Mkontwana
M. Henama	N. T. Ngquke
	M. Macingwane
	M. Mabono
	S.S Mbangata
	N.R Ngewu
	Y. Yaso
	Z. Nondaka
	N. Mdwayi

Municipal Manager

M Sondaba	T Mase (Acting)
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Chief Financial Officer

N Ponco

Grading of Local Authority

Low Capacity Municipality

Auditors

Auditor-General

Bankers

First National Bank

Registered Office: 96 Church Street,
QUMBU
5180

Physical address: 96 Church Street
QUMBU
5180

Postal address: PO Box 31
QUMBU
5180

Telephone number: 047 553 7000

Fax number: 047 553 0452

E-mail address: info@mhlontlomun.gov.za

MHLONTLO LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2011

General information (continued)

Registered Office:

96 Church Street, QUMBU, 5180

Physical address:

96 Church Street
QUMBU
5180

Postal address:

PO Box 31
QUMBU
5180

Telephone number:

047 553 7000

Fax number:

047 553 0452

E-mail address:

info@mhlontlomun.gov.za



LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for the year ended

30 June 2011

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 47, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

TP Mase
Acting Municipal Manager

**MHLONTLO LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2011**

INDEX	<u>Page</u>
General Information	1 - 3
Mayors Foreword	4
Approval of the Annual Financial Statements	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Accounting Policies	10 - 21
Notes to the Annual Financial Statements	22 - 40

ABBREVIATIONS

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

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

**MHLONTLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION
For the year ended 30 June 2011**

	Note	2011 R	2010 R
NET ASSETS AND LIABILITIES			
Net assets		69 223 787	25 246 535
Accumulated surplus / (deficit)		69 223 787	25 246 535
Non-current liabilities			
Non-current provisions			-
Current liabilities		19 831 631	21 325 994
Provisions	9	-	-
Trade and other payables from exchange transactions	10	10 852 189	11 985 138
Unspent conditional grants and receipts	8	8 979 442	7 260 420
Bank overdraft	7	-	2 080 436
Current portion of long-term liabilities		-	-
Total Reserves and Liabilities		89 055 419	46 572 529
ASSETS			
Non-current assets		57 012 854	26 497 334
Property, plant and equipment	2	57 012 854	26 497 334
Current assets		32 042 568	20 075 196
Trade and other receivables from exchange transactions	3	1 234 306	771 001
Other receivables from non-exchange transactions	4	53 996	545 686
Consumer debtors	6	8 427 660	4 157 771
VAT receivable	5	15 673 001	11 808 584
Cash and cash equivalents	7	6 653 605	2 792 154
Total Assets		89 055 419	46 572 529

**MHLONTLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2011**

	Note	2011 R	2010 R
REVENUE			
Property rates	12	3 129 137	1 921 434
Service charges - refuse	13	550 719	574 437
Fines		91 850	52 361
Licences and permits		1 678 156	1 771 302
Government grants and subsidies	14	129 591 475	128 814 161
Commissions received		48 664	47 471
Rental of facilities		47 664	31 382
Recoveries		6 831 440	-
Other income	15	1 222 911	1 276 269
Interest received - investment	20	897 178	1 185 064
Total Revenue		144 089 194	135 673 881
EXPENDITURE			
Personnel	17	32 122 888	23 746 384
Remuneration of Councillors	18	9 601 760	8 768 942
Finance costs	21	29 916	34 538
Bad debt impairment	19	-	5 640 451
Repairs and maintenance		1 879 859	2 814 272
Contracted services	23	1 127 657	939 093
Grants and subsidies paid	24	37 748 124	52 201 070
General expenses	16	19 682 337	15 246 015
Total expenditure		102 192 542	109 390 765
SURPLUS / (DEFICIT) FOR THE YEAR		41 896 652	26 283 116

MHLONTLO LOCAL MUNICIPALITY
STATEMENT OF CHANGES TO NET ASSETS
For the year ended 30 June 2011

	Capitalisation Replacement Reserve	Housing Development Fund	(Accumulated Deficit) / Accumulated Surplus	Total
<u>2 010</u>				
Opening balance as previously reported			-3 117 178	-3 117 178
Prior year adjustments			2 080 597	2 080 597
Balance at 01 July 2009 as restated		-	-1 036 581	-1 036 581
Changes in net assets		-		
Surplus / (Deficit) for the year	-	-	26 283 116	26 283 116
	-	-	25 246 535	25 246 535
<u>2011</u>				
Opening balance as previously reported			26 290 562	26 290 562
Prior year adjustments			1 036 573	1 036 573
Balance at 01 July 2010 as restated	-	-	27 327 135	27 327 135
Changes in net assets	-	-		-
Surplus / (Deficit) for the year	-	-	41 896 652	41 896 652
Balance at 30 June 2011	-	-	69 223 787	69 223 787

**MHLONTLO LOCAL MUNICIPALITY
CASH FLOW STATEMENT
For the year ended 30 June 2011**

	Note	2011 R	2010 R
CASH FLOW FROM OPERATING ACTIVITIES			
<i>Receipts</i>			
Grants		130 272 023	128 814 161
Interest received		897 178	1 185 064
Other receipts		1 863 390	10 521 662
		<u>133 032 591</u>	<u>140 520 887</u>
<i>Payments</i>			
Employee costs		(41 724 648)	(32 515 326)
Suppliers		(54 820 625)	(80 761 972)
Finance costs		(29 916)	(34 538)
NET CASH FROM OPERATING ACTIVITIES	25	<u>36 457 402</u>	<u>27 209 051</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	2	(30 515 520)	(26 497 333)
National proceeds (current year) on disposal of property, plant and equipment		-	
Increase in investment properties		-	
Correction of error (vacant sites)		-	
Proceeds on disposal of vacant sites		-	
(Increase)/decrease in non-current receivables		-	
Increase in non-current investments		-	
Unspent grants and receipts		-	
(Increase)/Decrease in call investment deposits		-	
Decrease in long-term receivables		-	
NET CASH FROM INVESTING ACTIVITIES		<u>(30 515 520)</u>	<u>(26 497 333)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in non-current provisions		-	-
Loans raised / (repaid)		-	-
Increase in consumer deposits		-	-
(Decrease)/increase in short-term loans		-	-
NET CASH FROM FINANCING ACTIVITIES		<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>5 941 882</u>	<u>711 719</u>
Cash and cash equivalents at the beginning of the year		711 719	-
Cash and cash equivalents at the end of the year	7	<u>6 653 601</u>	<u>711 719</u>

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
For the year ended 30 June 2011

1. Presentation of Annual Financial Statements

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

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

The annual financial statements have been prepared in accordance with the modified Standards of Generally Recognised Accounting Practices (GRAP), Generally Accepted Municipal Accounting Practices (GAMAP) and the Generally Accepted Accounting Practice (GAAP) with the early adoption of some of the requirements exempted in Gazette 30013 of 27 June 2007. The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated financial statements and accounting for controlled entities
GRAP 7	Accounting for Investments in Associates
GRAP 8	Financial Reporting of Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial reporting in hyperinflationary economies
GRAP 11	Construction contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset
GRAP 100	Non-current assets held for sale and discontinued operations
GRAP 101	Agriculture
GRAP 102	Intangible assets

Where there is no equivalent standard of GRAP or IPSAS an International Financial Reporting Standard (IFRS) that is effective forms part of the GRAP reporting framework. This applies to the accounting standards detailed below:

IAS 12 (AC102)	Income Taxes
IAS 14 (AC 115)	Segment reporting
IAS19 (AC 116)	Employee benefits
IAS20 (AC 134)	Accounting for government grants and disclosure of government assistance
IAS24 (AC 126)	Related party disclosures
IAS26 (AC 136)	Accounting and rereporting by retirement benefit plans
IAS29 (AC 124)	Financial reporting in hyperinflationary economies
IAS 30 (AC 120)	Disclosures in the financial statements of banks and similar financial institutions
IAS 32 (AC 125)	Financial instruments: Disclosure and presentation
IAS 33 (AC 104)	Earnings per share
IAS 34 (AC 127)	Interim Financial Reporting
IAS 36 (AC 128)	Impairment of assets
IAS 39 (AC 133)	Financial instruments: Recognition and measurement
IFRS 02 (AC 139)	Share-based payment
IFRS 03 (AC 140)	Business combinations
IFRS 04 (AC 141)	Insurance contracts
IFRS 06 (AC 143)	Exploration for and evaluation of mineral resources
IFRS 07 (AC 144)	Financial Instruments: Disclosures

Exemptions from these standards as they relate to the interim arrangements on the implementation of GRAP are detailed under each relevant accounting policy note below as they apply to the municipality.

1.1 PROPERTY, PLANT AND EQUIPMENT

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

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

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

Property, plant and equipment is initially measured at cost.

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 at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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

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

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

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

MHLONTLO LOCAL MUNICIPALITY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS For the year ended 30 June 2011

1.1 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

1.1 PROPERTY, PLANT AND EQUIPMENT (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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

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 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.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. 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.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

1.1 PROPERTY, PLANT AND EQUIPMENT (continued)

Transitional provision

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 2. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 2.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

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

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

12. LEASES

12.1 Municipality as lessee

Operating leases are those leases that do not meet the definition of the Finance lease (substantially all risks and rewards associated with ownership of an asset are transferred to the municipality.)

Operating leases are accrued and accounted for on a straight-line basis over the term of the relevant lease, this on the basis of the cash flows in the lease agreement. The principle of smoothing the current and future lease payments has not been applied. Notwithstanding the exemptions on the recognition of operating lease agreements, the municipality has early adopted IAS 17 (AC 105).

1.2 FINANCIAL INSTRUMENTS

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

1.2 FINANCIAL INSTRUMENTS (continued)

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise. Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

1.3 INVENTORIES

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, 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.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts. . The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and inventories has accordingly been recognised at provisional amounts.

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

1.3 INVENTORIES (continued)

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

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

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

1.4 IMPAIRMENT OF CASH-GENERATING ASSETS

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

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

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

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

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

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

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

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

Useful life is either:

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

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

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

1.5 SHARE CAPITAL / CONTRIBUTED CAPITAL

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

1.6 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

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

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

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

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

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

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

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

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.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

MHLONTLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

1.6 PROVISIONS AND CONTINGENCIES (continued)

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

1.7 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.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 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; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

14.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summons. Revenue from spot fines and summons is recognised when payment is received, together with an estimate of spot fines and summons that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Rendering of services

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, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends 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 their equivalents 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.

1.8 TURNOVER

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.9 INVESTMENT INCOME

Investment income is recognised on a time-proportion basis using the effective interest method.

1.10 BORROWING COSTS

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

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

1.11 COMPARATIVE FIGURES

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

1.12 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.

1.13 FRUITLESS AND WASTEFUL EXPENDITURE

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

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

1.14 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 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.

1.14 IRREGULAR EXPENDITURE (continued)

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.

1.15 USE OF ESTIMATES

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from

those estimates.

1.16 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand.

MHLONTLO LOCAL MUNICIPALITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 For the year ended 30 June 2011

2 PROPERTY, PLANT AND EQUIPMENT
 At 30 June 2011

Reconciliation of Carrying Value

Description	Land and buildings	Infrastructure	Community assets	Garage (Tsolo)	Office Equipment	IT Equipment	Motor vehicles & Trucks	Computer Software	Bins and containers	Total
	R	R	R	R	R	R	R	R	R	R
Carrying values at 1 July 2010	327 777	25 345 066	106 660	377 828	297 193	42 809	-	-	-	26 497 334
Cost	327 777	25 345 066	106 660	377 828	297 193	42 809	-	-	-	26 497 334
Correction of error	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:										
- Cost	-	-	-	-	-	-	-	-	-	-
- Correction of error	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	-	-	-	-	-	-	-	-	-	-
Capital under construction	-	-	-	-	-	-	-	-	-	-
Depreciation:										
- based on cost	-	-	-	-	-	-	-	-	-	-
- based on revaluation	-	-	-	-	-	-	-	-	-	-
Carrying value of disposals:										
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Impairment loss										
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-
Carrying values at 30 June 2011	327 777	52 856 395	437 295	377 828	403 388	55 507	2 136 500	375 337	42 826	57 012 854
Cost	327 777	25 345 066	106 660	377 828	297 193	42 809	-	-	-	26 497 334
Additions	-	27 511 329	330 635	-	106 195	12 698	2 136 500	375 337	42 826	30 515 520
Work-in-progress	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Application of ASB Directive 4 transitional provision	-	-	-	-	-	-	-	-	-	-
- transferred to Accumulated Surplus	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:										
- Cost	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-

MHLONTLO LOCAL MUNICIPALITY
 NOTES TO THE FINANCIAL STATEMENTS
 For the year ended 30 June 2011

2 PROPERTY, PLANT AND EQUIPMENT
 At 30 June 2010

Reconciliation of Carrying Value

Description	Land and buildings	Infrastructure	Community assets	Garage (Tsolo)	Office Equipment	IT Equipment	Motor vehicles & Trucks	Motor vehicles & Trucks	Other assets	Total
	R	R	R	R	R	R	R	R	R	R
Carrying values at 1 July 2009	-	-	-	-	-	-	-	-	-	-
Cost	-	-	-	-	-	-	-	-	-	-
Correction of error	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-	-	-	-	-
- Cost	-	-	-	-	-	-	-	-	-	-
- Correction of error	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-
Acquisitions	327 777	25 345 066	106 660	377 828	297 193	42 809	-	-	-	26 497 333
Capital under construction	-	-	-	-	-	-	-	-	-	-
Increases/decreases in revaluation	-	-	-	-	-	-	-	-	-	-
Depreciation:	-	-	-	-	-	-	-	-	-	-
- based on cost	-	-	-	-	-	-	-	-	-	-
- based on revaluation	-	-	-	-	-	-	-	-	-	-
Carrying value of disposals:	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-
Carrying values at 30 June 2010	327 777	25 345 066	106 660	377 828	297 193	42 809	-	-	-	26 497 334
Cost	327 777	25 345 066	106 660	377 828	297 193	42 809	-	-	-	26 497 334
Revaluation	-	-	-	-	-	-	-	-	-	-
Application of ASB Directive 4 transitional provision	-	-	-	-	-	-	-	-	-	-
- transferred to Accumulated Surplus	-	-	-	-	-	-	-	-	-	-
Accumulated depreciation:	-	-	-	-	-	-	-	-	-	-
- Cost	-	-	-	-	-	-	-	-	-	-
- Revaluation	-	-	-	-	-	-	-	-	-	-

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

2011
R
2010
R

2. PROPERTY, PLANT AND EQUIPMENT (Continued)

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note, certain property, plant and equipment with the carrying value of R 49 246 290 (2010: R 26 497 333) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are disclosed in the note.

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.

3 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Accrued interest income	1 234 306	771 001
	<u>1 234 306</u>	<u>771 001</u>

These balances relate to interest revenue from grant call accounts that were not transferred to the main account as at 30 June 2011. MFMA Circular 48 issued on 2 March 2009, states that all interest generated on conditional grants must be utilised by the municipalities unconditionally. It is with this view, that we have accrued for the interest portions to be transferred to the main account, as the grants investment accounts are overstated at year end.

4 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Payroll debtors	-	545 686
Debtors suspense	53 996	-
	<u>53 996</u>	<u>545 686</u>

The payroll debtors that were unknown in the prior year, were written off by the council.

The debtors suspense relates to system generated entries that have been cleared in the 2011-12 financial year.

5 VAT RECEIVABLE

VAT	15 673 001	11 808 584
	<u>15 673 001</u>	<u>11 808 584</u>

The vat receivable balance includes the monies due from SARS for the vat periods 2010 and 2011. The portion of the amounts receivable have been received from SARS in the 2011-12 financial year.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

		2011 R	2010 R
6	CONSUMER DEBTORS		
		Gross balance	Provision for bad debts
			Net balances
	As at 30 June 2011		
	Service debtors		
	Rates	6 849 956	(1 910 355)
	Refuse	2 518 326	(844 502)
	Old balances	5 491 930	(3 677 695)
		14 860 211	-6 432 552
		8 427 660	
	As at 30 June 2010		
	Service debtors		
	Rates	9 125 515	-7 773 470
	Refuse	1 934 179	-659 196
	Old balances	5 522 015	(3 991 272)
		16 581 709	(12 423 938)
			4 157 771
	Rates: Ageing		
	Current		113 266
	0 - 30 days		178 707
	31 - 60 days		114 539
	61 - 90 days		108 042
	91 -120 days		6 335 402
	121 - 150days		-
	+ 150 days		-
	Total		9 125 515
	Refuse: Ageing		
	Current		41 258
	0 - 30 days		40 862
	31 - 60 days		40 771
	61 - 90 days		42 514
	91 -120 days		2 352 921
	121 - 150 days		-
	+ 150 days		-
	Total		1 934 179

MHLONTLO LOCAL MUNICIPALITY
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 For the year ended 30 June 2011

	2011 R	2010 R
6 CONSUMER DEBTORS (Cont.)		
<u>Old balances : Ageing</u>		
Current	200	-
0 - 30 days	-	-
31 - 60 days	-	-
61 - 90 days	-	5 522 015
91 -120 days	5 491 730	-
121 - 150 days	-	-
+ 150 days	-	-
Total	<u>5 491 930</u>	<u>5 522 015</u>
<i>Provision for bad debts impairment</i>		
Current (0 - 30 days)	<u>-6 432 552</u>	<u>-12 423 938</u>
<i>Reconciliation of bad debts impairment provision</i>		
Balance at beginning of the year	-12 423 938	-6 783 487
Contributions to provision	-	-5 640 451
Debt impairment written off against provision	5 991 386	0
	<u>(6 432 552)</u>	<u>(12 423 938)</u>

The reduction in bad debts impairment was due to the correction of government properties and reversal of billings on municipal properties during the period under review.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
7 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of:		
Cash on hand	103	-
Bank balances	159 407	118 173
Short-term deposits	6 494 095	2 673 981
Bank overdraft	-	(2 080 436)
	6 653 605	711 718
Current assets	6 653 605	2 792 154
Current liabilities	-	(2 080 436)
	6 653 605	711 718

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
FNB - Main account - 62023382526	158 754	-	2 227 684	159 357	-2 080 436	-1 929 320
FNB - Equitable 1 Day call deposit - 62027945809	61 986	43 830	11 482	61 986	43 830	11 481
FNB Equitable share 32 day call deposit - 74027945606	-	94 812	87 694	-	94 812	87 694
FNB - MIG call deposit - 62170844221	137 950	410 189	12 298	-5 209	308 180	12 298
FNB - Gqunu Lots call deposit - 62020395390	813 468	1 110 240	219 173	764 285	1 076 777	219 173
FNB - IDP call deposit - 62075570137	4 786	60 216	58 582	-1 835	58 582	58 582
FNB - INEP call deposit - 74231136926	3 297 980	-	-	2 423 334	-575 676	-
FNB - LED call deposit - 62075571713	2 729 867	760 560	13 206	2 652 787	736 552	13 206
FNB - MSIG call deposit - 62080641416	20 000	-	-	10 000	-	-
FNB - FMG call deposit - 62280641244	211 166	-	-	194 115	-	-
FNB - Revolving call deposit - 61399068117	37 972	37 572	25 127	36 995	36 995	25 127
FNB - Bulk housing combined call deposit -62280645345	402 081	-	-	357 637	-	-
FNB - Qumbu Pilot Housing call deposit - 61399074049	-	787 421	9 375	-	756 912	9 376
FNB - 30 Pilot Housing call deposit - 62075563968	-	36 839	36 181	-	36 839	36 181
FNB - MSP call deposit - 62075568067	-	33 839	33 234	-	33 839	33 234
FNB - Retrenchment call deposit - 61399064438	-	2 151	2 130	-	2 151	2 128
FNB - Qumbu Housing call deposit - 62006660511	-	64 186	63 096	-	64 186	63 103
Total	7 876 010	3 441 855	2 799 262	6 653 452	593 543	-1 357 737

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

2011
R

8 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

MIG	-
Gqunu lots	1 111 943
Qumbu Pilot Housing	62 525
LED	4 070 639
Qumbu Bulk Housing	-
IDP	-
30 Tsolo pilot housing	-
MSP	-
Retrenchment	-
FMG	448 949
INEP electrification	3 285 385

8 979 442

Movement during the year

Balance at the beginning of the year	7 260 420
Additions during the year	52 821 992
Income recognition during the year	-51 102 971

8 979 441

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

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

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

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

9 PROVISIONS

The provisions for leave and bonus have been disclosed under Accruals in the Trade and other payables from exchange transactions as per latest provision of IFRS. See Note 10

2010
R

4 022 092
1 419 173
889 376
736 551
63 103
58 582
36 181
33 234
2 128
-
-

7 260 420

2 604 983
4 655 437
-

7 260 420

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
10		
TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade payables	4 978 597	169 603
Payments received in advanced - contract in process	589 211	12 000
Creditors accruals	3 282 160	6 509 451
Payrollcreditors	2 001 566	447 078
Sundry suppliers	655	4 847 006
	<u>10 852 189</u>	<u>11 985 138</u>
The sundry suppliers balance in 2009 relates to a debtors suspense clearing amount that was allocated in the 2011 financial year.		
11		
REVENUE		
Property rates	3 129 137	1 921 434
Service charges	550 719	574 437
Fines	91 850	52 361
Licences & permits	1 678 156	1 771 302
Government grants & subsidies	129 591 475	128 814 161
	<u>135 041 336</u>	<u>133 133 695</u>
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	550 719	574 437
Licences and permits	1 678 156	1 771 302
	<u>2 228 875</u>	<u>2 345 739</u>
The amount included in revenue arising from non-exchanges of goods or services are as follows:		
<i>Taxation revenue</i>		
Property rates	3 129 137	1 921 434
Fines	91 850	52 361
<i>Transfer revenue</i>		
Grants	129 591 475	128 814 161
	<u>132 812 461</u>	<u>130 787 956</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
12 PROPERTY RATES		
<u>Rates received</u>		
Rates	3 129 137	1 921 434
Total assessment rates	<u>3 129 137</u>	<u>1 921 434</u>

Valuations on land and buildings are performed every four years.
The last valuation came into effect on 01 July 2007.
Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

	Rate	Rate		
	2011	2010		
Residential properties	0.006	0.006	1 257 374	911 847
Government properties	0.024	0.0096	1 490 016	505 284
Business properties	0.012	0.012	1 040 357	1 055 117
Less: Income forgone			-658 610	-550 814
			<u>3 129 137</u>	<u>1 921 434</u>

13 SERVICE CHARGES		
Refuse removal	<u>550 719</u>	<u>574 437</u>

The decrease in revenue was due to a reversal of incorrect billing on vacant properties.



MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
14 GOVERNMENT GRANTS AND SUBSIDIES		
Equitable share	67 972 102	55 686 782
Elections	1 800 000	-
Caba Cultural Village	458 486	-
ELECTRIFICATION PROGRAM	34 714 615	50 327 000
HR MANAGEMENT & DEVELOPMENT	-	300 000
Malakhiwe Bakery Project	450 000	-
MSIG Grant	750 000	-
OR Tambo contribution	-	120 000
Planning & survey grant	-	329 931
Training - LGSETA	129 493	122 000
Sinakho Coffin Manufacturers Project	359 930	-
EPWP - Casual workers	291 000	-
IDP	504 010	-
Municipal Finance Managent Grant	751 051	1 000 000
MIG Grant	19 584 092	20 723 908
Housing project	926 135	204 540
Grant Prov - LED	867 327	-
Municipal Support Programme - Various	33 234	-
Total government grants and subsidies	<u>129 591 475</u>	<u>128 814 161</u>

14.1 Equitable share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of R 6 737 (2010: R 6 814), which is funded from the grant.

14.2 MIG Grant

Balance unspent at the beginning of the year	4 022 092	-
Current year receipts	15 562 000	24 450 117
Conditions met - transferred to revenue	(19 584 092)	(20 428 025)
	<u>(0)</u>	<u>4 022 092</u>

This grant is only for expenses towards the construction of roads. All conditions have been met and the over expenditure has been financed through Equitable share which will be paid back in 2011/2012

14.3 Gqunu Lots

Balance unspent at the beginning of the year	1 419 173	1 419 173
Current year receipts	-	-
Conditions met - transferred to revenue	(307 230)	-
Conditions still to be met - remain liabilities (see note 8).	<u>1 111 943</u>	<u>1 419 173</u>

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

14.4 Qumbu Pilot Housing

Balance unspent at the beginning of the year	889 376	889 376
Current year receipts	99 284	-
Conditions met - transferred to revenue	(926 135)	-
Conditions still to be met - remain liabilities (see note 8).	<u>62 525</u>	<u>889 376</u>

The project started in December and some other projects could not continue due to price increases within the suppliers. Qumbu and disaster houses are spent in this grant.

14.5 LED

Balance unspent at the beginning of the year	736 551	736 551
Current year receipts	4 413 000	-
Conditions met - transferred to revenue	(1 078 912)	-
Conditions still to be met - remain liabilities (see note 8).	<u>4 070 639</u>	<u>736 551</u>

Some projects were started at the end of the financial year since the funding was received late and in trenches. On the Tsitsa project it has got phases that are followed and only one phase has started although funds were

already received the other phases will commence after the finalisation of this phase.

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
14 GOVERNMENT GRANTS AND SUBSIDIES (continued)		
14.6 Qumbu combined housing		
Balance unspent at the beginning of the year	63 103	63 103
Current year receipts	-	-
Account closed transferred to Bulk combined housing	(63 103)	-
	<u>-</u>	<u>63 103</u>
14.7 IDP		
Balance unspent at the beginning of the year	58 582	58 582
Current year receipts	445 428	-
Conditions met - transferred to revenue	(504 010)	-
	<u>(0)</u>	<u>58 582</u>
All the conditions have been met and all funds have been spent.		
14.8 30 Pilot housing		
Balance unspent at the beginning of the year	36 181	36 181
Current year receipts	-	-
Account closed transferred to Bulk combined housing	(36 181)	-
	<u>-</u>	<u>36 181</u>
14.9 MSP		
Balance unspent at the beginning of the year	33 234	33 234
Current year receipts	-	-
Conditions met - transferred to revenue	(33 234)	-
	<u>(0)</u>	<u>33 234</u>
14,10 Retrenchment		
Balance unspent at the beginning of the year	2 128	2 128
Current year receipts	-	-
Conditions met - transferred to revenue	(2 128)	-
	<u>-</u>	<u>2 128</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
14 GOVERNMENT GRANTS AND SUBSIDIES (continued)		
14.11 FMG		
Balance unspent at the beginning of the year	-	-
Current year receipts	1 200 000	-
Conditions met - transferred to revenue	(751 051)	-
Conditions still to be met - remain liabilities (see note 8).	<u><u>448 949</u></u>	<u><u>-</u></u>

The funds unspent in this grant already committed for AFS system as well as financial system which were paid in July. The financial system is paid at the beginning of the financial year.

14.12 MSIG		
Balance unspent at the beginning of the year	-	-
Current year receipts	750 000	-
Conditions met - transferred to revenue	(750 000)	-
	<u><u>-</u></u>	<u><u>-</u></u>

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

14.13 INEP Electrification		
Balance unspent at the beginning of the year	-	-
Current year receipts	38 000 000	-
Conditions met - transferred to revenue	(34 714 615)	-
Conditions still to be met - remain liabilities (see note 8).	<u><u>3 285 385</u></u>	<u><u>-</u></u>

There were delays on the project due to availability of transformers as well late connections by Eskom.

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MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
15 OTHER INCOME		
ADVERTISING BILL BOARDS	37 124	43 687
DONATIONS RECEIVED	42 826	-
PLAN FEES	21 220	5 603
OVERDEPOSIT/BANKING	37 579	-
SUNDRY INCOME	110 749	92 797
INDEMNITY DEPOSIT FEE	477	-
CLEARANCE CERTIFICATE	649	-
INSURANCE CLAIMS RECEIVED	40 434	167 343
CEMETERY FEE - BURIALS	3 456	3 294
LICENCE FEES - MOTOR VEH RCERT	100 859	-
POUND FEES	337 448	409 485
POUND SALES	460 640	421 930
TENDER FEES	28 750	130 320
SALE OF WOOD	700	1 810
	<u><u>1 222 911</u></u>	<u><u>1 276 269</u></u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

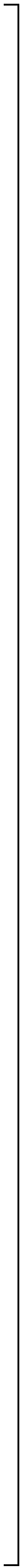
	2011 R	2010 R
16 GENERAL EXPENSES		
ACCOUNTING FEES	371 438	750 331
ADVERTISING FEES	148 722	181 424
AUDITORS REMUNERATION	2 332 064	1 559 195
BANK CHARGES	139 790	147 143
CLEANING	217 226	139 791
CONSULTING AND PROFESSIONAL FEES	3 973 201	3 154 915
CONSUMABLES	399 443	179 146
ENTERTAINMENT	247 711	64 217
ANIMAL FEED	39 775	12 689
HIRE	80 430	22 203
INSURANCE - GENERAL	511 961	463 837
COMMUNITY DEVELOPMENT AND TRAINING	314 279	129 753
CONFERENCES AND SEMINARS	43 052	603
LEASE RENTALS ON OPERATING LEASE	-	54 235
LEVIES	9 326	-
MAGAZINES, BOOKS AND PERIODICALS	-	1 404
MEDICAL EXPENSES	76 638	19 071
MOTOR VEHICLE EXPENSES	98 084	5 915
FUEL & OIL	739 597	921 669
POSTAGE AND COURIER	2 369	572
PRINTING AND STATIONERY	504 426	714 693
PROMOTIONS	40 402	-
PROTECTIVE CLOTHING	109 339	162 464
CRIME PREVENTION	65 007	75 198
DISASTER COSTS	642 873	98 450
SUBSCRIPTIONS AND MEMBERSHIP FEES	20 882	27 057
TELEPHONE AND FAX	2 119 037	1 366 371
TRAINING	1 005 299	766 546
ASSETS EXPENSED	-3 728 125	1 157 329
ELECTRICITY PURCHASE	833 453	466 844
SPECIAL PROJECTS	6 183 698	2 538 512
SURVEY & PLANNING	14 035	-
HR MANAGEMENT & DEVELOPMENT	107 342	-
PUBLIC PARTICIPATION	873 368	-
WARD COMMITTEE STIPEND	1 065 300	-
UNDERDEPOSIT BANKING	48 896	-
POUND CLAIMS	30 720	59 529
OTHER EXPENSES	1 280	4 909
	<u>19 682 337</u>	<u>15 246 015</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
17 EMPLOYEE RELATED COSTS		
Basic	15 171 134	9 858 885
Bonus	938 471	753 362
Medical aid - company contributions	2 236 345	1 628 110
UIF	164 857	113 653
SDL	234 618	-
Other payroll levies	5 686	4 119
Leave pay provision charge	-	220 367
Post-employment benefits - Pension-Defined contribution plan	2 518 836	1 819 010
Travel, motor car, accommodation, subsistence and other allowances	2 790 370	1 830 054
Overtime payments	444 705	97 560
Provision for Bonus	150 261	343 316
Acting allowances	377 478	486 340
Housing benefits and allowances	1 440 534	1 155 973
Other allowances	777 923	503 971
Long term & leaves	80 269	303 991
Nightshift pay	160 341	113 604
Total employee related costs	<u>27 491 828</u>	<u>19 232 315</u>
Remuneration of the Municipal Manager		
Annual remuneration	700 128	664 622
Car allowance	72 000	68 053
Contribution to UIF, Medical and Pension Funds	-	28 405
Subsistence	28 800	-
Public Office Allowance	25 162	-
Backpay	-	87 460
	<u>826 090</u>	<u>848 540</u>
Remuneration of the Chief Finance Officer		
Annual remuneration	528 515	473 083
Car allowance	132 129	102 564
Contribution to UIF, Medical and Pension Funds	40 350	108 113
Housing	30 000	-
Subsistence	30 000	-
Backpay	-	10 338
	<u>760 994</u>	<u>694 098</u>
Remuneration of the Strategic Manager		
Annual remuneration	528 515	565 494
Car allowance	132 129	84 000
Contribution to UIF, Medical and Pension Funds	40 350	34 267
Housing	30 000	-
Subsistence	30 000	-
Backpay	-	75 350
	<u>760 994</u>	<u>759 111</u>
Remuneration of the Community Services Manager		
Annual remuneration	528 515	473 083
Car allowance	132 129	102 564
Contribution to UIF, Medical and Pension Funds	40 350	108 113
Housing	30 000	-
Subsistence	30 000	-
Backpay	-	75 351
	<u>760 994</u>	<u>759 111</u>
Remuneration of the Manager - Corporate Services		
Annual remuneration	528 515	473 083
Car allowance	132 129	102 564
Contribution to UIF, Medical and Pension Funds	40 350	108 113
Housing	30 000	-
Subsistence	30 000	-
Backpay	-	75 351
	<u>760 994</u>	<u>759 111</u>
Remuneration of the Engineering Manager		
Annual remuneration	528 515	522 467
Car allowance	132 129	127 027
Contribution to UIF, Medical and Pension Funds	40 350	34 267
Housing	30 000	-
Subsistence	30 000	-
Backpay	-	10 337
	<u>760 994</u>	<u>694 098</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
18 REMUNERATION OF COUNCILLORS		
Mayor	995 292	744 321
Councillors	8 606 468	8 024 621
Total councillors' remuneration	<u>9 601 760</u>	<u>8 768 942</u>
19 DEBT IMPAIRMENT		
Debt impairment	-	5 640 451
	<u>-</u>	<u>5 640 451</u>
<p>The reduction in debt impairment is due to a debtors reconciliation exercise that led to a reduction in overall debtors balances, municipal properties billings were reversed, government accounts were corrected. This led to a recovery of previous years overprovisions.</p>		
20 INVESTMENT REVENUE		
<i>Interest revenue</i>		
Bank	871 286	1 185 064
Interest charged on trade and other receivables	25 892	-
	<u>897 178</u>	<u>1 185 064</u>
<p>The amount included in investment revenue arising from non-exchange transactions to R 897 178.</p>		
21 FINANCE COSTS		
Trade and other payables	29 916	34 538
	<u>29 916</u>	<u>34 538</u>
22 AUDITORS' REMUNERATION		
Fees	2 332 064	1 559 195
	<u>2 332 064</u>	<u>1 559 195</u>
23 CONTRACTED SERVICES		
Security services	1 127 657	939 093
	<u>1 127 657</u>	<u>939 093</u>



MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011	2010
	R	R
24 GRANTS AND SUBSIDIES PAID		
<i>Other subsidies</i>		
Electrification program	30 448 914	44 163 765
EPWP Program	381 901	-
MSIG - Valuation	34 997	-
MSIG - Training ward committees	306 991	538 636
Indigent subsidy	5 105 402	6 418 627
Management Support Program	-	306 830
FMG Interns	404 771	207 118
Lots - farms	269 500	-
Housing projects	265 550	-
IDP expense	530 099	566 094
	<u>37 748 124</u>	<u>52 201 070</u>
25 CASH GENERATED BY OPERATIONS		
Surplus for the year	41 896 652	26 283 116
Adjustment for:		
Debt impairment	-	5 640 451
Movements in provisions	-	2 215 932
Correction of prior year accumulated surplus	2 080 597	(1 036 573)
Operating surplus / (deficit) before working capital changes:	<u>43 977 249</u>	<u>33 102 926</u>
Decrease / (increase) in Trade and other receivables from exchange transactions	(463 305)	(771 001)
Decrease / (increase) in other receivables from non-exchange transactions	491 690	(545 686)
Decrease / (increase) in Consumer debtors	(4 269 889)	(9 798 222)
Increase / (Decrease) in Trade and other payables from exchange transactions	(1 132 949)	9 769 199
Increase in VAT refundable	(3 864 417)	(11 808 584)
Increase / (Decrease) in Unspent conditional grants and receipts	1 719 022	7 260 420
Cash generated by / (utilised in) operations	<u>36 457 402</u>	<u>27 209 052</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

	2011 R	2010 R
26 COMMITMENTS		
Authorised capital expenditure		
Already contracted for but not provided for		
> Access road construction	6 393 871	-
> Vehicles	2 476 474	-
> General contracts	6 802 195	-
	<u><u>15 672 540</u></u>	<u><u>-</u></u>

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)

Minimum lease payments due		
- within one year	685 774	164 160
- in second to fifth year inclusive	1 371 548	328 320
	<u><u>2 057 322</u></u>	<u><u>492 480</u></u>

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

27 CONTINGENCIES

The municipality has a contingent liability relating to UIF contributions that were not deducted from the members of the previous council. This balance is payable to SARS and the penalties and interest are not immediately available at reporting date.

The municipality has two pending cases against it, which are as follows:

- > S Mtshawu - claim for R 350 000 against the municipality
- > Councillors unlawfully removed - claim R 500 000 against the municipality.

The municipality has bank guarantees of R 135, 000 to department of minerals and energy for environmental restoration of borrow pits.

28 PRIOR PERIOD ERRORS

Statement of Financial Performance

Bad debts impairment	-	230 793
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Cash flow statement

Cash flow from operating activities		
Accumulated surplus	<u>2 080 597</u>	<u>1 036 573</u>

MHLONTLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
For the year ended 30 June 2011

2011 **2010**
R R

29 COMPARATIVE FIGURES

Certain comparative figures have been reclassified.

This was mainly due to the debtors cleansing exercise that was performed during the year. Government and municipal properties were reconciled and adjustments were effected.

The effects of the reclassification are as follows:

Statement of financial position

Consumer debtors	-	933 533
Provision for bad debts impairment	-	3 342 140

Statement of Financial Performance

Bad debts impairment	-	230 793
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30 GOING CONCERN

We draw attention to the fact that at 30 June 2011, the municipality had accumulated deficit of R 61 816 300 and that the municipality's total liabilities exceed its assets by R 61 816 300.

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

31 EVENTS AFTER THE REPORTING DATE

Disclose for each material category of non-adjusting events after the reporting date:

- > nature of the event.
- > estimation of its financial effect or a statement that such an estimation cannot be made.

32 UNAUTHORISED EXPENDITURE

Unauthorised expenditure	4 753 034	7 222 389
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This was due to variation orders, which was due to change in scope of work, as well as underbudgeting of provisions, as well as legal expenses. There have been no criminal or disciplinary steps taken as a consequence of above expenditure.

33 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure	83 154	34 538
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These costs were due to interest on late payment of suppliers, as well as sheriff costs. There have been no criminal or disciplinary steps taken as a consequence of above expenditure.

34 IRREGULAR EXPENDITURE

Opening balance	809 017	-
Add: Irregular expenditure - current year	7 036 421	809 017
Less: Amounts condoned	-7 050 280	-
	795 158	809 017

35 RELATED PARTY DISCLOSURE

The Municipality has about 52 councillors, 9 of the councillors are part of the Executive Council in which one councillor serves as a Mayor and the other 8 are Departmental Portfolio Heads. Their total remuneration amounted to R 9 601 760 (2010: R 8 768 972), as disclosed in Note 18 above.

There are 6 Section 57 managers who have been delegated by the council to run the day-to-day operations of the municipality. Their total remuneration amounted to R 4 631 060 (2010: R 4 514 069), as disclosed in Note 17 above.

MHLONTLO LOCAL MUNICIPALITY
APPENDIX C
ACTUAL VERSUS BUDGET (Income & Expenditure)

Revenue	2011 Budget	2011 Actual	2011 Variance	2011 Variance %	Explanation of significant variations.
Property Rates	4 966 900.00	3 129 136.67	-1 837 763.33	-37%	The payments did not follow the trends that were anticipated because the Municipality has not yet fully implemented the Credit Control and Debt Collection Policy
Service Charges	760 983.00	550 719.19	-210 263.81	-28%	The payments did not follow the trends that were anticipated because the Municipality has not yet fully implemented the Credit Control and Debt Collection Policy
Rental of Facilities	20 000.00	47 664.00	27 664.00	138%	Utilisation of the municipal hall has increased in the current year because of renovations that were effected
Interest received on Investment	1 500 000.00	897 177.95	-602 822.05	-40%	This depends on the grants received in the current year as they were received late and also utilized immediately on receipt
Fines	100 000.00	91 850.00	-8 150.00	-8%	This was affected by the visibility of traffic officers in the road as they are minimal now.
Licences and permits	1 204 775.88	1 678 156.00	473 380.12	39%	Response of Hawkers on payments for licenses as well as special licenses. There was an influx in number of learners and drivers licence applicants as previously anticipated.
Government grants and subsidies	131 484 000.00	129 591 474.60	-1 892 525.40	-1%	Mig financial year which starts in April vs the local government financial year, some funds were received in 2009/10 financial year.
Other Income	11 535 446.28	8 103 015.57	-3 432 430.71	-30%	Budgeted for VAT refunds which do not meet the recognition criteria of revenue in terms of AC111.
TOTAL REVENUE	151 572 105.16	144 089 193.98	-7 482 911.18	-5%	
Expenditure					
Mayor	1 594 737.65	1 572 525.55	-22 212.10	-1%	
Council General	13 752 966.62	14 148 579.04	395 612.42	3%	Under budgeting for leave provisions
Municipal Manager	4 092 765.36	4 166 319.46	73 554.10	2%	Legal expenses were under budgeted for in the current year.
Corporate Services	8 994 001.04	10 038 896.81	1 044 895.77	12%	Under budgeting for leave provisions
Finance	22 151 135.38	19 988 771.63	-2 162 363.75	-10%	
Infrastructure & basic	73 264 113.29	40 945 348.10	-32 318 765.19	-44%	Capitalisation of access roads.
Refuse Removal	6 872 430.54	-2 887 551.05	-9 759 981.59	-142%	Capitalisation of refuse truck.
Pound & Commonage	1 708 325.99	1 304 965.95	-403 360.04	-24%	
Community service	7 426 133.37	6 804 554.00	-621 579.37	-8%	
Cemetery	35 000.00	6 000.00	-29 000.00	-83%	
Property Services	8 725 558.63	1 758 579.04	-6 966 979.59	-80%	
LED	2 954 937.29	4 345 553.00	1 390 615.71	47%	Extra funding from DEDEA for special projects.

TOTALS	151 572 105	102 192 542	-49 379 563.63	-33%
NET SUPLUS /DEFICITY FOR THE YEAR.	0.00	41 896 652.45	41 896 652.45	

MHLONTLO LOCAL MUNICIPALITY

APPENDIX A
ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 June 2011

	Cost / Revaluation				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions / Revaluation	Under Construction	Transfer / Disposal	Closing Balance	Opening Balance	Additions	Disposals	
Land and Buildings									
Land	0	-	-	-	0	-	-	-	0
Land and buildings	327 777	-	-	-	327 777	-	-	-	327 777
	327 777	-	-	-	327 777	-	-	-	327 777
Infrastructure									
Street Lights	-	-	-	-	0	-	-	-	0
Infrastructure Assets	1	-	-	-	1	-	-	-	1
Access Roads	25 345 066	27 511 329	-	-	52 856 395	-	-	-	52 856 395
	25 345 067	27 511 329	-	-	52 856 396	-	-	-	52 856 396
Community assets	1	-	-	-	1	-	-	-	1
Investment Property	3	-	-	-	3	-	-	-	3
	4	-	-	-	4	-	-	-	4
Other assets									
Community Assets	106 660	330 635	-	-	437 295	-	-	-	437 295
Garage(Tsolo)	377 828	-	-	-	377 828	-	-	-	377 828
Office Equipment	297 193	106 195	-	-	403 388	-	-	-	403 388
IT Equipments	42 809	12 698	-	-	55 507	-	-	-	55 507
Bins & Containers	-	42 826	-	-	42 826	-	-	-	42 826
Furniture and fittings	-	-	-	-	0	-	-	-	0
Plant and equipment	-	-	-	-	0	-	-	-	0
Motor vehicles	0	2 136 500	-	-	2 136 500	-	-	-	2 136 500
Tools and equipment	-	-	-	-	0	-	-	-	0
Office and traffic equipment	-	-	-	-	0	-	-	-	0
Computer Software	0	375 337	-	-	375 337	-	-	-	375 337
	824 490	3 004 191	-	0	3 828 681	-	-	-	3 828 681
	26 497 338	30 515 520	0	0	57 012 858	-	-	-	57 012 858