



Mhlontlo Local Municipality
Annual Financial Statements
for the year ended 30 June 2020

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Legal form of entity

Municipality

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

Mayor

Cllr N. Dywili

Speaker

Cllr M.G. Jara

Chief Whip

Cllr. N. M. Mvanyashe

Executive Councillors

Cllr. N.P.B. Ludidi

Cllr. G. Mazitshana

Cllr. M. Lingela

Cllr. N. Zikolo

Cllr. L.D. Yalezo

Cllr. V. Mnyanda

Cllr. S.S. Mbangata

Cllr. E. Pula

COUNCILLORS:

Cllr. RN Matomane

Cllr. G. O. Lamani

Cllr MJ Jikijela

Cllr. N.T. Ngquke

Cllr. N. Nodlela

Cllr. N.R. Ngewu

Cllr. S.N.T. Matanzima

Cllr. A.L. Tono

Cllr. D. Guqa

Cllr. S. Bontsa

Cllr. G. Matyeni

Cllr. M Funo

Cllr. K. Mpula

Cllr. Z. Nondaka

Cllr S. Qangani

Cllr. M. Ncaphayi

Cllr. M.D. Manzi

Cllr. T. Mgaweni

Cllr. S.S. Sopangisa

Cllr. Z. Botya

Cllr. Z. Ntshiba

Cllr. N. Gcaba

Cllr. B. Honono

Cllr. P. Mdinwa

Cllr. L.P. Dlova

Cllr. S. Ntukuntezi

Cllr. P.N. Mangaliso

Cllr. Z. Makinana

Cllr. Z. Renene

Cllr. B.B. Mthitshane

Cllr. M. Soyekwa

Mhlontlo Local Municipality

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General Information

Traditional leaders	Cllr. M.N. Mpheleli Cllr. M.S. Ngewu Cllr. M. Mfamela Cllr. M.S. Mathe Cllr. P.N. Mdemka Cllr. Q. Mandleni Cllr. S. Maham Cllr. N.V. Ncapayi Cllr. E.N. Sikwatsha Nkosi Mongezi Majeke Nkosi Nkosikhona Matshanda Nkosi Momelezi Matyobeni Nkosi Sizwe Siyoyo Nkosi Ndumiso Lutuka Nkosi Victor Loyiso Majeke Nkosi Siviwe Mcelu Nkosazana Linda Ngudle Nkosazana Khanyisa Ngoni Nomalixole Singatha
Grading of local authority	3
Chief Finance Officer (CFO)	N. Boti
Accounting Officer	T.P. Mase
Registered office	96 LG Mabindla Avenue Qumbu 5180
Business address	96 LG Mabindla Avenue Qumbu 5180
Bankers	First National Bank - QUMBU
Auditors	Auditor General South Africa
Relevant legislation	Municipal Finance Management Act (Act no,56 of 2003) Division of Revenue Act Municipal Systems Act (Act no 32 of 2000) Income Tax Act Value Added Tax Act Municipal Structures Act (Act no, 117 of 1998) 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

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General Information

Postal Address

PO Box 31

Qumbu

Contact Details

(047) 553 7000

Mhlontlo Local Municipality

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

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
GRAP	Generally Recognised Accounting Practice
SARS	South African Revenue Services
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
CIGFARO	Chartered Institute of Government, Finance, Audit and Risk Officers
VAT	Value Added Tax
PAYE	Pay As You Earn

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Responsibilities and Approval

I am required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and I am responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is my responsibility as the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although I am primarily responsible for the financial affairs of the municipality, I am supported by the municipality's internal auditors.

The annual financial statements set out on pages 6 to 71, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 October 2020 and were signed on its behalf by:

T.P. Mase
Municipal Manager

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

1. Review of activities

Main business and operations

The municipality is engaged in Mhlontlo area in South Africa and is a category B municipality (local municipality) as defined by the Municipal Structures Act (Act 117 of 1998). The municipality's operations are governed by Municipal Finance Management Act (Act 56 of 2003), Municipal Structures Act (Act 117 of 1998), Municipal Systems Act (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 set of annual 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 2020, the municipality had an accumulated surplus of R 572 610 621 and that the municipality's total assets exceed its liabilities by R 572 610 621.

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.

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

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	2	123 747	625 578
Receivables from non-exchange transactions	3	15 059 685	13 324 805
VAT receivable	4	17 245 663	8 750 786
Cash and cash equivalents	5	99 742 731	96 275 402
		132 171 826	118 976 571
Non-Current Assets			
Investment property	6	17 158 600	17 158 600
Property, plant and equipment	7	503 329 441	486 280 215
Intangible assets	8	26 650	67 860
Heritage assets	9	210 810	210 810
		520 725 501	503 717 485
Total Assets		652 897 327	622 694 056
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	21 363 761	27 720 726
Employee benefit obligation	11	11 128 767	11 133 861
Unspent conditional grants and receipts	12	668 931	3 205 203
Provisions	13	38 256 000	19 000 000
		71 417 459	61 059 790
Non-Current Liabilities			
Employee benefit obligation	11	6 146 196	6 148 766
Provisions	13	2 723 051	3 555 060
		8 869 247	9 703 826
Total Liabilities		80 286 706	70 763 616
Net Assets		572 610 621	551 930 440
Accumulated surplus	45	572 610 621	551 930 440

* See Note 32

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	14	1 742 952	1 435 662
Rental of facilities and equipment		49 029	34 360
Agency services		870 571	1 267 972
Licences and permits		1 269 196	1 507 794
Other income	15	106 774	154 000
Interest earned - outstanding debtors and investments	16	7 168 370	8 051 796
Fair value adjustments		-	6 378 471
Actuarial gains		931 522	-
Movement in (interest)/change in estimate on Landfill Site	13	832 009	-
Total revenue from exchange transactions		12 970 423	18 830 055
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	17	16 375 370	16 717 825
Transfer revenue			
Government grants & subsidies	18	257 506 629	222 209 294
Public contributions and donations		10 000	-
Fines, Penalties and Forfeits		932 170	1 583 721
Commission received		265 633	247 534
Total revenue from non-exchange transactions		275 089 802	240 758 374
Total revenue	43	288 060 225	259 588 429
Expenditure			
Employee related costs	19	(86 136 970)	(76 586 202)
Remuneration of councillors	20	(19 768 746)	(18 709 400)
Depreciation and amortisation	21	(52 228 617)	(93 607 817)
Impairments loss		(4 288 253)	(3 015 781)
Finance costs	22	(529 588)	(413 000)
Lease rentals on operating lease		(1 123 927)	(1 177 955)
Debt Impairment	23	(19 382 460)	(7 631 984)
Contracted services	24	(7 062 768)	(5 076 469)
Loss on disposal of assets		(1 688 493)	(1 128 959)
Actuarial losses		-	(898 766)
Inventories losses/write-downs		-	(6 185 527)
Interest on landfill site	13	-	(435 126)
General Expenses	25	(75 170 225)	(102 734 920)
Total expenditure		(267 380 047)	(317 601 906)
Surplus (deficit) for the year		20 680 178	(58 013 477)

* See Note 32

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2018	609 943 917	609 943 917
Changes in net assets		
Surplus for the year	(58 013 477)	(58 013 477)
Total changes	(58 013 477)	(58 013 477)
Opening balance as previously reported	564 163 702	564 163 702
Adjustments		
Prior year adjustments	(12 233 258)	(12 233 258)
Restated* Balance at 01 July 2019 as restated*	551 930 443	551 930 443
Changes in net assets		
Surplus for the year	20 680 178	20 680 178
Total changes	20 680 178	20 680 178
Balance at 30 June 2020	572 610 621	572 610 621
Note(s)		

* See Note 32

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Property rates taxes		(2 786 115)	1 499 663
Service charges		288 928	293 536
Grants		254 970 357	217 686 381
Interest income		7 168 370	8 051 796
Other receipts		3 493 373	4 795 381
Donations received		10 000	-
		<u>263 144 913</u>	<u>232 326 757</u>
Payments			
Employee costs		(105 913 379)	(95 581 939)
Suppliers		(74 528 903)	(65 992 778)
Finance costs		(529 588)	(413 000)
		<u>(180 971 870)</u>	<u>(161 987 717)</u>
Net cash flows from operating activities	27	<u>82 173 043</u>	<u>70 339 040</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(78 736 995)	(55 253 746)
Proceeds from sale of property, plant and equipment	7	31 281	1 200 800
Net cash flows from investing activities		<u>(78 705 714)</u>	<u>(54 052 946)</u>
Net increase/(decrease) in cash and cash equivalents		3 467 329	16 286 094
Cash and cash equivalents at the beginning of the year		96 275 402	79 989 308
Cash and cash equivalents at the end of the year	5	<u>99 742 731</u>	<u>96 275 402</u>

* See Note 32

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1 449 002	293 950	1 742 952	1 742 952	-	44.1
Rental of facilities and equipment	38 036	30 884	68 920	49 029	(19 891)	44.2
Agency services	1 296 205	-	1 296 205	870 571	(425 634)	44.3
Licences and permits	1 597 238	(6 012)	1 591 226	1 269 196	(322 030)	44.4
Other income	113 606	37 119	150 725	106 774	(43 951)	44.5
Interest received - investment and debtors	6 702 368	1 740 715	8 443 083	7 168 370	(1 274 713)	44.6
Total revenue from exchange transactions	11 196 455	2 096 656	13 293 111	11 206 892	(2 086 219)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	16 600 948	20 429	16 621 377	16 375 370	(246 007)	44.7
Transfer revenue						
Government grants & subsidies	255 646 001	(1 951 285)	253 694 716	257 506 629	3 811 913	44.8
Public contributions and donations	-	-	-	10 000	10 000	44.9
Fines, Penalties and Forfeits	1 259 988	(127 927)	1 132 061	932 170	(199 891)	44.10
Other transfer revenue	-	238 159	238 159	265 633	27 474	44.11
Total revenue from non-exchange transactions	273 506 937	(1 820 624)	271 686 313	275 089 802	3 403 489	
Total revenue	284 703 392	276 032	284 979 424	286 296 694	1 317 270	
Expenditure						
Personnel	(116 262 081)	18 892 070	(97 370 011)	(86 136 970)	11 233 041	44.12
Remuneration of councillors	(20 233 483)	(2 067 059)	(22 300 542)	(19 768 746)	2 531 796	44.13
Depreciation and amortisation	(115 763 218)	21 295 950	(94 467 268)	(52 228 617)	42 238 651	44.14
Impairment loss/ Reversal of impairments	-	-	-	(4 288 253)	(4 288 253)	44.15
Finance costs	-	-	-	(529 588)	(529 588)	44.16
Lease rentals on operating lease	(989 694)	(494 196)	(1 483 890)	(1 123 927)	359 963	44.17
Debt Impairment	-	(14 258 932)	(14 258 932)	(19 382 460)	(5 123 528)	44.18
Contracted Services	(5 400 000)	-	(5 400 000)	(7 062 768)	(1 662 768)	44.19
General Expenses	(82 292 537)	2 093 987	(80 198 550)	(75 170 225)	5 028 325	44.20
Total expenditure	(340 941 013)	25 461 820	(315 479 193)	(265 691 554)	49 787 639	
Operating surplus	(56 237 621)	25 737 852	(30 499 769)	20 605 140	51 104 909	
Loss on disposal of assets	-	-	-	(1 688 493)	(1 688 493)	44.21
Actuarial gains/losses	-	-	-	931 522	931 522	44.22
Movement in (interest)/change in estimate on Landfill Site	-	-	-	832 009	832 009	44.23
	-	-	-	75 038	75 038	
Surplus before taxation	(56 237 621)	25 737 852	(30 499 769)	20 680 178	51 179 947	

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(56 237 621)	25 737 852	(30 499 769)	20 680 178	51 179 947	
Reconciliation						

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	3 157 685	(2 183 516)	974 169	123 747	(850 422)	44.24
Receivables from non-exchange transactions	29 544 806	(15 581 574)	13 963 232	15 059 685	1 096 453	44.25
VAT receivable	-	8 750 787	8 750 787	17 245 663	8 494 876	44.26
Cash and cash equivalents	120 339 985	(12 444 794)	107 895 191	99 742 731	(8 152 460)	44.27
	153 042 476	(21 459 097)	131 583 379	132 171 826	588 447	
Non-Current Assets						
Investment property	-	-	-	17 158 600	17 158 600	44.28
Property, plant and equipment	58 984 489	40 769 575	99 754 064	503 329 441	403 575 377	44.29
Intangible assets	-	-	-	26 650	26 650	44.30
Heritage assets	-	-	-	210 810	210 810	44.31
	58 984 489	40 769 575	99 754 064	520 725 501	420 971 437	
Total Assets	212 026 965	19 310 478	231 337 443	652 897 327	421 559 884	
Liabilities						
Current Liabilities						
Payables from exchange transactions	6 289 130	20 673 965	26 963 095	21 363 758	(5 599 337)	44.32
Employee benefit obligation	15 950 957	1 885 430	17 836 387	11 128 767	(6 707 620)	44.33
Unspent conditional grants and receipts	2 101 098	6 247 353	8 348 451	668 931	(7 679 520)	44.34
Provisions	12 800 000	6 200 000	19 000 000	38 256 000	19 256 000	44.35
	37 141 185	35 006 748	72 147 933	71 417 456	(730 477)	
Non-Current Liabilities						
Employee benefit obligation	3 880 058	2 579 534	6 459 592	6 146 196	(313 396)	44.36
Provisions	5 119 934	(5 119 934)	-	2 723 051	2 723 051	44.37
	8 999 992	(2 540 400)	6 459 592	8 869 247	2 409 655	
Total Liabilities	46 141 177	32 466 348	78 607 525	80 286 703	1 679 178	
Net Assets	165 885 788	(13 155 870)	152 729 918	572 610 624	419 880 706	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	165 885 788	(13 155 870)	152 729 918	572 610 624	419 880 706	

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	21 015 215	(10 602 250)	10 412 965	-	(10 412 965)	44.37
Sale of goods and services	1 377 378	(790 500)	586 878	1 466 267	879 389	44.38
Grants	233 735 874	(7 565 528)	226 170 346	217 686 378	(8 483 968)	44.39
Other receipts	28 787 677	(24 751 305)	4 036 372	4 795 381	759 009	44.41
	284 916 144	(43 709 583)	241 206 561	223 948 026	(17 258 535)	
Payments						
Employee costs	-	-	-	(95 254 999)	(95 254 999)	44.42
Suppliers	(191 218 235)	(10 338 505)	(201 556 740)	(65 992 782)	135 563 958	44.43
Other payments	(23 957 246)	23 797 246	(160 000)	-	160 000	44.45
	(215 175 481)	13 458 741	(201 716 740)	(161 247 781)	40 468 959	
Net cash flows from operating activities	69 740 663	(30 250 842)	39 489 821	62 700 245	23 210 424	
Net increase/(decrease) in cash and cash equivalents	69 740 663	(30 250 842)	39 489 821	62 700 245	23 210 424	44.48
Cash and cash equivalents at the end of the year	69 740 663	(30 250 842)	39 489 821	62 700 245	23 210 424	
Reconciliation						

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual 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 annual 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.

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

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy.

1.1 Presentation currency

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

1.2 Going concern assumption

These annual 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 annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual 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 annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Impairment testing

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 13 - Provisions.

Effective interest rate

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

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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 is calculated after grouping all the financial assets of similar nature and risk ratings and by calculating historic payments ratios for the groupings and by assuming that the future payment ratios would be similar to the historic 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 that 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 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.

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 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.

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1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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	Depreciation method	Average useful life
Infrastructure:		
Roads, paving, kerbs, slabs, gabions, signs, guard rails	Straight line	10-50 years
Stormwater, culverts, grid inlets	Straight line	10-50 years
Electrical, LV Networks, High Mast Lights, Street Lights	Straight line	30-40 years
Bridges	Straight line	50-80 years
Community:		
Recreational facilities etc	Straight line	10-50 years
Cemetries, perimeter protection, security	Straight line	20-25 years
Halls, steel cover, protections	Straight line	10-50 years
Libraries, footpaths, diesel tanks etc	Straight line	10-50 years
Centres, slabs, containers, plastics	Straight line	15-50 years
Other property, plant and equipment:		
Vehicles, trucks, buses, tractors, trailers	Straight line	4-15 years
Machinery and equipment	Straight line	5-7 years
Furniture and office equipment	Straight line	4-8 years
Computer equipment, printers, machines	Straight line	4-8 years
Landfill sites	Straight line	10-50 years
Land	Straight line	Not depreciated
Buildings:		
Municipal offices, training centres, motor gates	Straight line	10-50 years

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Accounting Policies

1.5 Property, plant and equipment (continued)

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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 municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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. 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.

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Accounting Policies

1.6 Intangible assets (continued)

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	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 assesses 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.

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.

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Accounting Policies

1.8 Financial instruments (continued)

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.

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

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

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

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

Mhlontlo Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

Classification

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

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

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 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.

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

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

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.

Mhlontlo Local Municipality

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Accounting Policies

1.10 Leases (continued)

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

Operating leases - lessor

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

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

Income for leases is disclosed under revenue in 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.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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.

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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.

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

The municipality assesses 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 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.

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Accounting Policies

1.15 Employee benefits

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

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

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

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

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

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

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

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 measures 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.

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Accounting Policies

1.15 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.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

Mhlontlo Local Municipality

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Accounting Policies

1.16 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating surplus.

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 an 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

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 arrangement.

After their initial recognition contingent liabilities recognised in entity 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 30.

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.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

At the end of each financial period the Municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed in the commitments note to the financial statements.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 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.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.18 Revenue from exchange transactions (continued)

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.

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. .

Interest, royalties and dividends

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

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

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

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

1.19 Revenue from non-exchange transactions

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

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

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

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

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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, a 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.

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.

1.20 Borrowing costs

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

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.20 Borrowing costs (continued)

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

1.21 Comparative figures

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

1.22 Unauthorised expenditure

Unauthorised expenditure is defined in section 1 of the MFMA as expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred in bullet points 2, 3 and 4 of the definition of "allocation" otherwise than in accordance with any conditions of allocation; or
- a grant by the municipality otherwise than in accordance with this Act.

All expenditure relating to unauthorised expenditure must be disclosed in the note to the annual financial statements.

1.23 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is defined in section 1 of the MFMA as expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure must be disclosed in the note to the annual financial statements.

1.24 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:

- (a) expenditure incurred by the municipality in contravention of, or not in accordance with, a requirement of this Act, and has not been condoned in terms section 170;
- (b) expenditure incurred by the municipality in contravention of, or not in accordance with a requirement of the municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by the municipality in contravention of, or that is not in accordance with a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) expenditure incurred by the municipality in contravention of, or not in accordance with, a requirement of supply chain management policy of the municipality, or any municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

Irregular expenditure is recognised when a payment is made.

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

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

1.25 Budget information

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

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.26 Related parties

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

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.27 Other accounting policy 1

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
2. Receivables from exchange transactions		
Refuse Removal	10 347 074	8 893 050
Allowance for Impairment	(10 223 327)	(8 267 472)
	123 747	625 578
Current assets	123 747	625 578
Refuse		
Current (0-30 days)	143 840	233 770
31 - 60 days	141 513	223 034
61 - 90 days	138 728	110 712
91 - 120 days	135 682	109 584
121 - 365 days	9 787 311	8 215 950
Impairment	(10 223 327)	(8 267 472)
	123 747	625 578
Summary of debtors by customer classification		
Consumers		
Current (0 - 30 days)	89 133	146 565
31 - 60 days	89 014	143 049
61- 90 days	88 622	71 192
91 - 120 days	87 657	71 126
121 - 365 days	7 339 959	6 219 204
	7 694 385	6 651 136
Industrial/ commercial		
Current (0 - 30 days)	39 729	61 886
31 - 60 days	37 850	59 035
61- 90 days	35 769	28 795
91 - 120 days	34 389	28 688
121 - 365 days	1 811 423	1 480 027
	1 959 160	1 658 431
National and provincial government		
Current (0 - 30 days)	14 978	25 319
31 - 60 days	14 649	20 949
61- 90 days	14 337	10 725
91 - 120 days	13 635	9 769
121 - 365 days	635 930	516 719
	693 529	583 481
Total		
Current (0 - 30 days)	143 840	233 770
31 - 60 days	141 513	223 034
61- 90 days	138 728	110 712
91 - 120 days	135 682	109 584
121 - 365 days	9 787 311	8 215 950
Subtotal	10 347 074	8 893 050
Less: Allowance for impairment	(10 223 327)	(8 267 472)
	123 747	625 578

Mhlontlo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
2. Receivables from exchange transactions (continued)		
Reconciliation of allowance for impairment		
Opening balance	8 267 472	7 639 009
Amounts written off as uncollectible	1 955 855	628 463
	10 223 327	8 267 472
3. Receivables from non-exchange transactions		
Allowance for impairment - Rates	(40 345 705)	(22 856 425)
Sundry debtors	15 637 216	7 528 467
Consumer debtors - Rates	40 976 327	29 923 591
Allowance for impairment - Sundry debtors	(1 208 153)	(1 270 828)
	15 059 685	13 324 805

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

3. Receivables from non-exchange transactions (continued)

Rates

Current (0 - 30 days)	550 044	953 091
31 - 60 days	978 649	927 662
61 - 90 days	453 860	458 193
91 -120 days	444 576	457 260
121 - 365 days	38 549 197	27 105 429
Impairment	(40 345 705)	(22 856 425)
	630 621	7 045 210

Summary of debtors by customer classification

Consumers

Current (0 - 30 days)	387 103	566 498
31 - 60 days	521 348	551 634
61 -90 days	296 852	272 113
91 -120 days	294 174	271 183
121 - 365 days	13 221 944	11 344 311
	14 721 421	13 005 739

Industrial / commercial

Current (0 - 30 days)	149 101	375 635
31 - 60 days	152 314	365 071
61 -90 days	143 826	180 601
91 -120 days	137 220	180 598
121 - 365 days	14 702 854	8 604 796
	15 285 315	9 706 701

National and provincial government

Current (0 - 30 days)	13 840	10 957
31 - 60 days	304 987	10 957
61 -90 days	13 182	5 479
91 -120 days	13 182	5 479
121 - 365 days	10 624 399	7 156 322
	10 969 590	7 189 194

Total

Current (0 - 30 days)	550 044	953 091
31 - 60 days	978 649	927 662
61 -90 days	453 860	458 193
91 -120 days	444 576	457 260
121 - 365 days	38 549 197	27 105 429
Subtotal	40 976 326	29 901 635
Less: Allowance for impairment	(40 345 705)	(22 856 425)
	630 621	7 045 210

Reconciliation of allowance for impairment

Opening balance	22 856 425	16 093 981
Amounts written off as uncollectible	17 489 280	6 762 444
	40 345 705	22 856 425

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

3. Receivables from non-exchange transactions (continued)

Sundry Debtors

Traffic fines	1 515 496	1 225 893
Payroll debtors	105 241	100 749
Debtor's Suspense	345 366	356 256
Employee overpayment	13 671 112	5 845 569
Less: Impairment	(1 208 152)	(1 270 828)
	14 429 063	6 257 639

4. VAT receivable

VAT	17 245 663	8 750 786
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An amount of R6 895 740.710 has been received in the current year and therefore recoverability of the amount receivable from SARS is not remote.

5. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 936	449
Bank balances	14 656 876	1 350 757
Short-term deposits	85 073 036	94 924 196
Other cash and cash equivalents	9 883	-
	99 742 731	96 275 402

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:

Mhlontlo Local Municipality

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Notes to the Annual Financial Statements

5. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
FNB -Business Call Account Revolving Fund - 61399068117	68 509 561	53 570 347	45 678 111	68 509 561	53 570 347	45 678 111
FNB - Business NSTD Call: Equitable Share-62027945809	6 148	23 418 070	8 192 987	6 148	23 418 070	8 192 987
FNB-Public Sector Cheque-Gqunu Lots -62020395390	564 759	566 199	497 763	564 759	566 199	497 763
FNB Public Cheque Account - MIG-62170844221	12 520 308	10 491 196	5 196 952	12 520 308	10 491 196	5 196 952
FNB Commercial Money Market Investment :FMG-62280641244	58 474	1 472 826	235 493	58 474	1 472 826	235 493
FNB-Commercial Call Account: LED-62075571713	1 197 977	396 183	396 111	1 197 977	396 183	396 111
FNB-7 Day Interest Plus:7 Day Notice-74366814934	10 000	10 000	10 000	10 000	10 000	10 000
FNB-Commercial Call Account: Municipal IDP-62075570137	1 461 563	1 235 684	437 197	1 461 563	1 235 684	437 197
FNB-Commercial Money Market Investment: Housing Project-62280645345	735 077	735 299	735 521	735 077	735 299	735 521
Market Investment-MSIG 62280642416	9 170	9 392	9 614	9 170	9 392	9 614
FNB-Commercial Fixed Term Maturity Notice -Electrification Program:74638477254	-	3 019 001	9 429 215	-	3 019 001	9 429 215
Public Sector Cheque Account-FNB 62023382526	14 540 556	1 244 435	8 759 964	14 656 876	1 350 758	9 169 535
Public Sector Cheque Account (COVI -19)-FNB 62850801062	9 883	-	-	9 883	-	-
Total	99 623 476	96 168 632	79 578 928	99 739 796	96 274 955	79 988 499

6. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	17 158 600	-	17 158 600	17 158 600	-	17 158 600

Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	17 158 600	17 158 600

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustment	Total
Investment property	10 780 129	6 378 471	17 158 600

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

6. Investment property (continued)

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

Valuations was performed by an independent valuer, not connected to the municipality and has 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.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

7. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	14 065 591	-	14 065 591	14 065 591	-	14 065 591
Buildings	27 512 877	(13 704 315)	13 808 562	27 424 877	(12 931 558)	14 493 319
Infrastructure	1 289 903 672	(987 710 230)	302 193 442	1 224 586 672	(939 479 267)	285 107 405
Community	57 145 198	(24 651 634)	32 493 564	57 311 450	(23 295 737)	34 015 713
Other property, plant and equipment	33 843 866	(11 250 281)	22 593 585	30 327 820	(9 642 956)	20 684 864
Work in progress	113 351 369	-	113 351 369	112 914 806	-	112 914 806
Landfill Site	8 077 625	(3 254 297)	4 823 328	8 048 125	(3 049 608)	4 998 517
Total	1 543 900 198	(1 040 570 757)	503 329 441	1 474 679 341	(988 399 126)	486 280 215

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	14 065 591	-	-	-	-	-	14 065 591
Buildings	14 493 319	88 000	-	-	(772 757)	-	13 808 562
Infrastructure	285 107 405	-	(654 458)	69 636 643	(47 889 563)	(4 006 585)	302 193 442
Community	34 015 713	313 679	(203 467)	-	(1 576 342)	(56 019)	32 493 564
Other assets	20 684 864	4 740 274	(861 855)	-	(1 744 050)	(225 648)	22 593 585
Work-in-progress	112 914 806	73 565 542	-	(73 128 979)	-	-	113 351 369
Landfill site	4 998 517	29 500	-	-	(204 689)	-	4 823 328
	486 280 215	78 736 995	(1 719 780)	(3 492 336)	(52 187 401)	(4 288 252)	503 329 441

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	14 065 591	-	-	-	-	-	14 065 591
Buildings	15 264 133	-	-	-	(770 814)	-	14 493 319
Infrastructure	341 624 483	-	(1 362 493)	35 370 351	(89 127 593)	(1 397 343)	285 107 405
Community	37 224 495	-	-	-	(1 601 094)	(1 607 688)	34 015 713
Other assets	21 464 833	1 931 204	(967 265)	-	(1 733 158)	(10 750)	20 684 864
Work-in-progress	124 879 869	53 322 542	-	(65 287 605)	-	-	112 914 806
Landfill Site	5 202 929	-	-	-	(204 412)	-	4 998 517
	559 726 333	55 253 746	(2 329 758)	(29 917 254)	(93 437 071)	(3 015 781)	486 280 215

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

7. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected:

Nyanisweni Access Road	3 744 092	-
Project start date: 5th August 2019		
Planned completion date: 31st March 2020		
Revised Completion date: 30th September 2020		
The delay was due to community issues and the weather conditions that affected the progress of the project negatively		
Sports Field - Tsolo	18 256 279	15 152 338
Start Date:1st November 2018		
Completion date:20th November 2019		
Revised completion date: 31st December 2020		
Challenges were associated with disaster that washed away some of the work that was completed, difference's between the joint venture parties and the delays in delivery of materials		
Sports Field-Mvumelwano	21 056 375	19 319 328
Start Date:23rd October 2017		
Original Completion date:23rd February 2019		
Revised Completion date: 30th November 2020		
The project had been delayed by the variances from the original scope that needed additional funding which delayed to be approved by the council.		
	43 056 746	34 471 666

Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)

Sports Field - Qumbu	13 492 583	13 348 954
[Start Date:19 November 2018		
Completion date:29 November 2019		
The contract was terminated due to the poor performance of the contractor.		

[No impairment has been recognised in relation to this project. The assessment was done and even though this project was stopped, there is still a plan to continue with the project as the project was advertised so that it can be completed.]

13 492 583	13 348 954
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Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Buildings	Total
Opening balance	37 517 730	75 237 075	160 000	112 914 805
Additions/capital expenditure	64 530 401	8 413 487	769 897	73 713 785
Transferred to completed items (Own Assets)	(69 784 887)	-	-	(69 784 887)
	32 263 244	83 650 562	929 897	116 843 703

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

7. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Buildings	Total
Opening balance	74 522 588	50 357 250	-	124 879 838
Additions/capital expenditure	28 282 718	24 879 825	160 000	53 322 543
Transferred to completed items (Own Assets)	(35 370 351)	-	-	(35 370 351)
Transferred to completed items (Electrification Projects on behalf of Eskom)	(29 917 225)	-	-	(29 917 225)
	37 517 730	75 237 075	160 000	112 914 805

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

General expenses	1 591 466	2 343 445
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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.

8. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 853 954	(1 827 304)	26 650	1 853 954	(1 786 094)	67 860

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software, other	67 860	(41 210)	26 650

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, other	238 606	(170 746)	67 860

9. Heritage assets

	2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	210 810	-	210 810

Reconciliation of heritage assets 2020

Mhlontlo Local Municipality

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Notes to the Annual Financial Statements

9. Heritage assets (continued)

	Opening balance	Total
Heritage assets	210 810	210 810

Reconciliation of heritage assets 2019

	Opening balance	Total
Heritage assets	210 810	210 810

10. Payables from exchange transactions

Trade payables	9 085 379	21 362 379
Payments received in advance	5 634 248	2 517 820
Unallocated deposits	966 146	429 670
Payroll Debtors	5 020 778	2 160 102
Creditor Accruals	657 210	1 250 755
	21 363 761	27 720 726

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

11. 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 2019 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 01 February 2018, 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 plan is a final salary pension / flat plan or a post employment medical benefit plan.

Current service cost	(2 570)	1 530 766
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The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	1 607 336	2 086 010
Present value of the defined benefit obligation-partly or wholly funded	9 521 431	9 047 851
Fair value of plan assets	6 146 196	6 148 766

	17 274 963	17 282 627
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Non-current liabilities	6 146 196	6 148 766
Current liabilities	11 128 767	11 133 861

	17 274 963	17 282 627
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Reconciliation of employee benefits - 2020

	Opening balance	Utilised during the year	Total
Bonus accrual	2 086 010	(478 674)	1 607 336
Leave pay accrual	9 047 851	473 580	9 521 431
	11 133 861	(5 094)	11 128 767

Reconciliation of employee benefits - 2019

	Opening balance	Additions	Utilised during the year	Total
Bonus accrual	1 536 185	-	549 825	2 086 010
Leave pay accrual	11 414 772	9 047 851	(11 414 772)	9 047 851
	12 950 957	9 047 851	(10 864 947)	11 133 861

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

11. Employee benefit obligation (continued)

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

Opening balance	6 148 766	4 618 000
Benefits paid	(302 339)	(291 000)
Net expense recognised in the statement of financial performance	299 769	1 821 766
	6 146 196	6 148 766

Net expense recognised in the statement of financial performance

Current service cost	701 703	510 000
Interest cost	529 588	413 000
Actuarial (gains) losses	(931 522)	898 766
	299 769	1 821 766

Other assumptions

The valuation basis 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 one percent increase or decrease in salary inflation rates is as follows:
Cost trends rates would have the following:

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

	2020 R	2019 R	2018 R	2017 R	2016 R
Defined benefit obligation	6 146 196	6 148 766	4 618 000	4 213 000	4 017 000

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

LED	15 000	15 000
EPWP	26 092	-
INEP electrification	98 797	2 661 161
EPWP - DEDEAT	529 042	529 042
	668 931	3 205 203

Movement during the year

Balance at the beginning of the year	3 205 203	7 728 120
Additions during the year	71 490 000	52 697 000
Income recognition during the year	(74 026 272)	(57 219 917)
	668 931	3 205 203

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

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

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

13. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Reversed during the year	Interest/Change in Estimate	Total
Environmental rehabilitation	3 555 060	-	-	(832 009)	2 723 051
Legal proceedings	19 000 000	38 256 000	(19 000 000)	-	38 256 000
	22 555 060	38 256 000	(19 000 000)	(832 009)	40 979 051

Reconciliation of provisions - 2019

	Opening Balance	Additions	Total
Environmental rehabilitation	3 119 934	435 126	3 555 060
Legal proceedings	8 800 000	10 200 000	19 000 000
	11 919 934	10 635 126	22 555 060
Non-current liabilities		2 723 051	3 555 060
Current liabilities		38 256 000	19 000 000
		40 979 051	22 555 060

Environmental rehabilitation provision

The rehabilitation cost provision is for the current operational site which is evaluated each year-end to reflect the best estimate at reporting date. The site under consideration is Qumbu landfill site. The valuation was performed by A.J. Bowers from EMS Advisory. Mr Bowers is a waste management specialist and professional engineer.

Key financial assumptions used were a CPI of 4.14%, a discount rate of 11.57% adjusted for risk at 0.35%. The adjustment made to the discounting rate was made due to various risks pertaining to the specific landfill site which influences the cash flows and therefore the discounting rate.

The landfill site closure provision is calculated as the net present value of future cash flows based on the expected remaining life and on the size of the area that has been used for waste removal as at 30 June 2020.

14. Service charges

Refuse Charges -Business	499 357	412 762
Refuse charges - Households	1 084 557	896 399
Refuse charges - Government	159 038	126 501
	1 742 952	1 435 662

15. Other income

Advertisig fees	75 654	73 225
Over/under deposits	712	63
Sundry income	7 667	20 957
Clearance certificates	385	752
Cemetery fees	19 462	20 609
Refunds	-	10 842
Building plan fees	2 894	27 552
	106 774	154 000

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

16. Interest earned - outstanding debtors and investments

Interest revenue

Bank	5 993 748	6 772 456
Interest charged on trade and other receivables	1 174 622	1 279 340
	7 168 370	8 051 796

17. Property rates

Rates received

Residential	3 953 628	2 935 806
Commercial	3 819 838	5 762 766
Government	8 973 491	8 154 773
Small holdings and farms	315 797	13 782
Less: Income forgone	(687 384)	(149 302)
	16 375 370	16 717 825

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2019. 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

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

18. Government grants and subsidies

Operating grants

Equitable share	182 836 000	165 930 000
Covid -19 Grant Relief	536 000	-
Library Assistance	550 000	500 000
Financial Management Grant	2 415 000	2 415 000
EPWP casual workers	1 754 908	1 821 000
OR Tambo Grant	-	74 405
Training LG SETA	94 357	367 008
	188 186 265	171 107 413

Capital grants

Municipal Infrastructure Grant	55 250 000	45 405 693
Electrification program	14 070 364	5 696 188
	69 320 364	51 101 881
	257 506 629	222 209 294

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	74 026 272	166 797 008
Unconditional grants received	183 480 357	55 412 286
	257 506 629	222 209 294

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	2 011 693
Current-year receipts	55 250 000	43 394 000
Conditions met - transferred to revenue	(55 250 000)	(45 405 693)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Provide explanations of conditions still to be met and other relevant information.

Gqunu Lots

Balance unspent at beginning of year	-	695 106
Other	-	(695 106)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Qumbu Pilot Housing

Balance unspent at beginning of year	-	62 525
Other	-	(62 525)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

18. Government grants and subsidies (continued)

LED

Balance unspent at beginning of year	15 000	15 000
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Conditions still to be met - remain liabilities (see note 12).

Covid -19 Grant Relief

Current-year receipts	536 000	-
Conditions met - transferred to revenue	(536 000)	-
	-	-

Finance Management Grant

Current-year receipts	2 415 000	2 415 000
Conditions met - transferred to revenue	(2 415 000)	(2 415 000)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Expanded Public Work Program

Current-year receipts	1 781 000	1 821 000
Conditions met - transferred to revenue	(1 754 908)	(1 821 000)
	26 092	-

Conditions still to be met - remain liabilities (see note 12).

OR Tambo Grant

Balance unspent at beginning of year	-	74 405
Conditions met - transferred to revenue	-	(74 405)
	-	-

Conditions still to be met - remain liabilities (see note 12).

Integrated Electification Program

Balance unspent at beginning of year	2 661 161	4 340 349
Current-year receipts	11 508 000	4 017 000
Conditions met - transferred to revenue	(14 070 364)	(5 696 188)
	98 797	2 661 161

Conditions still to be met - remain liabilities (see note 12).

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

18. Government grants and subsidies (continued)

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

18. Government grants and subsidies (continued)

Expanded Public Works (DEDEAT)

Balance unspent at beginning of year	529 042	529 042
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Conditions still to be met - remain liabilities (see note 12).

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

19. Employee related costs

Basic	47 548 585	43 910 354
Bonus	2 941 234	3 762 731
Medical aid - company contributions	5 472 391	4 961 239
UIF	393 430	388 080
SDL	911 923	787 956
Other payroll levies	19 759	16 824
Leave pay provision charge	1 616 381	(1 514 403)
Backpay	4 514 215	2 754 259
Defined contribution plans	6 459 743	6 460 743
Travel, motor car, accommodation, subsistence and other allowances	9 444 927	9 141 362
Overtime payments	981 719	977 704
Long-service awards	448 587	285 679
Acting allowances	50 556	43 738
Housing benefits and allowances	3 005 524	2 932 310
Allowance- standby	1 317 992	844 175
Temporal employees	274 754	144 054
Allowance -cellphone	735 250	689 397
	86 136 970	76 586 202

Remuneration of former Municipal Manager (S.G. Sotshongaye)

Annual Remuneration	503 293	837 002
Car Allowance	176 152	305 844
Contributions to UIF, Medical and Pension Funds	1 332	2 125
Backpay	-	36 836
Skills development levy	8 461	11 828
Housing Allowance	37 518	64 317
Leave encashment	164 341	-
	891 097	1 257 952

The former Municipal Manager resigned in February 2020.

Remuneration of Chief financial Officer (N. Boti)

Annual Remuneration	710 047	711 369
Car Allowance	248 516	245 949
Contributions to UIF, Medical and Pension Funds	1 927	2 125
Housing Allowance	53 019	56 968
Backpay	18 164	30 245
Skills development levy	9 800	12 117
Leave pay	-	216 379
	1 041 473	1 275 152

Remuneration of director- Community Services(M.J. Yilo)

Annual Remuneration	710 047	687 222
Car Allowance	248 516	251 113
Contributions to UIF, Medical and Pension Funds	1 927	2 125
Skills development levy	9 800	9 712
Housing allowance	53 027	52 808
Backpay	18 157	30 245
	1 041 474	1 033 225

Remuneration of Director- Infrastructure Services (T.P. Mase)

Annual Remuneration	651 014	404 132
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Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

19. Employee related costs (continued)

Car Allowance	227 855	141 446
Contributions to UIF, Medical and Pension Funds	1 750	9 445
Housing allowance	51 002	26 404
Backpay	13 527	-
Leave pay	-	237 571
Skills development levy	9 883	7 947
Cellphone allowance	-	5 349
Acting Allowance	90 454	-
	1 045 485	832 294

Remuneration of Director - Corporate Services (W.Zwane)

Annual Remuneration	643 686	505 036
Car Allowance	225 290	184 324
Contributions to UIF, Medical and Pension Funds	1 927	1 771
Housing allowance	145 228	139 924
Backpay	15 470	21 603
Skills development levy	9 846	8 140
	1 041 447	860 798

Remuneration of director - LEDPARD (Z. Zipete)

Annual Remuneration	710 047	687 222
Car Allowance	248 516	251 113
Contributions to UIF, Medical and Pension Funds	1 927	4 313
Housing allowance	53 027	52 808
Backpay	18 157	30 245
Skills development levy	9 800	9 734
	1 041 474	1 035 435

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

20. Remuneration of councillors

Mayor	907 862	872 149
Chief Whip	690 045	665 213
Executive Committee Members	3 963 073	2 927 109
Speaker	733 087	706 600
Ordinary Councillors	13 474 679	13 535 854
	19 768 746	18 706 925

Mayor

Basic salary	627 555	606 883
Cellphone allowance	40 800	40 800
Data card allowance	3 600	3 600
Car allowance	208 316	202 294
Skills development levy	-	2 654
Backpay	27 591	15 918
	907 862	872 149

Speaker

Basic salary	499 961	485 507
Cellphone allowance	40 800	40 800
Data card allowance	3 600	3 600
Car allowance	166 653	161 836
Skills development levy	-	2 123
Backpay	22 073	12 734
	733 087	706 600

Chief Whip

Basic salary	468 713	581 018
Cellphone allowance	40 800	40 800
Data card allowance	3 600	3 600
Car allowance	156 238	25 867
Skills development levy	-	1 989
Backpay	20 694	11 939
	690 045	665 213

Executive committee

Basic salary	2 734 964	2 192 257
Cellphone allowance	326 400	244 800
Data card allowance	28 800	21 600
Car allowance	703 338	423 211
Backpay	169 571	45 241
	3 963 073	2 927 109

Ordinary councillors

Basic salary	8 892 015	8 859 452
Cellphone allowance	1 625 200	1 710 200
Data card allowance	143 400	150 900
Car allowance	2 387 877	2 594 533
Backpay	426 187	220 769
	13 474 679	13 535 854

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

21. Depreciation and amortisation

Property, plant and equipment	52 187 407	93 437 071
Intangible assets	41 210	170 746
	52 228 617	93 607 817

Change in accounting estimate

The useful life of all assets were assessed and as a result certain infrastructure assets, bulidings and movable assets useful lives were changed in the current year. The effect of this revision has decreased the depreciation charges for the current and future periods. The impact on depreciation is as follows:

- Infrastructure assets depreciation has decreased by R46 million.
- Movable assets depreciation has decreased by R317 177.78.
- Buildings depreciation has decreased by R12 627.70.

The list of these assets is available on the asset register.

22. Finance costs

Interest on long service awards	529 588	413 000
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23. Debt impairment

Consumer debtors	19 382 460	7 631 984
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24. Contracted services

Security Services	7 062 768	5 076 469
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Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

25. General expenses

Advertising	313 040	459 035
Audit fees	4 242 842	3 378 118
Bank Charges	195 051	250 968
Consulting and professional fees	4 559 973	3 603 297
Cemetery tagging	856 194	652 881
Entertainment	1 367 338	2 139 174
Fines and penalties	27 737	11 456
Animal Feed	113 100	-
Hiring charges	2 313 886	3 896 181
Insurance	216 675	560 609
Conferences and seminars	-	4 500
Medical expenses	116 814	196 800
Motor vehicle expenses	238 158	183 610
Pound claims	9 435	4 570
Fuel and oil	1 432 892	1 698 378
Postage and courier	681	176
Printing and stationery	998 871	2 055 869
Protective clothing	197 700	260 871
Special Projects	6 816 909	7 421 448
Repairs and maintenance	1 562 466	2 343 445
Software expenses	182 866	1 907 020
Subscriptions and membership fees	1 101 619	833 319
Telephone and fax	4 478 909	4 094 420
Training	1 584 134	2 184 033
Travel - local	3 523 542	6 487 664
Office expenses	3 081	2 246
Electricity purchases	1 878 021	2 109 793
Tourism development	120 000	104 200
Audit committee expenses	383 047	223 802
Electrification program	3 708 570	29 917 255
Ward committee stipend	6 173 832	6 287 429
Indigent subsidy	2 497 931	6 374 094
Venue expenses	50 781	25 629
Contribution for legal fees	23 688 420	12 786 780
Survey and Planning	215 710	275 850
	75 170 225	102 734 920

26. Auditors' remuneration

Fees	4 242 842	3 378 118
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Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

27. Cash generated from operations

Surplus (deficit)	20 680 178	(58 013 477)
Adjustments for:		
Depreciation and amortisation	52 228 617	93 607 817
Gain on sale of assets and liabilities	1 688 493	1 128 959
Fair value adjustments	-	(6 378 471)
Impairment deficit	4 288 253	3 015 781
Debt impairment	19 382 460	7 631 984
Movements in employee benefit obligations	(7 664)	(286 330)
Movements in provisions	18 423 991	10 635 126
Transfers - non-cash	3 492 337	29 917 257
Changes in working capital:		
Inventories	-	6 185 527
Receivables from exchange transactions	501 831	(513 663)
Movement in debt impairment - receivables from exchange transactions	(1 955 855)	(628 463)
Other receivables from non-exchange transactions	(1 734 880)	(8 214 642)
Payables from exchange transactions	(6 356 964)	11 638 391
VAT	(8 494 877)	(7 860 319)
Unspent conditional grants and receipts	(2 536 272)	(4 522 916)
Movement in debt impairment - receivables from non-exchange transactions	(17 426 605)	(7 003 521)
	82 173 043	70 339 040

28. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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 businesses, 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.

Trade receivables are amounts owed by consumers and are presented net of impairment losses. The municipality's constitutional mandate compels the municipality to provide minimum basic services to all its residents without recourse of creditworthiness.

The municipality endeavours to collect all its debts by sending monthly invoices, and levying of penalties. All rates and services accounts are payable within 30 days from invoice date.

Cash and cash equivalents consist of short term investments, the primary bank account and petty cash of the municipality. Short term investments are held at First National Bank.

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

Financial instrument	2020	2019
Short term deposits	85 073 036	94 924 196
Receivable from exchange transactions	123 747	625 578
Receivable from non-exchange transactions	15 059 685	13 324 805

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

28. Risk management (continued)

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 commodity price risk as it does not hold commodities on an open market platform.

29. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	123 747	123 747
Receivables from non-exchange transactions	-	15 059 685	15 059 685
Bank Balances	14 656 876	-	14 656 876
Short term deposits	85 073 036	-	85 073 036
Other cash and cash equivalents	9 883	-	9 883
	99 739 795	15 183 432	114 923 227

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	21 363 761	21 363 761

2019

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	625 578	625 578
Receivables from non-exchange transactions	-	13 324 805	13 324 805
Loans to directors, managers and employees	1 350 757	-	1 350 757
Other financial assets	94 924 196	-	94 924 196
	96 274 953	13 950 383	110 225 336

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	27 720 726	27 720 726

30. Contingencies

Contingent liabilities (Pending legal claims)	110 091 203	76 011 831
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1. TDH Tsolo Junction//Mhlontlo Local Municipality

Mhlontlo Local Municipality

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Notes to the Annual Financial Statements

30. Contingencies (continued)

Claim for damages in the sum of R48 340 059 for damages for a failed development over erf 42 Tsolo.

2. Review Application between Mhlontlo Local Municipality//Z Siquhola: Labour Court Matter:

Reviewing chairman's decision for agreeing to a bargaining agreement giving a light sentence in view of the seriousness of offences which culminated into a criminal case of fraud being opened against the employee

3. Rates Collections

Rates collection in respect of all landlords and tenants in terms of the credit and debt collection policy of Mhlontlo Local Municipality. No legal case in this matter.

4. Tsolo illegal industries, brick making and illegal construction town.

Tsolo illegal industries, brick making and illegal construction town (ERF: 315 Kuvuliwe hardware, ERF: 372 Tonjeni Pritchard Nkosana, ERF: 641 Jabulani, ERF: 87 Empire Blockyard, ERF: 100 Jabulani, ERF: 186/187 Bhoja Bhoja, ERF: 642 Jabulani, ERF: 643 Jabulani, ERF: 108 Jabulani, ERF: 104 Jabulani, ERF: 228 Siyabonga Builders. The matter is at Pre-litigation stage.

5. Tsolo illegal industries, brick making and illegal construction town(Jabulani hardware) .

In this matter we are waiting for an opposed court date.

6. One Grid Projects- Action proceedings // Mhlontlo LM, Case No.727/20 .

The Plaintiff is suing the municipality for the breach of contract.

7. One Grid Projects- Application proceedings// Mhlontlo LM, Case No.1727/20

The applicant is declaring the award of tender No. MIG/CS/EC/12532/15/18 and or the resultant contract unlawful, unconstitutional, invalid, null and void.

8. One Grid Projects- Counter Application proceedings // Mhlontlo LM, Case No.727/20

The Plaintiff is claiming the money that was paid to the Respondent for the work that has not done. The total value for the specified work, including vat, was amount sued is R 27 879 372.95.

9. Mteto Justice Ndabeni // Mhlontlo Local Municipality

This is the review application, wherein the Applicant seeks to review the appointment of the 4th respondent.

10. Mhlontlo encroachments

This is an application for illegal encroachment of the land of the municipality. The occupants does not have the title deeds.

11. Pumzile Nomfenge // Mhlontlo Local Municipality, Case No.2651/2018

The municipality is sued for the breach of contract. The amount sued is R 871 771.55. (eight hundred and seventy one rand fifty-five cent) alleging that she was employed as executive mayor personal assistant. The municipality has defended the matter and the matter is pending before court. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1000 000.00 (one million rand only).

12. Mhlontlo Local Municipality // Malibongwe Mfobo & Others, Case No.1997/20

This is an application for illegal encroachment of the land of the municipality. The occupant does not the title deeds.

13.Ntantana nokhitha and 3 others// mhlonto local municipality 3412/2017

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 are granted the interim relief and the matter is still pending for the main application before high court Mthatha and we still wait for trial date that will be located the registrar in a opposed motion court. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R900 000.00 (nine hundred thousand rand).

14. Gqesha Nozolile & 4 others// mhlontlo local municipality 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 Nomkhitha Ntantana and 3 others and applicants lodge an appeal to supreme

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

30. Contingencies (continued)

court of appeals wherein they were granted the interim relief and the matter is still pending for the main application before high court Mthatha and we still wait for a trial date that will be located by the registrar in a opposed motion court. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R400 000.00 (four hundred thousand rand).

15. Mavuso Kholiswa// Mhlontlo Local Municipality- Case Number 3434/2014

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 Nantana and three 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 Mthaha and were still wait for a trial date that will be located by registrar in a opposed motion court. In case the municipality lose this matter in 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 only).

16. Sojada Nomalunge & Others// Mhlontlo Local Municipality -Case Number 3407/2014

An interdict application that was brought on argent basis interdicting the building of low cost houses at Tsolo under ERF 42. The municipality won this application against Nomkhitha Nantana and three 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 Mthaha and were still wait for a trial date. In case the municipality lose this matter in 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 only).

17. Makaziwe Mgobozi//Mhlontlo Local Municipality-Case Number 70/2017

This is an application that was brought o agent basis by the applicants seeking that Mhlontlo Local Municipality must attend to the linkage of water in particular area in town. The municipality opposed this application and the matter has been argued on the 04th June 2019 and the Judgement was against the municipality, and the municipality was ordered to pay cost to certain extent other will be paid by O.R Tambo municipality. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 200 000.00 (one million two hundred thousand rand only).

18. Gwele Sinethemba//Mhlontlo Local Municipality-Case Number 988/2016

This application that was brought on agent basis by Mhlontlo Local Municipality against Sinethemba Gwele and 8 others who were erecting site at Qumbu ERF 102. The municipality successfully got an interim interdict that all the applicants or whoever who is erecting structures at ERF 102 Qumbu is hereby interdicted. The matter is still pending before high court Mthatha and still waiting for date in an-opposed motion court. The matter appeared before court for case management flow, pretrial minute and join minute, we are now waiting for trial date on an opposed motion court roll. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 200 000.00 (one million two hundred thousand rand only).

19. Chief Mzwamandla Horatius Njikelana & Another//Mhlontlo Local Municipality-Case Number 3456/2016

This is an application that was brought on agent basis by Chief Mzwamandla Horatius Njikelana & another against Mhlontlo Local Municipality claiming demolition their structures at commonage of ERF 102 Qumbu. The municipality opposed their application and the matter is still pending before high court Mthatha. We are still waiting for trial date to be allocated by the registrar. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 400 000.00 (one million four hundred thousand rand only).

20. Ntantana Nokhitha and 128 others// Mhlontlo Local Municipality -Case Number 5437/17

In this matter the Municipality is being sued by Nomkhitha and 128 & others for an amount of R15 500 000. (Fifteen million five hundred thousand rand only) which are damage they claim that it occurred when their house were demolished at Tsolo 500. The municipality defended the matter. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R 1 400 000.00 (one million four hundred thousand rand only).

21. Ngilana Phathiswa // Mhlontlo Local Municipality- Case Number 28/2018

This was an application that was made by application that was made by applicant interdicting the employment of Busisiwe Jara to a post of procurement cleck or creditor's cleck and interim relief was granted in the absence of the municipality because they were not served by any paper. The municipality is now opposing the interim relief and the matter was argued wherein, the municipality lost the application. A notice for leave too appeal was filed to higher court and we are stil waiting for the magistrate reason to find against the municipality. In case the municipality lose this matter in 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 only).

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

30. Contingencies (continued)

22. Ngeke Mzuvukile and others//Mhlontlo Local Municipality - Case Number 11/2019

This is an application that was brought on urgent basis by Mhlontlo local municipality against Ngeke Mzuvukile Fezile Majobela, and other unknown parties who were erecting sites at Qumbu Town hall. The municipality successfully got an interim interdict that all the applicants or whoever whose erecting structure at Qumbu is hereby interdicted. The matter is still pending before high court mthatha and still waiting for a date in an opposed motion court. The matter appeared before court for case management flow material minute and join minute we are now waiting for a trial date on an opposed motion court roll. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 000 000.00 (one million rand only).

23. Simon Peter Ntuthuzelo Manzana//Mhlontlo Local Municipality- Case Number 218/2020

This is an application that was brought on urgent basis by the applicant Simon Peter Ntuthuzelo Manzana against Mhlontlo Municipality wherein an unlawful hardware and manufacturing of bricks ws opened by the the applicant in a residential site erf 112 Tsolo. The matter is still pending before the high court Mthatha. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 200 000.00.

24. Muhammad Ahsan and Thembeke Lethia Buhlungu//Mhlontlo Local Municipality- Case Number 361/2020

This is an application that was brought on urgent basis by the applicants Muhammad Ahsan and Thembeke Lethia Buhlungu against Mhlontlo Municipality wherein an unlawful hardware and manufacturing of bricks ws opened by the the applicant in a residential site erf 87 Tsolo. The matter is still pending before the high court Mthatha. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 200 000.00.

25. Rueben Ntuli//Mhlontlo Local Municipality- Case Number 123/2020

This is an application that was brought on urgent basis by the applicants Rueben Ntuli against Mhlontlo Municipality wherein an unlawful hardware and manufacturing of bricks ws opened by the the applicant in a residential site erf 186 Tsolo. The matter is still pending before the high court Mthatha. In case the municipality lose this matter in court costs that maybe incurred to pay the attorneys that are against the municipality is an approximately amount of R1 200 000.00.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

31. Related parties

Relationships

Accounting Officer
Mayor
Speaker
Chief Whip
Councillors

Refer to accounting officer's report note

Cllr N Dywili
Cllr M.G. Jara
Cllr. N. M. Mvanyashe
Cllr. RN Matomane
Cllr. N.P.B. Ludidi
Cllr. S.S. Mbangata
Cllr. E. Pula
Cllr. V. Mnyanda
Cllr. M. Lingela
Cllr. G. O. Lamani
Cllr. G. Mazitshana
Cllr MJ Jikijela
Cllr. N.T. Ngquke
Cllr. L.D. Yalezo
Cllr. N. Nodlela
Cllr. N.R. Ngewu
Cllr. S.N.T. Matanzima
Cllr. A.L. Tono
Cllr. D. Guqa
Cllr. S. Bontsa
Cllr. G. Matyeni
Cllr. M Funo
Cllr. K. Mpula
Cllr. Z. Nondaka
Cllr. N. Zikolo
Cllr S. Qangani
Cllr. M. Ncaphayi
Cllr. M.D. Manzi
Cllr. T. Mgaweni
Cllr. S.S. Sopangisa
Cllr. Z. Botya
Cllr. Z. Ntshiba
Cllr. N. Gcaba
Cllr. B. Honono
Cllr. P. Mdinwa
Cllr. L.P. Dlova
Cllr. S. Ntunktezi
Cllr. P.N. Mangaliso
Cllr. Z. Makinana
Cllr. Z. Renene
Cllr. B.B. Mthitshane
Cllr. M. Soyekwa
Cllr. M.N. Mpheleli
Cllr. M.S. Ngewu
Cllr. M. Mfabela
Cllr. M.S. Mathe
Cllr. P.N. Mdemka
Cllr. Q. Mandleni
Cllr. S. Maham
Cllr. N.V. Ncapayi
Cllr. E.N. Sikwatsha

Members of key management:

Chief Financial Officer
Community Services Director
Infrastructure Services Director
Corporate Services Director
Local Economic Development Director

Mrs N. Boti
Mr M.J. Yilo
Mr T.P. Mase
Mr W.Zwane
Mr Z. Zipete

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

31. Related parties (continued)

Transactions with related parties were concluded at arm's length. Apart from the remuneration, no further transactions occurred with councillors and section 56 managers.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

32. Prior period errors

The current year comparatives have been adjusted as follows

Statement of Financial Position	Previously stated	Adjustment	Reclassification	Restated 2019
Investment Property	31 772 000	(13 361 350)	(1 252 050)	17 158 600
Receivables from non-exchange transactions	11 797 374	1 527 431	-	13 324 805
Employee benefit obligation	(10 734 522)	(399 339)	-	(11 133 861)
Property, plant and equipment	485 028 165	-	1 252 050	486 280 215
	517 863 017	(12 233 258)	-	505 629 759

The opening balances for 2019 have been restated as follows:

Investment Property

Investment property value was changed due to the use of valuation roll to determine fair value of investment property and also properties were transferred to property, plant and equipment as they did not meet the definition of investment property.

Receivables from non-exchange transactions

The restatement is as a result of duplicate reversal billing that was done in the previous year which resulted in billing of revenue not being the same with the financial statements.

Employee benefit obligation

Leave provision for the prior year was recalculated due to the previous year findings which incorrectly calculated the daily rate.

Property, plant and Equipment

All properties transferred to property, plant and equipment as they did not meet the definition of investment property which resulted in a qualification in the prior year.

Statement of Financial Performance	Previously Stated	Adjustments	Reclassification	Restated 2019
Income				
Licences and permits	1 391 012	-	116 782	1 507 794
Other income	1 488 153	-	(1 334 153)	154 000
Fines, Penalties and Forfeits	366 350	-	1 217 371	1 583 721
Property rates	15 190 394	1 527 431	-	16 717 825
Fair value adjustment	19 739 822	(13 361 350)	-	6 378 472
Expenditure				
Employee related costs	(76 186 863)	(399 339)	-	(76 586 202)
Repairs and maintenance	(2 343 455)	-	2 343 455	-
General expenses	(100 391 475)	-	(2 343 455)	(102 734 930)
	(140 746 062)	(12 233 258)	-	(152 979 320)

Disclosures

	Previously stated	Adjustments	Reclassification	Restated 2019
Irregular Expenditure	263 673 826	13 659 649	-	277 333 475
Commitments	80 802 266	(30 695 872)	-	50 106 394
	344 476 092	(17 036 223)	-	327 439 869

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

32. Prior period errors (continued)

The comparative figures for 2019 have been restated as a result of -

Licences and permits

Business licences reclassified from other income to licences and permits. This is due to mSCOA mapping.

Other income

Business licences and pound fees reclassified to licence and permits and fines, penalties and forfeits respectively. This is due to mSCOA mapping.

Fines, Penalties and Forfeits

Pound fees reclassified from other income to fines, penalties and forfeits. This is due to mSCOA mapping.

Property Rates

The restatement is as a result of duplicate billing done in the previous year.

Fair value adjustment

Investment property value was changed due to the use of valuation roll to determine fair value.

Employee Costs

Leave provision for the prior year was recalculated due to the previous year findings which incorrectly calculated the daily rate.

Repairs and maintenance

Repairs and maintenance amount was reclassified to general expenses in terms of GRAP 1 as expenditure is disclosed by nature.

General Expenses

Repairs and maintenance amount was reclassified to general expenses in terms of GRAP 1 as expenditure is disclosed by nature.

Irregular Expenditure

Additional expenditure items included that were identified as irregular and also correction of prior year audit finding.

Commitments

The commitments were redone and some expenditure items were corrected due to the errors that were done when capturing payment amounts on the register.

33. Unauthorised expenditure

Opening balance as restated

Opening balance	112 162 130	99 339 679
Unauthorised Expenditure	23 985 353	12 822 451
Closing balance	136 147 483	112 162 130

Opening unauthorised expenditure has been investigated. Current year unauthorised expenditure has been reported but not investigated.

34. Fruitless and wasteful expenditure

Opening balance as restated

Opening balance	1 282 589	1 271 780
Additions current year	605 285	10 809
Closing balance	1 887 874	1 282 589

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

34. Fruitless and wasteful expenditure (continued)

Fruitless and wasteful expenditure incurred relates to interest charged on overdue accounts and penalties from SARS. The expenditure is under investigation.

35. Irregular expenditure

Opening balance as previously reported	277 333 475	249 140 782
Add: Irregular Expenditure - current year	-	14 533 044
Opening balance as restated	277 333 475	263 673 826
Add: Irregular Expenditure - current year	3 322 605	13 659 649
Closing balance	280 656 080	277 333 475

Incidents/cases identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings
Functionality criteria not specific	Expenditure under investigation
Awarded contract that is above the maximum contract value allowed for their grade as per CID regulation	Expenditure under investigation

36. Expenditure under investigation

Opening Balance	82 097 043	82 097 043
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This item has not been included in the irregular expenditure expense calculation because it is impractical in terms of GRAP 1 to determine whether the expenditures are indeed irregular.

These amounts relate to payments made for tenders dating from 2011/12 to 2014/2014 financial years where contract files had incomplete information. This is due to the fact that there is no proper filing space in the institution and documents have been searched and could not be found.

37. Deviation from supply chain management regulations

Goods and services to the value of R769 169.8 (2019:R5 897.52) were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

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

38. 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	-	943 702
- Due within 2 to 5 years	-	-

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. The machine lease agreement ended in the current financial

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

39. Commitments

Already contracted for but not provided for

Capital expenditure

• Property, plant and equipment	58 926 339	50 106 393
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Operational expenditure

• Property, plant and equipment	20 739 044	2 776 380
• Investment property	-	1 251 092
	20 739 044	4 027 472

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.

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 017 303	702 075
Amount paid - current year	(1 017 303)	(702 075)
	-	-

Audit fees

Current year subscription / fee	4 218 718	3 378 118
Amount paid - current year	(4 218 718)	(3 378 118)
	-	-

PAYE, SDL and UIF

Current year subscription / fee	20 916 191	16 697 637
Amount paid - current year	(20 660 970)	(15 404 982)
	255 221	1 292 655

Pension and Medical Aid Deductions

Current year subscription / fee	38 349 853	18 899 188
Amount paid - current year	(38 349 853)	(18 899 188)
	-	-

VAT

VAT receivable	17 245 663	8 750 786
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

41. Budget differences

Material differences between budget and actual amounts

Only variances exceeding 10% are considered material and have been explained below.

STATEMENT OF FINANCIAL PERFORMANCE

44.1 Variance is trivial and immaterial

44.2 Rental income was compromised due to COVID-19 as there was a closure of municipal facilities.

44.3 Agency services were compromised due to COVID-19.

44.4 Licence and permits were compromised due to COVID-19.

44.5 Variance is trivial and immaterial

44.6 Interest received on investment and debtors were compromised due to COVID-19 as no interest was charged on debtors during lockdown.

44.7 Variance is trivial and immaterial

44.8 Variance is trivial and immaterial

44.9 Donation received during the year that were not budgeted for.

44.10 Fines, penalties and forfeits were compromised due to COVID-19.

44.12 Variance is trivial and immaterial

44.13 Overbudgeting on remuneration of councillors

44.14 Depreciation and amortisation is as a result of a change in estimate in the useful life's of assets.

44.15 Impairment loss not budgeted for.

44.16 Finance costs not budgeted for.

44.17 Underspending.

44.18 Debt impairment is as a result of an increase in debtors in the current year and less collection in revenue.

44.19 Security services were only appointed in November 2019 and the prior months security services were running on a month to month basis.

44.20 The difference is due to COVID-19 as some expenditure were not incurred during the lockdown.

44.21 Loss on disposal of assets not budgeted for.

44.22 Actual gain or losses not budgeted for.

44.23 Movement in (interest)/change in estimate on Landfill Site not budgeted for.

STATEMENT OF FINANCIAL POSITION

44.24 The variance is due to less collection of revenue in the current year which resulted in a huge increase in debt impairment provision

Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

41. Budget differences (continued)

44.25 The variance is due to less collection of revenue in the current year which resulted in a huge increase in debt impairment provision

44.26 VAT Receivable is due to SARS has not yet paid the municipality the October to December 2019 and March 2020 to June 2020 returns.

44.27 Variance is trivial and immaterial.

44.28 Investment Property not budgeted for.

44.29 The opening cost and opening accumulated depreciations were not budgeted for.

44.30 Intangible assets not budgeted for.

44.31 Heritage assets not budgeted for.

44.32 Majority of trade creditors were paid before year end.

44.33 Employee benefit obligation under budgeted.

44.34 Variance is trivial and immaterial.

44.35 Variance is trivial and immaterial

44.36 Variance is trivial and immateria

44.37 Provisions for landfill site not budgeted for.

42. New standards and interpretations

42.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
• Guideline on the Application of Materiality to Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended) Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 18 (as amended 2016) Segment Reporting	01 April 2020	Unlikely there will be a material impact
• GRAP 34 Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 35 Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 36 Investments in Associates and Joint Ventures	01 April 2020	Unlikely there will be a material impact
• GRAP 38 Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
• GRAP 104 (amended) Financial Instruments	01 April 2020	Unlikely there will be a material impact
• GRAP 110 (as amended 2016) Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact

Mhlontlo Local Municipality

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Notes to the Annual Financial Statements

42. New standards and interpretations (continued)

• IGRAP 1 (revised) Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• IGRAP 20 Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact

43. Revenue

Service charges	1 742 952	1 435 662
Rental of facilities and equipment	49 029	34 360
Agency services	870 571	1 267 972
Licences and permits	1 269 196	1 507 794
Actuarial gain/loss	931 522	-
Movement in (interest)/change in estimate on Landfill Site	832 009	-
Other income	106 774	154 000
Interest received - investment	7 168 370	8 051 796
Property rates	16 375 370	16 717 825
Government grants & subsidies	257 506 629	222 209 294
Public contributions and donations	10 000	-
Fines, Penalties and Forfeits	932 170	1 583 721
Commission on payroll	265 633	247 534
	288 060 225	253 209 958

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	1 742 952	1 435 662
Rental of facilities and equipment	49 029	34 360
Agency services	870 571	1 267 972
Licences and permits	1 269 196	1 507 794
Movement in (interest)/change in estimate on Landfill Site	832 009	-
Actuarial gain/loss	931 522	-
Other income	106 774	154 000
Interest received - investment	7 168 370	8 051 796
	12 970 423	12 451 584

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	16 375 370	16 717 825
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Transfer revenue

Government grants & subsidies	257 506 629	222 209 294
Public contributions and donations	10 000	-
Fines, Penalties and Forfeits	932 170	1 583 721
Commission on payroll	265 633	247 534
	275 089 802	240 758 374

44. Other revenue

Other income	106 774	154 000
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45. Accumulated surplus

46. Fair value adjustments

Investment property (Fair value model)	-	6 378 471
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Mhlontlo Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

47. Change in estimate

Property, plant and equipment

The useful life of all assets were assessed and as a result certain infrastructure assets, bulidings and movable assets useful lives were changed in the current year. The effect of this revision has decreased the depreciation charges for the current and future periods. The impact on depreciation is as follows:

- Infrastructure assets depreciation has decreased by R46 million.
- Movable assets depreciation has decreased by R317 177.78.
- Buildings depreciation has decreased by R12 627.70.

The list of these assets is available on the asset register.. The effect of this revision has increased the depreciation charges for the current and future periods by R47 million.

48. Events after the reporting date

No significant events have occurred after the reporting date.