



**MHLONTLO LOCAL MUNICIPALITY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## General Information

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### Legal form of entity

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

### 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

### Jurisdiction

The Mhlontlo Local Municipality includes the following areas:  
Qumbo  
Tsolo

### Grading of local authority

Low Capacity Municipality

### Accounting Officer

L Matiwane

### Registered office

96 LG Mabindla Avenue  
Qumbu

## MEMBERS OF COUNCIL

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## General Information

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### TRADITIONAL LEADERS TO PARTICIPATE IN MHLONTLO MUNICIPALITY COUNCIL

Nkosinathi Matshanda	MAQAKAMBENI T/C
Luyanda Mditshwa	KHETHANI T/C
Sizwe Siyoyo	AMACWERA T/C
Busisiwe Gloria Mcotshana	Masizakhe T/C
Victor Loyiso Majeke	BHELE T/C
Siyanda Madolo	
Vuyani Ephriam Ludidi	HLUBI T/C
Siviwe Mcelu	EBHOTWE T/C
Linda Ngudle	KHAMBI 20 T/C
K.Hanyisa Ngoni	MBALISWENI T/C

#### Bankers

FNB - QUMBU

#### Auditors

Auditor General South Africa

#### Relevant Legislation:

Municipal Finance Management Act (Act no 56 of 2003)  
Division of Revenue Act  
The Income Tax Act  
Value Added Tax Act  
Municipal Structures Act (Act no 117 of 1998)  
Municipal Systems Act (Act no 32 of 2000)  
Municipal Planning and Performance Management  
Regulations  
Housing Act (Act no 107 of 1997)  
Municipal Property Rates Act (Act no 6 of 2004)  
Electricity Act (Act no 41 of 1987)  
Skills Development Levies Act (Act no 9 of 1999)  
Employment Equity Act (Act no 55 of 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  
Infrastructure Grants  
SALBC Leave Regulations

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

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

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### Abbreviations

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 69, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

**L Matiwane**  
**Acting Municipal Manager**

**Qumbu**

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

	Notes	2014 R	2013 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	2	-	3,362
Receivables from non-exchange transactions	3	6,992,338	801,911
VAT receivable	4	727,498	1,517,788
Consumer debtors	5	2,532,868	2,319,055
Cash and cash equivalents	6	2,361,357	35,140,912
		<b>12,614,061</b>	<b>39,783,028</b>
<b>Non-Current Assets</b>			
Investment property	7	27,442,135	27,442,135
Property, plant and equipment	8	126,050,242	99,888,871
Intangible assets	9	1,308,352	1,030,808
Heritage assets	10	119,400	119,400
		<b>154,920,129</b>	<b>128,481,214</b>
<b>Total Assets</b>		<b>167,534,190</b>	<b>168,264,242</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Bank overdraft	6	352,104	-
Payables from exchange transactions	11	16,689,960	2,570,777
Employee benefit obligation	12	4,710,922	3,589,563
Unspent conditional grants and receipts	13	2,010,663	12,697,339
Provisions	14	3,800,000	790,000
		<b>27,563,649</b>	<b>19,647,679</b>
<b>Non-Current Liabilities</b>			
Provisions	14	4,344,672	4,094,884
<b>Total Liabilities</b>		<b>31,908,321</b>	<b>23,742,563</b>
<b>Net Assets</b>		<b>135,625,869</b>	<b>144,521,679</b>
Accumulated surplus		135,625,869	144,521,679

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

	Notes	2014 R	2013 Restated* R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	15	568,071	565,712
Rental of facilities and equipment		69,764	63,683
Licences and permits		1,141,491	1,123,927
Other income	16	1,919,978	2,171,667
Interest received - investment	17	2,157,714	2,314,276
<b>Total revenue from exchange transactions</b>		<b>5,857,018</b>	<b>6,239,265</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	18	7,608,225	7,269,648
<b>Transfer revenue</b>			
Government grants and subsidies	19	159,964,759	138,012,981
<b>Other revenue</b>			
Fines		183,379	150,880
Commission received		12,350	47,712
<b>Total revenue from non-exchange transactions</b>		<b>167,768,713</b>	<b>145,481,221</b>
<b>Total revenue</b>		<b>173,625,731</b>	<b>151,720,486</b>
<b>Expenditure</b>			
Personnel	20	(60,980,840)	(51,307,156)
Remuneration of councillors	21	(13,630,791)	(13,315,986)
Depreciation and amortisation	22	(15,779,889)	(11,239,112)
Finance costs	23	(30,239)	(151,169)
Debt impairment	24	(1,719,939)	(989,399)
Repairs and maintenance		(5,893,871)	(2,423,128)
Contracted services	25	(2,788,135)	(1,896,100)
Operating grant expenditure	26	(22,551,889)	(20,599,589)
Loss on disposal of assets		(161,053)	(46,534)
General Expenses	27	(58,041,461)	(34,111,344)
Operating lease	27	(716,640)	(685,774)
Interest on Landfill site		(226,794)	(213,022)
<b>Total expenditure</b>		<b>(182,521,541)</b>	<b>(136,978,313)</b>
<b>Operating (deficit) / surplus</b>		<b>(8,895,810)</b>	<b>14,742,173</b>
<b>(Deficit) / surplus for the year</b>		<b>(8,895,810)</b>	<b>14,742,173</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

		Accumulated surplus R	Total net assets R
Opening balance as previously reported		127,588,299	127,588,299
Adjustments			
Correction of errors	35	2,191,207	2,191,207
<b>Balance at 01 July 2012 as restated*</b>		<b>129,779,506</b>	<b>129,779,506</b>
Changes in net assets			
Surplus for the year		14,742,173	14,742,173
Total changes		14,742,173	14,742,173
<b>Restated* Balance at 01 July 2013</b>		<b>144,521,679</b>	<b>144,521,679</b>
Changes in net assets			
Surplus for the year		(8,895,810)	(8,895,810)
Total changes		(8,895,810)	(8,895,810)
<b>Balance at 30 June 2014</b>		<b>135,625,869</b>	<b>135,625,869</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

	Notes	2014 R	2013 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		7,858,924	10,079,553
Grants		159,965,135	140,077,416
Interest income		2,157,714	2,314,278
Other receipts		3,326,962	3,557,869
		<u>173,308,735</u>	<u>156,029,116</u>
<b>Payments</b>			
Employee costs		(74,611,630)	(64,623,142)
Suppliers		(89,418,667)	(49,607,847)
Finance costs		(30,239)	(151,169)
		<u>(164,060,536)</u>	<u>(114,382,158)</u>
<b>Net cash flows from operating activities</b>	29	<b><u>9,248,199</u></b>	<b><u>41,646,958</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(41,795,733)	(20,135,829)
Purchase of other intangible assets	9	(584,125)	(440,780)
<b>Net cash flows from investing activities</b>		<b><u>(42,379,858)</u></b>	<b><u>(20,576,609)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(33,131,659)</u></b>	<b><u>21,070,349</u></b>
Cash and cash equivalents at the beginning of the year		35,140,912	14,070,562
<b>Cash and cash equivalents at the end of the year</b>	6	<b><u>2,009,253</u></b>	<b><u>35,140,911</u></b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## 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
	R	R	R	R	R	

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	285,000	236,000	<b>521,000</b>	568,071	<b>47,071</b>	
Rental of facilities and equipment	71,000	(8,000)	<b>63,000</b>	69,764	<b>6,764</b>	
Licences and permits	1,106,000	31,000	<b>1,137,000</b>	1,141,491	<b>4,491</b>	
Other income	37,367,790	(6,329,879)	<b>31,037,911</b>	1,919,978	<b>(29,117,933)</b>	42.3
Interest received - investment	1,177,000	236,000	<b>1,413,000</b>	2,157,714	<b>744,714</b>	
<b>Total revenue from exchange transactions</b>	<b>40,006,790</b>	<b>(5,834,879)</b>	<b>34,171,911</b>	<b>5,857,018</b>	<b>(28,314,893)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	9,970,000	-	<b>9,970,000</b>	7,608,225	<b>(2,361,775)</b>	42.1
Government grants & subsidies	202,249,712	(22,157,143)	<b>180,092,569</b>	159,964,759	<b>(20,127,810)</b>	42.2

##### Transfer revenue

Fines	698,000	(525,000)	<b>173,000</b>	183,379	<b>10,379</b>	
Commission received	-	-	-	12,350	<b>12,350</b>	
<b>Total revenue from non-exchange transactions</b>	<b>212,917,712</b>	<b>(22,682,143)</b>	<b>190,235,569</b>	<b>167,768,713</b>	<b>(22,466,856)</b>	
<b>Total revenue</b>	<b>252,924,502</b>	<b>(28,517,022)</b>	<b>224,407,480</b>	<b>173,625,731</b>	<b>(50,781,749)</b>	

#### Expenditure

Personnel	(52,482,000)	(2,584,000)	<b>(55,066,000)</b>	(60,980,840)	<b>(5,914,840)</b>	42.4
Remuneration of councillors	(12,518,000)	(2,057,000)	<b>(14,575,000)</b>	(13,630,791)	<b>944,209</b>	42.4
Depreciation and amortisation	(10,080,131)	-	<b>(10,080,131)</b>	(15,779,889)	<b>(5,699,758)</b>	42.5
Finance costs	-	-	-	(30,239)	<b>(30,239)</b>	42.9
Debt impairment	(6,980,000)	-	<b>(6,980,000)</b>	(1,719,939)	<b>5,260,061</b>	42.6
Repairs and maintenance	(9,288,000)	2,754,000	<b>(6,534,000)</b>	(5,893,871)	<b>640,129</b>	
Contracted Services	-	-	-	(2,788,135)	<b>(2,788,135)</b>	42.7
Operating grant expenditure	-	-	-	(22,551,889)	<b>(22,551,889)</b>	42.8
General Expenses	(85,525,847)	(1,746,138)	<b>(87,271,985)</b>	(58,984,895)	<b>28,287,090</b>	42.10
<b>Total expenditure</b>	<b>(176,873,978)</b>	<b>(3,633,138)</b>	<b>(180,507,116)</b>	<b>(182,360,488)</b>	<b>(1,853,372)</b>	
<b>Operating deficit</b>	<b>76,050,524</b>	<b>(32,150,160)</b>	<b>43,900,364</b>	<b>(8,734,757)</b>	<b>(52,635,121)</b>	
Loss on disposal of assets	-	-	-	(161,053)	<b>(161,053)</b>	42.11
<b>(Deficit) / Surplus</b>	<b>76,050,524</b>	<b>(32,150,160)</b>	<b>43,900,364</b>	<b>(8,895,810)</b>	<b>(52,796,174)</b>	

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## 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
	R	R	R	R	R	

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	-	469,000	<b>469,000</b>	-	<b>(469,000)</b>	42.12
Receivables from non-exchange transactions	14,175,000	(10,313,000)	<b>3,862,000</b>	6,992,338	<b>3,130,338</b>	42.13
VAT receivable	-	-	-	727,498	<b>727,498</b>	
Consumer debtors	112,000	4,938,000	<b>5,050,000</b>	2,532,868	<b>(2,517,132)</b>	42.14
Cash and cash equivalents	9,199,000	(7,478,000)	<b>1,721,000</b>	2,361,357	<b>640,357</b>	
	<b>23,486,000</b>	<b>(12,384,000)</b>	<b>11,102,000</b>	<b>12,614,061</b>	<b>1,512,061</b>	

##### Non-Current Assets

Investment property	-	21,400,000	<b>21,400,000</b>	27,442,135	<b>6,042,135</b>	
Property, plant and equipment	62,941,000	84,705,000	<b>147,646,000</b>	126,050,242	<b>(21,595,758)</b>	42.15
Intangible assets	-	1,477,000	<b>1,477,000</b>	1,308,352	<b>(168,648)</b>	
Heritage assets	-	-	-	119,400	<b>119,400</b>	
	<b>62,941,000</b>	<b>107,582,000</b>	<b>170,523,000</b>	<b>154,920,129</b>	<b>(15,602,871)</b>	
<b>Total Assets</b>	<b>86,427,000</b>	<b>95,198,000</b>	<b>181,625,000</b>	<b>167,534,190</b>	<b>(14,090,810)</b>	

#### Liabilities

##### Current Liabilities

Payables from exchange transactions	4,564,000	(568,000)	<b>3,996,000</b>	16,689,958	<b>12,693,958</b>	
Employee benefit obligation	-	-	-	4,710,922	<b>4,710,922</b>	
Unspent conditional grants and receipts	-	7,786,000	<b>7,786,000</b>	2,010,663	<b>(5,775,337)</b>	42.16
Provisions	-	-	-	3,800,000	<b>3,800,000</b>	
Bank overdraft	-	-	-	352,104	<b>352,104</b>	42.17
	<b>4,564,000</b>	<b>7,218,000</b>	<b>11,782,000</b>	<b>27,563,647</b>	<b>15,781,647</b>	

##### Non-Current Liabilities

Provisions	-	5,032,000	<b>5,032,000</b>	4,344,672	<b>(687,328)</b>	
<b>Total Liabilities</b>	<b>4,564,000</b>	<b>12,250,000</b>	<b>16,814,000</b>	<b>31,908,319</b>	<b>15,094,319</b>	
<b>Net Assets</b>	<b>81,863,000</b>	<b>82,948,000</b>	<b>164,811,000</b>	<b>135,625,871</b>	<b>(29,185,129)</b>	

#### Net Assets

Accumulated surplus	81,863,000	82,948,000	<b>164,811,000</b>	135,625,871	<b>(29,185,129)</b>	
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# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## 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
	R	R	R	R	R	

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Ratepayers and others	20,900,702	20,973,993	<b>41,874,695</b>	11,185,886	<b>(30,688,809)</b>	42.18
Grants	172,059,000	149,210,628	<b>321,269,628</b>	159,575,288	<b>(161,694,340)</b>	42.19
Interest income	1,176,958	1,312,197	<b>2,489,155</b>	2,157,714	<b>(331,441)</b>	42.20
	<b>194,136,660</b>	<b>171,496,818</b>	<b>365,633,478</b>	<b>172,918,888</b>	<b>(192,714,590)</b>	

##### Payments

Suppliers and employees	(159,813,890)	(159,494,149)	<b>(319,308,039)</b>	(166,376,543)	<b>152,931,496</b>	42.21
Finance costs	-	-	-	(27,239)	<b>(27,239)</b>	
	<b>(159,813,890)</b>	<b>(159,494,149)</b>	<b>(319,308,039)</b>	<b>(166,403,782)</b>	<b>152,904,257</b>	

#### Net cash flows from operating activities

	<b>34,322,770</b>	<b>12,002,669</b>	<b>46,325,439</b>	<b>6,515,106</b>	<b>(39,810,333)</b>	
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#### Cash flows from investing activities

Purchase of capital assets	(71,753,155)	(45,115,515)	<b>(116,868,670)</b>	(39,646,762)	<b>77,221,908</b>	
Decrease in non-current receivables	21,629,632	-	<b>21,629,632</b>	-	<b>(21,629,632)</b>	42.22
Decrease in non-current assets	25,000,000	31,841,481	<b>56,841,481</b>	-	<b>(56,841,481)</b>	42.22

#### Net cash flows from investing activities

	<b>(25,123,523)</b>	<b>(13,274,034)</b>	<b>(38,397,557)</b>	<b>(39,646,762)</b>	<b>(1,249,205)</b>	
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Net increase/(decrease) in cash and cash equivalents	9,199,247	(1,271,365)	<b>7,927,882</b>	(33,131,656)	<b>(41,059,538)</b>	
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Cash and cash equivalents at the beginning of the year	4,228,023	1,366,435	<b>5,594,458</b>	35,140,912	<b>29,546,454</b>	
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<b>Cash and cash equivalents at the end of the year</b>	<b>13,427,270</b>	<b>95,070</b>	<b>13,522,340</b>	<b>2,009,256</b>	<b>(11,513,084)</b>	
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# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

Standard	Description	Effective Date
<b>GRAP 6 (Revised – Nov 2010)</b>	<b>Consolidated and Separate Financial Statements</b> The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity.  No significant impact is expected as the Municipality does not have any entities at this stage to be consolidated.	<b>Unknown</b>
<b>GRAP 8 (Revised – Nov 2010)</b>	<b>Interest in Joint Ventures</b> The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.  No significant impact is expected as the Municipality is not involved in any joint ventures.	<b>Unknown</b>
<b>GRAP 18 (Original – Feb 2011)</b>	<b>Segment Reporting</b> The objective of this Standard is to establish principles for reporting financial information by segments.  No significant impact is expected as information to a large extent is already included in the appendices to the financial statements which do not form part of the audited financial statements.	<b>1 April 2015</b>
<b>GRAP 20 (Original – June 2011)</b>	<b>Related Party Disclosure</b> The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.  The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.	<b>Unknown</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

<p><b>GRAP 32</b> (Original – Aug 2013)</p>	<p><b>Service Concession Arrangements: Grantor</b> The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.</p> <p>No such transactions or events are expected in the foreseeable future.</p>	<p><b>Unknown</b></p>
<p><b>GRAP 105</b> (Original – Nov 2010)</p>	<p><b>Transfer of Functions Between Entities Under Common Control</b> The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p><b>1 April 2015</b></p>
<p><b>GRAP 106</b> (Original – Nov 2010)</p>	<p><b>Transfer of Functions Between Entities Not Under Common Control</b> The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p><b>1 April 2015</b></p>
<p><b>GRAP 107</b> (Original – Nov 2010)</p>	<p><b>Mergers</b> The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p><b>1 April 2015</b></p>
<p><b>GRAP 108</b> (Original – Sept 2013)</p>	<p><b>Statutory Receivables</b> The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	<p><b>Unknown</b></p>
<p><b>IGRAP 11</b></p>	<p><b>Consolidation - Special Purpose Entities (SPE)</b> The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.</p> <p>No significant impact is expected as the Municipality does not have any SPE's at this stage.</p>	<p><b>Unknown</b></p>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

IGRAP 12	Jointly Controlled Entities non-monetary contributions	Unknown
	<p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality does not have any JCE's at this stage.</p>	

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

### 1.3 Going concern assumption

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

### 1.4 Significant judgements and sources of estimation uncertainty

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

#### Trade receivables / Loans and receivables

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

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

#### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.4 Significant judgements and sources of estimation uncertainty (continued)

#### 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 [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### Provisions

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

#### Post retirement benefits

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

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

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

#### Effective interest rate

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

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.5 Investment property

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.5 Investment property (continued)

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.

#### Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

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

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

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

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

### 1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

<b>Item</b>	<b>Average useful life</b>
Infrastructure	
• Roads and Pavings	10 - 25 years
• Pedestrian Malls	10 - 25 years
• Sewerage	10 - 25 years
Community	
• Buildings	30 years
• Recreational facilities	30 years
• Security	30 years
• Halls	30 years
• Libraries	30 years
• Parks and gardens	30 years
• Other assets	30 years
Other property, plant and equipment	
• Specialist vehicles	2 - 15 years
• Other vehicles	2 - 15 years
• Office Equipment	2 - 15 years
• Furniture and Fittings	2 - 15 years
• Bins and Containers	2 - 15 years
• Other items of plant and equipment	2 - 15 years
• Computer equipment, Other	2 - 15 years
Landfill Sites	20 years

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

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

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

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

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

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

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

### 1.7 Intangible assets

An asset is identifiable if it either:

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

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.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.7 Intangible assets (continued)

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

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

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

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

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

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

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:

<b>Item</b>	<b>Useful life</b>
Computer software, other	3 - 5 years

### 1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

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.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Heritage assets (continued)

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that a municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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

#### 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.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Heritage assets (continued)

#### Derecognition

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

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

#### Transitional provision

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in 10. The transitional provision expires on 2015/06/30.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where heritage assets was acquired through a transfer of functions, the municipality is not required to measure that heritage assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2014 and heritage assets have accordingly been recognised at provisional amounts, as disclosed in 10.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

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

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

### 1.9 Financial instruments

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

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

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.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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.

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.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 Financial instruments (continued)

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.

### 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

Consumer debtors  
Receivables from exchange transactions  
Cash and cash equivalents

#### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
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

Bank overdraft  
Payables from exchange transactions  
Payables from non-exchange transactions

#### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### 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.

### 1.10 Tax

#### Value added tax

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

### 1.11 Leases

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Leases (continued)

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.12 Inventories

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

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

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

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

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

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

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

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

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.13 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

#### Identification

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

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

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

#### Value in use

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.13 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.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

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

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

Useful life is either:

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

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

#### Identification

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

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Reversal of an impairment loss

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

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

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

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

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

### 1.15 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.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

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

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

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

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

### 1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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 33.

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.

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

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

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

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

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.17 Revenue from exchange transactions

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

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

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.

#### Service charges

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

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

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

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

#### Interest income

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

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

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

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

#### Rental income

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Recognition

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Measurement

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

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

#### Fines

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

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

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

### 1.19 Borrowing costs

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

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

### 1.20 Comparative figures

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

### 1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.22 Fruitless and wasteful expenditure

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.23 Irregular expenditure

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

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

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

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

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

### 1.24 Budget information

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

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

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

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

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

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

### 1.25 Related parties

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

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.25 Related parties (continued)

- or an entity that is subject to common control, or joint control.

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

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

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

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

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

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

Management personnel include:

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

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.25 Related parties (continued)

the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

### 1.26 Unpaid conditional government grants and receipts

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

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

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

### 1.27 Consumer deposits

Consumer deposits are disclosed as a current liability. Consumer deposits are levied in line with council's policy to consumers when services are initially connected. When services are disconnected or terminated, the outstanding deposit is utilised against any arrear accounts the consumer might be liable for on that date. Any excess deposit after all debt is settled is refunded to the specific consumer.

### 1.28 Capital commitments

Capital commitments disclosed in the financial statements represents the balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>2. Receivables from exchange transactions</b>		
Accrued interest income	-	3,362
This relates to interest received after year end but relates to year end.		
<b>3. Receivables from non-exchange transactions</b>		
Payroll debtors	7,460,922	1,270,130
Impairment loss for payroll debtors	(468,219)	(468,219)
Debtors suspense	53,631	53,996
Impairment loss for debtors	(53,996)	(53,996)
	<b>6,992,338</b>	<b>801,911</b>
The payroll debtors that were unknown in the prior year, were written off by the council.		
The debtors suspense has been impaired as this account remains domant in the current year and will be taken to council for write off in 2014/15 financial year.		
<b>4. VAT receivable</b>		
VAT	727,498	1,517,788
Vat receivable balance includes the monies due from SARS for the vat periods 2012 and 2013. The portion of the amounts receivable have been received from SARS in the 2012-13 financial year.		
An amount of R11 733 748,62 has been received in the current year and therefore recoverability of the amount disclosed is not remote.		
<b>5. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	12,328,509	10,788,003
Refuse	4,036,959	3,542,159
Old balances	5,378,157	5,479,712
	<b>21,743,625</b>	<b>19,809,874</b>
<b>Less: Allowance for impairment</b>		
Rates	(10,306,203)	(9,140,419)
Refuse	(3,648,969)	(2,965,332)
Old balances	(5,255,585)	(5,385,068)
	<b>(19,210,757)</b>	<b>(17,490,819)</b>
<b>Net balance</b>		
Rates	2,022,306	1,647,584
Refuse	387,990	576,827
Old balances	122,572	94,644
	<b>2,532,868</b>	<b>2,319,055</b>
<b>Included in above is receivables from exchange transactions</b>		
Refuse	387,990	576,827

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>5. Consumer debtors (continued)</b>		
<b>Included in above is receivables from non-exchange transactions</b>		
Rates	2,022,306	1,647,584
Other - old balances	122,572	94,644
	<b>2,144,878</b>	<b>1,742,228</b>
<b>Net balance</b>	<b>2,532,868</b>	<b>2,319,055</b>
<b>Rates</b>		
Current (0 -30 days)	168,907	(329,114)
31 - 60 days	124,444	118,118
61 - 90 days	123,294	122,078
91 - 120 days	122,078	-
> 120 days	11,789,786	10,876,921
Provision for debt impairment	(10,306,203)	(9,140,419)
	<b>2,022,306</b>	<b>1,647,584</b>
<b>Refuse</b>		
Current (0 -30 days)	59,401	62,618
31 - 60 days	58,268	55,861
61 - 90 days	58,049	55,312
91 - 120 days	57,619	53,225
>120 days	3,803,622	3,315,143
Provision for debt impairment	(3,648,969)	(2,965,332)
	<b>387,990</b>	<b>576,827</b>
<b>Old balances</b>		
Current (0 -30 days)	20,133	(83,557)
31 - 60 days	20,172	21,714
61 - 90 days	20,186	21,624
91 - 120 days	20,183	-
> 120 days	5,297,483	5,519,931
Provision for debt impairment	(5,255,585)	(5,385,068)
	<b>122,572</b>	<b>94,644</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(17,490,819)	(16,916,565)
Contributions to allowance	(1,719,938)	(574,254)
	<b>(19,210,757)</b>	<b>(17,490,819)</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>5. Consumer debtors (continued)</b>		
Basis for Allowance debts		
The Impairment of Debtors & 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.		
The Impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.		
In determining the recoverability of a Rates Assessment Debtor and Other Receivables from Non-exchange Transactions, the municipality considers any change in the credit quality of the Rates Assessment Debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Debtors Impairment.		
<b>6. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	139	2,132
Bank balances	-	1,366,435
Short-term deposits	2,361,218	33,772,345
Bank overdraft	(352,104)	-
	<b>2,009,253</b>	<b>35,140,912</b>
Current assets	2,361,357	35,140,912
Current liabilities	(352,104)	-
	<b>2,009,253</b>	<b>35,140,912</b>

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014			2013		
	R			R		
<b>6. Cash and cash equivalents (continued)</b>						
<b>The municipality had the following bank accounts</b>						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
FNB - Main Account - 62023382526	11,296	1,363,965	801,361	(352,104)	1,366,435	801,361
FNB - Equitable 1 Day Call deposit - 62027945809	15,950	15,129,368	8,643,877	15,950	15,129,368	8,643,877
FNB - MIG call deposit - 62170844221	2,069,530	10,628,342	386,892	2,069,530	10,628,342	386,892
FNB - Gqunu Lots Call account - 62020395390	1,958	762,801	763,565	1,958	762,801	763,565
FNB - IDP call deposit - 62075570137	1,000	1,000	1,000	1,000	1,000	1,000
FNB - INEP call deposit - 74231136926	223,935	4,698,886	448,919	223,935	4,698,886	448,919
FNB - LED call deposit - 62075571713	3,681	390,627	860,222	3,681	390,626	860,432
FNB - MSIG call deposit - 62080641416	10,000	369,037	10,000	10,000	369,037	10,000
FNB - FMG call deposit - 62280641244	11,169	442,150	709,056	11,169	442,150	709,056
FNB - Revolving call deposit - 61399068117	1,471	441,689	1,087,773	1,471	441,689	1,087,773
FNB - Bulk Housing Combined call deposit - 62280645345	12,525	898,446	357,637	12,525	898,446	357,637
FNB - Trade & Investments - 7466814934	10,000	10,000	-	10,000	10,000	-
<b>Total</b>	<b>2,372,515</b>	<b>35,136,311</b>	<b>14,070,302</b>	<b>2,009,115</b>	<b>35,138,780</b>	<b>14,070,512</b>

In line with GRAP 2 paragraph 44, the purposes of the Statement of Financial Position and the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

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

The fair value of these financial instruments are traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R			2013 R		
<b>7. Investment property</b>						
	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	27,442,135	-	27,442,135	27,442,135	-	27,442,135

### Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	27,442,135	27,442,135

### Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	27,442,135	27,442,135

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

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

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

In line with paragraph 84(h) of GRAP16, All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

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

There are no contractual obligations on Investment Property.

## 8. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Landfill site	3,722,978	(580,259)	3,142,719	3,699,984	(395,260)	3,304,724
Buildings	19,500,555	(8,975,734)	10,524,821	19,574,405	(8,579,218)	10,995,187
Infrastructure	144,036,661	(58,694,904)	85,341,757	112,366,484	(47,161,086)	65,205,398
Community	13,706,695	(6,258,609)	7,448,086	13,061,315	(5,706,886)	7,354,429
Other assets	25,513,687	(5,920,828)	19,592,859	16,387,094	(3,357,961)	13,029,133
<b>Total</b>	<b>206,480,576</b>	<b>(80,430,334)</b>	<b>126,050,242</b>	<b>165,089,282</b>	<b>(65,200,411)</b>	<b>99,888,871</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
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### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Depreciation	Total
Landfill site	3,304,724	22,994	-	(184,999)	3,142,719
Buildings	10,995,187	330,589	(161,054)	(639,901)	10,524,821
Infrastructure	65,205,398	31,670,177	-	(11,533,818)	85,341,757
Community	7,354,429	645,380	-	(551,723)	7,448,086
Other assets	13,029,133	9,126,593	-	(2,562,867)	19,592,859
	<b>99,888,871</b>	<b>41,795,733</b>	<b>(161,054)</b>	<b>(15,473,308)</b>	<b>126,050,242</b>

#### Reconciliation of property, plant and equipment - 2013

	Opening balance - Restated*	Additions	Depreciation	Total
Landfill site	3,484,602	22,405	(202,283)	3,304,724
Buildings	11,569,349	59,998	(634,160)	10,995,187
Infrastructure	55,617,458	17,422,761	(7,834,821)	65,205,398
Community	6,009,316	1,897,646	(552,533)	7,354,429
Other property, plant and equipment	14,066,575	733,019	(1,770,461)	13,029,133
	<b>90,747,300</b>	<b>20,135,829</b>	<b>(10,994,258)</b>	<b>99,888,871</b>

#### \* - Prior period restatement

Refer to Note 35 for detailed breakdown of opening balance adjustments.

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

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

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

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

### 9. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,944,117	(635,765)	1,308,352	1,359,992	(329,184)	1,030,808

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
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### 9. Intangible assets (continued)

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	1,030,808	584,125	(306,581)	1,308,352

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	876,827	440,780	(41,947)	(244,852)	1,030,808

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

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

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

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

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

### 10. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	119,400	-	119,400	119,400	-	119,400

#### Reconciliation of heritage assets 2014

	Opening balance	Total
Heritage assets	119,400	119,400

#### Reconciliation of heritage assets 2013

	Opening balance	Total
Heritage assets	119,400	119,400

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>11. Payables from exchange transactions</b>		
Trade payables	3,391,849	889,107
Payments received in advanced - Consumer & Refuse	790,592	764,457
Unallocated Deposits	98,826	700
Creditors accruals	9,580,988	916,513
Salary Control	2,827,705	-
	<b>16,689,960</b>	<b>2,570,777</b>

## 12. Employee benefit obligations

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

Provision for bonus accrual	1,001,301	763,048
Leave pay accrual	3,709,621	2,826,515
	<b>4,710,922</b>	<b>3,589,563</b>

### Defined contribution plan

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

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

## 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

### Unspent conditional grants and receipts

MIG	37,377	9,706,214
Gqunu lots	1,053,752	1,111,943
Qumbu Pilot Housing	62,525	62,525
LED	15,000	15,000
INEP electrification	842,009	1,801,657
	<b>2,010,663</b>	<b>12,697,339</b>

### Movement during the year

Balance at the beginning of the year	12,697,339	2,229,480
Additions during the year	38,568,085	49,345,584
Income recognition during the year	(49,254,761)	(38,877,725)
	<b>2,010,663</b>	<b>12,697,339</b>

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

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

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

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	2014	2013
	R	R

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### 14. Provisions

#### Reconciliation of provisions - 2014

	Opening Balance	Additions	Change in Estimate	Change due to unwinding of discounting	Total
Environmental rehabilitation	4,094,884	-	22,994	226,794	4,344,672
Legal proceedings	790,000	3,010,000	-	-	3,800,000
	<b>4,884,884</b>	<b>3,010,000</b>	<b>22,994</b>	<b>226,794</b>	<b>8,144,672</b>

#### Reconciliation of provisions - 2013

	Opening Balance	Change due to discounting of provision	Change in Estimate	Total
Environmental rehabilitation	3,859,457	213,022	22,405	4,094,884
Legal proceedings	-	-	790,000	790,000
	<b>3,859,457</b>	<b>213,022</b>	<b>812,405</b>	<b>4,884,884</b>

Non-current liabilities	4,344,672	4,094,884
Current liabilities	3,800,000	790,000
	<b>8,144,672</b>	<b>4,884,884</b>

In terms of the licencing of the landfill refuse sites, the municipality will incur rehabilitation costs of R 5.03 million to restore the sites at the end of its useful lives. Provision has been made for the net present value of this cost, using the the average cost of borrowing interest rate.

### 15. Service charges

Business	113,087	107,544
Household	409,873	412,975
Government	45,111	45,193
	<b>568,071</b>	<b>565,712</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>16. Other income</b>		
Advertising bill boards	37,798	34,355
Business Licence	18,035	13,749
Cemetery fee - burials	15,658	13,402
Clearance certificate	1,600	983
Grazing fees	4,291	-
Licence fees	806,757	731,363
Overdeposit / banking	540	364
Plan fees	37,830	36,370
Pound fees	514,008	492,138
Pound sales	266,298	706,492
Refund	13,300	-
Sale of wood	88	395
Sundry income	2,690	10,389
Tender fees	201,085	131,667
	<b>1,919,978</b>	<b>2,171,667</b>
<b>17. Investment revenue</b>		
<b>Interest revenue</b>		
Interest from investments	1,412,762	1,575,833
Interest charged on trade and other receivables	744,952	738,443
	<b>2,157,714</b>	<b>2,314,276</b>
<b>18. Property rates</b>		
<b>Rates received</b>		
Residential	499,442	655,226
Commercial	1,319,502	1,268,108
State	6,811,663	6,549,730
Small holdings and farms	1,359,804	1,222,126
Less: Income forgone	(2,382,186)	(2,425,542)
	<b>7,608,225</b>	<b>7,269,648</b>

### Valuations

Valuations on land and buildings are performed every 4 years. The next general valuation will come into effect on 1 July 2015, based on exemption applied for and approved. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>19. Government grants and subsidies</b>		
Equitable share	110,595,000	95,773,000
Electrification program	11,967,104	13,688,125
MSIG grant	890,000	800,000
Vuna Awards	60,000	-
Training - LGSETA	314,628	152,123
EPWP - Casual workers	1,025,000	1,058,000
Municipal Finance Management Grant	1,650,000	1,500,047
MIG grant	33,289,835	24,669,786
Gqunu Lots	58,192	-
Grant Prov - LED and assistance	-	256,900
Library Revenue - Grant	115,000	115,000
	<b>159,964,759</b>	<b>138,012,981</b>

### Equitable Share

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

All registered indigents receive a monthly subsidy of R 7,979 (2013: R 7,979), which is funded from the grant.

### MIG grant

Balance unspent at beginning of the year	9,706,214	-
Current-year receipts	25,221,000	34,376,000
Conditions met - transferred to revenue	(33,289,837)	(24,669,786)
Rolled over to Equitable share	(1,600,000)	-
	<b>37,377</b>	<b>9,706,214</b>

The municipality was advanced by R12 000 000 on the 26th July 2014 which is for the 2014/15 allocation. The Unspent portion is not returnable/ payable to the revenue fund.

### Gqunu lots

Balance unspent at beginning of the year	1,111,943	1,111,943
Conditions met - transferred to revenue	(58,191)	-
	<b>1,053,752</b>	<b>1,111,943</b>

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

### Qumbu Pilot Housing

Balance unspent at beginning of the year	62,525	62,525
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The project started in December and some other projects could not continue due to price increases within the suppliers. Qumbu and disaster houses are spent in this grant.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>19. Government grants and subsidies (continued)</b>		
<b>LED</b>		
Balance unspent at beginning of the year	15,000	175,591
Current-year receipts	-	96,309
Conditions met - transferred to revenue	-	(256,900)
	<b>15,000</b>	<b>15,000</b>

Unspent amount relates to Sinakho coffin manufacture project. Figures have been restated.

### FMG

Balance unspent at beginning of the year	-	47
Current-year receipts	1,650,000	1,500,000
Conditions met - transferred to revenue	(1,650,000)	(1,500,047)
	-	-

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

### MSIG

Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	-	-

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

### Vuna Awards

Current-year receipts	60,000	-
Conditions met - transferred to revenue	(60,000)	-
	-	-

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

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

### INEP Electrification

Balance unspent at beginning of the year	1,801,657	489,782
Current-year receipts	11,000,000	15,000,000
Conditions met - transferred to revenue	(11,959,648)	(13,688,125)
	<b>842,009</b>	<b>1,801,657</b>

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>20. Employee related costs</b>		
Basic	21,896,236	17,290,761
Acting allowances	499,793	742,662
Back pay	71,590	217,480
Bonus	2,316,281	1,424,523
Medical aid - company contributions	4,225,240	3,266,598
PAYE	10,563,706	9,517,614
UIF	356,359	287,953
SDL	550,378	400,781
Other payroll levies	14,180	11,287
Contribution to leave pay provision charge	883,106	1,685,948
Contribution - Pension Fund	4,380,940	3,852,248
Travel, motor car, accommodation, subsistence and other allowances	7,813,853	5,673,989
Overtime payments	2,063,142	1,543,830
WCA	-	1,441,278
Contribution provision for bonus	238,254	70,834
Casual Workers	-	1,400
Employee related expenses	23,437	15,487
Housing benefits and allowances	2,102,870	1,843,297
Long term leave contribution	141,159	419,889
Leave encashment	809,350	422,929
Nightshift pay	82,501	138,120
Other allowances	1,948,465	1,038,248
	<b>60,980,840</b>	<b>51,307,156</b>
<b>Remuneration of Municipal Manager - Y N Ndina</b>		
Annual Remuneration	597,285	569,202
Car Allowance	149,321	142,301
Contributions to UIF, Medical and Pension Funds	159,310	143,400
Cellphone	41,814	26,568
	<b>947,730</b>	<b>881,471</b>
<b>Remuneration of Chief Finance Officer - N Ponco</b>		
Annual Remuneration	147,690	475,795
Car Allowance	37,521	118,949
Contributions to UIF, Medical and Pension Funds	18,679	129,832
Housing	-	33,577
Subsistence and backpay	-	1,399
Accrued Salary	-	7,515
Cell phone	7,200	33,600
Leave encashment	114,003	-
	<b>325,093</b>	<b>800,667</b>

The Contract of the Chief Financial Officer expired on the 30 September 2013.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>20. Employee related costs (continued)</b>		
<b>Remuneration of the Strategic Manager - S G Sotshongaye</b>		
Annual Remuneration	636,886	623,239
Car Allowance	143,507	44,043
Contributions to UIF, Medical and Pension Funds	58,194	35,277
Housing	-	10,000
Accrued Salary	-	7,611
Subsistence and backpay	28,322	14,350
Acting allowance	61,703	-
	<b>928,612</b>	<b>734,520</b>

Mr SG Sotshongaye acted as the Municipal Manager as from October 2013.

### Remuneration of the Community Manager - Y M Yilo

Annual Remuneration	523,650	475,797
Car Allowance	130,912	118,949
Contributions to UIF, Medical and Pension Funds	150,635	129,574
Housing	24,353	33,576
Accrued Salary	-	9,171
Cellphone	31,400	33,600
	<b>860,950</b>	<b>800,667</b>

### Remuneration of the Technical Manager - TP Mase

Annual Remuneration	779,447	549,656
Car Allowance	35,762	132,141
Contributions to UIF, Medical and Pension Funds	36,478	44,400
Housing	7,500	30,000
Acting Allowance	12,589	8,326
Subsistence and Back pay	9,036	36,144
	<b>880,812</b>	<b>800,667</b>

Mr TP Mase acted as the Municipal Manager for July and August 2013.

### Remuneration of the Acting Chief Finance Officer - T Yengeni

Annual Remuneration	362,672	-
Car Allowance	151,973	-
Contributions to UIF, Medical and Pension Funds	80,424	-
Housing	11,088	-
Acting allowance	111,334	-
Cell phone	24,000	-
	<b>741,491</b>	<b>-</b>

Mr Yengeni acted as the Chief financial officer as from October 2013.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>20. Employee related costs (continued)</b>		
<b>Remuneration of the Corporate Services Manager - L Matiwane</b>		
Annual Remuneration	478,721	-
Car Allowance	88,000	-
Contributions to UIF, Medical and Pension Funds	91,222	-
Housing	22,905	-
Cell phone	20,800	-
	<b>701,648</b>	<b>-</b>
<b>Remuneration of the Local Economic and Rural Development Manager - Z Zipete</b>		
Annual Remuneration	373,134	-
Car Allowance	66,000	-
Contributions to UIF, Medical and Pension Funds	9,139	-
	<b>448,273</b>	<b>-</b>
<b>21. Remuneration of councillors</b>		
Mayor	929,915	949,092
Councillors	12,700,876	12,366,894
	<b>13,630,791</b>	<b>13,315,986</b>
<b>Breakdown of councillors' remuneration</b>		
	<b>2014 R</b>	<b>2013 R</b>
Mayor's Allowance	929,915	646,495
Speaker's Allowance	540,652	505,883
Chief Whip	516,336	479,526
Councillors Allowance	11,554,808	11,614,962
Contributions to Medical	89,080	69,120
	<b>13,630,791</b>	<b>13,315,986</b>
<b>22. Depreciation and amortisation</b>		
Property, plant and equipment	15,473,308	10,994,260
Intangible assets	306,581	244,852
	<b>15,779,889</b>	<b>11,239,112</b>
<b>23. Finance costs</b>		
Interest	30,239	151,169
<b>24. Debt impairment</b>		
Consumer debtors	1,719,939	989,399

The prior period payment history has been applied to the outstanding debtors as at year end and this indicated that payment rates have deteriorated in the last year due to economic downturn. In turn this has resulted in an increase in impairment losses associated with consumer debtors.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>25. Contracted services</b>		
Security services	2,788,135	1,896,100
<b>26. Operating grant expenditure</b>		
<b>Other subsidies</b>		
Electrification program	10,490,919	12,395,757
EPWP Program	1,342,272	1,156,577
Indigent subsidy	8,988,100	5,916,002
FMG Interns	912,706	1,131,253
MSIG	817,892	-
	<b>22,551,889</b>	<b>20,599,589</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>27. General expenses</b>		
Accounting fees	554,228	436,568
Advertising	712,780	543,502
Animal Feed	125,321	28,441
Assets expensed	801,107	567,844
Auditors remuneration	2,252,694	2,339,404
Bank charges	208,462	275,434
Cleaning	139,942	110,315
Community development and training	1,977,533	445,278
Conferences and seminars	1,579,861	956,816
Consulting and professional fees	3,229,493	5,147,567
Consumables	832,482	769,426
Contribution for legal fees	13,229,264	790,000
Crime prevention	240,484	118,156
Disaster costs	228,763	71,610
Electricity purchase	923,840	665,670
Entertainment	454,375	206,500
Fuel and oil	1,778,552	1,508,204
Hiring charges	453,392	607,168
IDP expenses	1,015,288	680,602
Insurance - general	2,412,184	1,843,602
Medical expenses	92,267	129,890
Motor vehicle expenses	334,174	230,667
Postage and courier	2,601	1,874
Pound claims	23,710	43,705
Printing and stationery	685,027	414,199
Project overhead expenses	645,454	768,562
Promotions	646,933	648,847
Protective clothing	424,544	120,707
Public participation	2,468,108	160,615
Skills development and equity planning	99,103	54,227
Special projects	6,704,144	2,983,131
Subscriptions and membership fees	917,996	-
Survey and planning	5,474,890	2,160,166
Telephone and fax	1,437,957	2,719,870
Tourism development	995,600	-
Training	2,219,929	2,107,174
Underdeposit banking	542	574
Ward committee stipend	1,811,130	3,045,320
Waste management	601,206	409,709
	<b>58,735,360</b>	<b>34,111,344</b>
<b>28. Auditors' remuneration</b>		
Fees	2,252,694	2,339,404

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>29. Cash generated from operations</b>		
(Deficit) surplus	(8,895,810)	14,742,173
<b>Adjustments for:</b>		
Depreciation and amortisation	15,779,889	11,239,112
Gain on sale of assets and liabilities	161,053	46,534
Debt impairment	1,719,939	989,399
Movements in retirement benefit assets and liabilities	1,121,359	3,589,563
Movements in provisions	3,259,788	2,919,249
<b>Changes in working capital:</b>		
Receivables from exchange transactions	3,362	(2,903,445)
Consumer debtors	(1,933,752)	-
Other receivables from non-exchange transactions	(6,190,427)	-
Payables from exchange transactions	14,119,184	(4,357,785)
VAT	790,290	4,965,179
Unspent conditional grants and receipts	(10,686,676)	10,416,979
	<b>9,248,199</b>	<b>41,646,958</b>

## 30. Risk management

### Financial risk management

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

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

### Liquidity risk

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

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

### Credit risk

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
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### 30. Risk management (continued)

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

Financial instrument	2014	2013
Main Bank account balances	-	1,368,567
Short term deposits	2,361,358	33,772,345
Receivables from exchange transactions	4,226,670	2,319,055
Receivables from non-exchange transactions	801,546	801,911

#### Market risk

##### Interest rate risk

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

##### Price risk

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

### 31. Unauthorised expenditure

Opening balance	38,110,305	16,618,555
Unauthorised expenditure in the current year	19,480,866	21,491,750
	<b>57,591,171</b>	<b>38,110,305</b>

This was due to variation orders, which was due to change in scope of work, as well as under budgeting of provision, as well as legal expenses.

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

#### Detailed breakdown of unauthorised expenditure per Vote - Operating

	2014 R (Actual)	2014 R (Budget)	2014 R (Variance)	Unauthorised
Executive and Council	45,349,649	41,538,821	(3,810,828)	(3,810,828)
Finance and Administration	57,221,638	63,537,089	6,867,175	-
Planning and Development	11,167,237	15,304,784	4,243,390	-
Public Safety	18,528,635	16,963,025	(1,565,610)	(1,565,610)
Waste Management	12,967,892	12,469,153	(498,740)	(498,740)
Road Transport	44,299,640	30,693,952	(13,605,688)	(13,605,688)
	<b>189,534,691</b>	<b>180,506,824</b>	<b>(8,370,301)</b>	<b>(19,480,866)</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>32. Financial instruments disclosure</b>		
<b>Categories of financial instruments</b>		
<b>2014</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Receivables from non-exchange transactions	801,546	801,546
Consumer debtors	2,532,868	2,532,868
Cash and cash equivalents	2,361,357	2,361,357
	<b>5,695,771</b>	<b>5,695,771</b>
<b>Financial liabilities</b>		
	At amortised cost	Total
Payables from exchange transactions	13,956,861	13,956,861
Bank overdraft	352,104	352,104
	<b>14,308,965</b>	<b>14,308,965</b>
<b>2013</b>		
<b>Financial assets</b>		
	At amortised cost	Total
Receivables from exchange transactions	3,362	3,362
receivables from non-exchange transactions	801,911	801,911
Consumer debtors	2,319,055	2,319,055
Cash and cash equivalents	35,140,912	35,140,912
	<b>38,265,240</b>	<b>38,265,240</b>
<b>Financial liabilities</b>		
	At amortised cost	Total
Payables from exchange transactions	2,570,776	2,570,776

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>33. Contingencies</b>		
Bank guarantees	135,000	135,000
Pending legal claims	1,200,000	-
	<b>1,335,000</b>	<b>135,000</b>

### Mhlontlo Municipality vs Yolisa Ndimu

Matter is currently delayed in the High Court interrum order interdicting disciplinary action against her.  
Pending legal costs not to exceed R200 000.

### Mhlontlo Municipality vs TB Spampoel

D.C hearing has been escalated to the Labour Court, with possible exposure of up to R600 000 in this matter.  
A second matter relates to the High Court as a review application is pending for a decision to refuse TB Spampoel to resuming his job, of which the estimated litigation will be +/- R400 000.

Workmen's compensation has not been provided for as the amount cannot be realistically estimated and the timing of the payment is yet to be determined.

### 34. Related parties

Relationships

Members of key management

Refer to Note 20 for S57 managers disclosures for remuneration, as well as breakdown of Councillors' allowances

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

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2014	2013
R	R

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### 35. Prior period errors

During the initial implementation of GRAP, the requirements of GRAP 17 regarding application and review of residual values, review of useful lives and assessment of assets for indicators of impairment were not complied with. During the previous financial period the existence of assets on the asset register was not confirmed by physical verification of all assets. During the current financial period these requirements were met and the effects of the prior period errors were corrected retrospectively. In addition, during the financial period various PPE assets were reclassified to more appropriate classes. The effects of all corrections and reclassifications are indicated below:

Furthermore, the calculation for the provision of landfill rehabilitation was also corrected due to mathematical inaccuracies in the original calculation.

There has also been a reclassification of the provision for leave and bonuses to employee benefits obligation.

balances	2013 Opening balance / 2012 Closing		
	As previously stated	Adjustment	As restated
<b>Statement of Financial Position</b>			
Property, Plant and Equipment	89,285,043	1,462,257	90,747,300
Provisions	(4,212,131)	728,951	(3,483,180)
Accumulated surplus	(131,150,984)	(2,191,208)	(133,342,192)
	<b>(46,078,072)</b>	-	<b>(46,078,072)</b>

The effect on the statement of Financial Performance for the 2013 Comparative figures have been restated as a result of -

#### Government grants and subsidies

1) The movement was due to grant revenue not recognised in the prior year, amount now recognised as revenue, as grant conditions were met in the prior period..

#### Depreciation

2) The main reason for the change in depreciation is due to the re-calculation of depreciation due to mathematical inaccuracies in the prior year which has been corrected

#### General expenses

3) Asset incorrectly expensed have been capitalised per the ledger.

#### Interest on Landfill

4) The restatement of the landfill provision as per above resulted in different finance portions being recognised as expenditure.

#### Investment property

5) Restatement of Investment property relates to additional properties being recognised and capitalised during 2013.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

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2014	2013
R	R

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### 35. Prior period errors (continued)

#### Property, plant and Equipment

6) Amendments due to additional amended depreciation rates as well as the effect of the opening balances corrected, as well as the movements on the capitalised landfill provision being amended.

#### Unspent Conditional Grants

7) Refer to explanation in 1 above, the effect on the unspent conditional grants

#### Provisions

8) The provisions were incorrectly stated due to inaccuracies in the provision for landfill rehabilitation that has now been corrected.

#### Accumulated Surplus

9) This is the cumulative effect of the errors in the opening balance as well as the corrections during 2013. R3 329 507 & R2 191 208 resulting in the R5 520 716 movement.

#### Statement of Financial Performance

	Previously Stated	Adjustments	Restated 2013
Government grants and subsidies	(134,665,725)	(3,347,255)	(138,012,980)
Depreciation and amortisation	10,843,987	395,125	11,239,112
General expenses	34,280,866	(169,522)	34,111,344
Interest on Landfill Site	420,877	(207,855)	213,022
	<b>(89,119,995)</b>	<b>(3,329,507)</b>	<b>(92,449,502)</b>

#### Statement of Financial Position

	Previously stated	Adjustments	Restated 2013
Investment property	27,076,536	365,599	27,442,135
Property, plant and equipment	99,017,816	871,055	99,888,871
Unspent Conditional Grants	(16,044,595)	3,347,256	(12,697,339)
Provisions	(5,031,690)	936,806	(4,094,884)
Accumulated surplus	(142,563,649)	(5,520,716)	(148,084,365)
	<b>(37,545,582)</b>	<b>-</b>	<b>(37,545,582)</b>

### 36. Fruitless and wasteful expenditure

Opening balance	187,890	36,721
Fruitless and wasteful expenditure - current year	27,239	151,169
	<b>215,129</b>	<b>187,890</b>

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

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

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>37. Irregular expenditure</b>		
Opening balance	96,153,507	57,377,259
Add: Irregular Expenditure - current year	96,726,911	38,776,248
	<b>192,880,418</b>	<b>96,153,507</b>

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

Recoverability of all irregular expenditure will be evaluated by council in terms of section 32 of MFMA. No Steps have been taken at this stage to recover any monies. A comprehensive SCM review was undertaken in the current financial year on 2011/12, 2012/13 and 2013/14 which has resulted in the disciplinary steps not yet being instituted against non-compliance.

### Details of irregular expenditure – current year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Non-compliance with supply chain management	No disciplinary steps have been instituted as yet as the SCM review has only been finalised as at the end of August 2014.	96,726,911

### 38. Arrear debts for councillors - MFMA S124 (b)

#### Councillor T Msongelwa

Current	9	41
30 Days	12	41
60 Days	42	40
90 Days	42	40
120 Days	2,276	2,569
	<b>2,381</b>	<b>2,731</b>

#### Councillor XB Ngoma

Current	68	126
30 Days	79	118
60 Days	109	118
90 Days	110	118
120 Days	2,084	12,522
	<b>2,450</b>	<b>13,002</b>

#### Councillor Z Songca

Current	-	5
30 Days	-	5
60 Days	1	5
90 Days	1	5
120 Days	108	1,174
	<b>110</b>	<b>1,194</b>

#### Councillor A Dawedi

120 days	1,628	4,046
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Arrear Rates and Service Charges owed by councillors outstanding for longer than 90 days.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
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### 39. 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.

<b>Operating leases - as lessee (expense)</b>	<b>2014</b>	<b>2013</b>
Minimum lease payments	714,348	685,774
- Due within one year		
- Due within 2 to 5 years	952,464	685,774
	<b>1,666,812</b>	<b>1,371,548</b>

Operating lease payments represent rentals payable by the municipality for certain of its 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 following restrictions (if any) have been imposed by the municipality in terms of the (specify) lease agreements:

- (i) The lessee shall not have the right to sublet, cede or assign the whole or any portion of the premises let.
- (ii) The lessor or its duly authorised agent, representative or servant shall have the right at all reasonable times to inspect the premises let.
- (iii) The lessee shall use the premises let for the sole purpose prescribed in the agreement.

### 40. Commitments

#### Authorised capital expenditure

##### Approved and Contracted for Expenditure

• Infrastructure	90,402,240	9,566,059
• Community	5,143,534	4,708,152
• Other	-	2,062,475
	<b>95,545,774</b>	<b>16,336,686</b>

This committed expenditure relates to Roads and other infrastructure developments and will be financed by available bank facilities, retained surpluses, as well as Grant funding, existing cash resources.

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

#### Contributions to organised local government

Current year subscription / fee	1,011,486	-
Amount paid - current year	(1,011,486)	-
	<b>-</b>	<b>-</b>

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

	2014 R	2013 R
<b>41. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>VAT - MFMA S125(1)</b>		
Opening balance	(2,893,280)	(3,362,555)
Amounts received - current year	9,179,787	5,185,482
Amounts received - previous year	2,319,485	3,362,555
Amounts claimed - current year	(10,135,372)	(8,080,919)
Amounts disallowed & penalties	228,107	5,337
Amounts payable - current year	-	(3,180)
	<b>(1,301,273)</b>	<b>(2,893,280)</b>

2013/14 closing balance consists of refunds due for May 2014 & June 2014.

2012/13 closing balance consists of refunds due for Mar, April, May & June 2013.

### Audit fees

Current year subscription / fee	2,551,038	2,339,404
Amount paid - current year	(2,551,038)	(2,339,404)
	-	-

### PAYE and UIF

Current year subscription / fee	11,470,443	10,206,348
Amount paid - current year	(11,470,443)	(10,206,348)
	-	-

### Pension and Medical Aid Deductions

Current year subscription / fee	8,680,861	-
Amount paid - current year	(8,680,861)	-
	-	-

## 42. Material variances - Budget vs actual and Approved vs Adjusted Budget

### Explanation of material variances

#### STATEMENT OF FINANCIAL PERFORMANCE

#### REVENUE

##### 42.1 - Property rates

Budget for property rates was presented before taking into account the rebates.

##### 42.2. - Government grants and Subsidies

Budget for the equitable share and other own municipal investments grants that were not utilised (balance) in 2012/13 were included here. These monies were already in the municipal bank accounts at the beginning of the financial year.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

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2014	2013
R	R

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

#### 42.3 - Other Income

The final budget of R 30 252 000 for other income consists of two major figures; R 17 746 209.13 which was budgeted as operating reserves and R 9 767 760.00 for Vat recovery. These two amounts when added together amounted to R 27 513 969.13. Operating reserves were included in the budget in order to be able utilise the available balance as at end of 2012/13 financial year of the equitable share and other investments not committed to long-term commitments. Both of the two amounts cannot be shown in the statement of financial performance as per GRAP Statements (They form part of the reserves). However the operating expenditure being funded by the said reserves has to be disclosed in the statement of financial performance.

### EXPENDITURE

#### 42.4 - Personnel

The budget for bonus and leaves provisions was understated. Excessive expenditure incurred on acting allowance, salaries etc.

#### 42.5 - Depreciation and amortisation

The budget for Depreciation was not sufficient. The basis was the actuals of the previous financial year.

#### 42.6 - Debt impairment

Budget was overstated.

#### 42.7 - Contracted services

Budget for contracted services was incorrectly classified under general expenses.

#### 42.8 - Operating grant expenditure

National treasury's budget format does not have separate item named like this, so the budget for grants operating expenses is included in the general expenses' budget if there's no separate line item provided by the format.

#### 42.9 - Finance costs

Expenditure incurred under this item is the interest on overdue accounts. Budget for the services that the municipality paid late is under general expenses.

#### 42.10 - General expenses

The positive variance is caused by the misclassification and the separately disclosed items of which the actuals of those items couldn't be reported here. The massive positive variance covers the contracted services, expenditure on grants and any other item noted above.

#### 42.11 - Loss on disposal of assets

This item was not budgeted for.

### STATEMENT OF FINANCIAL POSITION

#### CURRENT ASSETS

#### 42.12 - Inventories

The basis of the budget was the year to date total at that time which was just few days till the year end.

#### 42.13 - Receivables from non-exchange transactions

Budget for vat receivable was included here.

#### 42.14 - Consumer debtors

Budget was overstated. Debtors were fully impaired in 2012/13 financial year, that fact was overlooked when budgeting.

# Mhlontlo Local Municipality

Financial Statements for the year ended 30 June 2014

## Notes to the Financial Statements

---

2014	2013
R	R

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

#### 42.15 - Property, plant and equipment

Budget for PPE was based on the year to date actual which included work in progress. This item has been restated in some areas of which at that time of the budget some changes were not yet made.

#### 42.16 - Unspent Conditional Grants

Budget was overstated.

#### 42.17 - Bank overdraft

Cash book has reconciled items that were paid directly at the bank; they are not shown in the bank statement. The matter is still being handled.

### CASH FLOW STATEMENT

#### 42.18 - Ratepayer and others

Under collection and errors in the budget.

#### 42.19 - Grants

Some grants were offset by national treasury.

#### 42.20 - Interest Income

Under collected. Transfers from call accounts were being made regularly to fully utilise the funds hence we could not earn interest.

#### 42.21 - Payments

Some operations were stalled due to funds massive cuts on capital grants by National Treasury.

#### 42.22 - Decrease in non-current receivables/Decrease in non-current assets

This is consolidated cash flow which takes into account other investment account. Budget was prepared looking at the main account, but showing the monies that will be transferred from call accounts to the main account. The effect of the money from investments is shown at the bottom. This financial year shows the net decrease, but because we had a huge amount opening balance we managed to have the positive balance at year end.

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

The municipality has the deficit of R- 15 908 962. There are two major factors that had an impact on this. The municipality had huge balance of its investment for equitable share and other non-investments call accounts amounting to R 17 746 209.13 as at end 2012/13 and also the municipality is constantly receiving the refunds from SARS. These two form part of the current assets and have a bearing on the surplus for the previous year. In order for the municipality to be able to utilise the funds the operating expenditure to be funded by these current assets has to be budgeted for in the statement of financial performance. It should also be noted that even though the operating expenditure is provided for in the statement of financial performance, corresponding revenue cannot be included in the statement of financial performance as per GRAP statements. This is simply because the revenue was already recognised so its part of the surplus for that year the current assets relates to. Therefore the operating expenditure incurred funded by those current assets is mostly the cause of the deficit, not that there was no cash available.