



**MKHONDO LOCAL MUNICIPALITY**

(Registration number MP303)

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2014**

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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<b>Nature of business and principal activities</b>	Operating as a Local Municipality
<b>Mayoral committee</b>	
<b>Executive Mayor</b>	Cllr. B.H. Mtshali
<b>Speaker</b>	Cllr. P.C. Langa
<b>Chief Whip</b>	Cllr. Z.E. Mthimkhulu
<b>Member of Mayoral Committee - Finance and Corporate service</b>	Cllr. N.C. Ndhlovu
<b>Member of Mayoral Committee - Technical Services</b>	Cllr. V.D. Nkosi
<b>Councillors</b>	Cllr. R.J.A. Wilson (Resigned) Cllr. D.M.Thwala Cllr. S.J. Methula Cllr. S.S. Mathebule Cllr. S.N. Kambule Cllr. C.G. Mtshali Cllr. T.E. Khumalo Cllr. B.J. Vilakazi Cllr. N.L. Nhlengethwa Cllr. S.C. Mtshali Cllr. A.T. Thwala Cllr. T.S. Nkosi Cllr. P.S. Nhlabathi Cllr. S.P. Kunene Cllr. N.B. Masuku Cllr. M.D. Ntuli Cllr. L.V.A. Mkhwa Cllr. S.R. Sangweni Cllr. Z.J. Mnisi Cllr. K.D. Masondo Cllr. M.O. Nkosi Cllr. M.L. Yende Cllr. M.E. Phakathi Cllr. H.P. Sunkel Cllr. T.E. Motha Cllr. V.W. Masuku Cllr. J.L.I. Bruss Cllr. H.A. Mncube Cllr. T.G.F. Nhlek Cllr. B.T. Mabuza Cllr. G.T. Nkosi Cllr. J.M. Phakathi Cllr. L. Bosch Cllr. S.E. Nhleko Cllr. H.C. Du Toit
<b>Grading of local authority</b>	Grade 3 local municipality Category B Municipality as defined by the Municipal Structures Act no. 117 of 1998

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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<b>Accounting Officer</b>	Mr A.N. Mahlangu
<b>Chief Finance Officer (CFO)</b>	Mr S. Thobela
<b>Registered office</b>	Cnr Market & De Wet street Piet Retief 2380
<b>Business address</b>	Cnr Market & De Wet street Piet Retief 2380
<b>Postal address</b>	P.O. Box 23 Piet Retief 2380
<b>Bankers</b>	First National Bank A division of First Rand Limited
<b>Auditors</b>	Auditor General South Africa Registered Auditors
<b>Rounding</b>	All amounts have been rounded to the nearest R1.00
<b>Telephone number</b>	(017) 826 8100
<b>Fax Number</b>	(017) 826 3129
<b>Web address</b>	<a href="http://www.mkhondo.gov.za">www.mkhondo.gov.za</a>
<b>Email address</b>	<a href="mailto:sthobela@mkhondo.org.za">sthobela@mkhondo.org.za</a>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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Auditor General

# Mkhondo Local Municipality

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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 (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Finance Management Grant
MSIG	Municipal Systems Improvement Grant
FMG	Financial Management Grant

# Mkhondo Local Municipality

Annual 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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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 annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 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.

The annual financial statements set out on pages 6 to 97, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed by:

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**Accounting Officer**  
**Municipal Manager (Accounting Officer)**  
**eMkhondo**

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2014.

### 1. Review of activities

#### Main business and operations

The municipality operates as a local municipality within South Africa.

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

Net surplus of the municipality was R 7,983,558 (2013: deficit R 66,188,059).

### 2. Going concern

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

### 3. Subsequent events

The accounting officer is aware of a matter arising since the end of the financial period. Please refer to note 45.

### 4. Accounting Officer's interest in contracts

The accounting officer has no interest in contracts awarded.

### 5. Accounting policies

The annual financial statements prepared in accordance with prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name

Mr A.N. Mahlangu

### 7. Corporate governance

#### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the MFMA (Municipal Finance Management Act, No.56 of 2003). The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a monthly basis.

#### Executive Mayor and Municipal Manager

The roles of Executive Mayor and Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Officer's Report

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### Audit committee

The Audit Committee members for the period under review were as follows:

Position	Name	Date appointed
Chairperson:	Adv. S.M. Mthembu(Chair)	01-02-2014(Extension of contract)
Members:	Mr. W.J. Khumalo	01-05-2014
	Ms. C.A. Nyembe	01-05-2014
	Mr. M.J. Potgieter	01-05-2014
	Adv. LT Nevondwe	01-05-2014(Extension of contract)
	Mr. M. Weber	01-01-2014(Extension of contract)

In terms of Section 166 of the Municipal Finance Management Act(Act 56 of 2003), the municipality must appoint members of the Audit Committee. Notwithstanding that councillors appointed by the municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipal entity onto the audit committee.

### Internal audit

The municipality has a functional Internal Audit Unit. This is in compliance with the MFMA.

### 8. Bankers

The municipality mainly banks with First National Bank Limited a division of First Rand limited.

### 9. Auditors

Auditor General South Africa will continue in office for the next financial period.

### 10. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

Mkhondo Local Municipality did not enter into any Public Private Partnership for the 2013/14 financial year, nor does it have any existing PPP's.



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

Figures in Rand	Notes	2014	2013 Restated
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	12	25,500,728	34,123,421
Consumer debtors	11	18,498,601	15,213,556
Inventories	8	5,194,856	2,498,686
Receivables from exchange transactions	9	2,142,717	1,893,415
VAT receivable	10	11,143,456	3,764,472
<b>Total current assets</b>		<b>62,480,358</b>	<b>57,493,550</b>
Non-Current Assets			
Biological assets	3	78,745,390	58,912,732
Investment property	4	18,949,100	19,588,600
Property, plant and equipment	5	1,204,556,699	1,187,880,829
Other financial assets	6	16,251,926	20,314,756
<b>Total Non-current assets</b>		<b>1,318,503,115</b>	<b>1,286,696,917</b>
<b>Total Assets</b>		<b>1,380,983,473</b>	<b>1,344,190,467</b>
<b>Liabilities</b>			
Current Liabilities			
Consumer deposits	19	3,054,632	2,946,120
Other financial liabilities	14	1,160,914	2,942,574
Provisions	16	242,944	206,282
Payables from exchange transactions	17	101,643,283	47,538,646
Unspent conditional grants and receipts	15	4,927,440	33,406,813
<b>Total current liabilities</b>		<b>111,029,213</b>	<b>87,040,435</b>
Non-Current Liabilities			
Other financial liabilities	14	1,868,643	1,290,563
Employee benefit obligation	7	19,207,426	16,705,268
Provisions	16	11,231,167	9,490,739
<b>Total Non-Current Liabilities</b>		<b>32,307,236</b>	<b>27,486,570</b>
<b>Total Liabilities</b>		<b>143,336,449</b>	<b>114,527,005</b>
<b>Net Assets</b>		<b>1,237,647,024</b>	<b>1,229,663,462</b>
<b>Net Assets</b>			
Accumulated surplus		1,237,647,024	1,229,663,462
<b>Total Net Assets</b>		<b>1,237,647,024</b>	<b>1,229,663,462</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand	Notes	2014	2013 Restated
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	103,172,017	98,269,841
Income from agency services		7,290,663	4,785,179
Licences and permits		41,059	20,375
Rental income		528,131	556,634
Other income	25	13,426,266	11,867,058
Interest received	30	5,334,396	2,223,914
Gains on disposal of assets		761,179	935,742
<b>Total revenue from exchange transactions</b>		<b>130,553,711</b>	<b>118,658,743</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	21	19,951,677	18,622,388
<b>Transfer revenue</b>			
Government grants & subsidies	23	218,755,451	152,729,831
Fines		4,033,691	953,302
<b>Total revenue from non-exchange transactions</b>		<b>242,740,819</b>	<b>172,305,521</b>
<b>Total revenue</b>	20	<b>373,294,530</b>	<b>290,964,264</b>
<b>Expenditure</b>			
Personnel	27	(97,763,984)	(84,719,507)
Remuneration of councillors	28	(12,104,386)	(12,159,230)
Depreciation and amortisation	32	(72,525,208)	(72,201,942)
Impairment loss	33	(3,345,047)	(1,917,044)
Finance costs	34	(4,067,686)	(3,733,868)
Debt impairment	29	(19,646,494)	(18,823,525)
Repairs and maintenance		(24,389,114)	(14,267,707)
Bulk purchases	37	(76,580,730)	(63,157,736)
Grants and subsidies paid	36	(3,875,969)	(3,465,897)
General Expenses	26	(73,529,328)	(79,779,243)
<b>Total expenditure</b>		<b>(387,827,946)</b>	<b>(354,225,699)</b>
<b>Operating deficit</b>		<b>(14,533,416)</b>	<b>(63,261,435)</b>
Fair value adjustments	31	22,516,974	(2,926,624)
<b>Surplus (deficit) for the year</b>		<b>7,983,558</b>	<b>(66,188,059)</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

<b>Figures in Rand</b>	<b>Accumulated surplus</b>	<b>Total net assets</b>
Opening balance as previously reported	1,224,563,907	1,224,563,907
Adjustments		
Prior year adjustments	71,287,614	71,287,614
<b>Balance at 01 July 2012 as restated*</b>	<b>1,295,851,521</b>	<b>1,295,851,521</b>
Changes in net assets		
Deficit for the year	(66,188,059)	(66,188,059)
Total changes	(66,188,059)	(66,188,059)
Opening balance as previously reported	1,125,710,731	1,125,710,731
Adjustments		
Prior year adjustments	103,952,735	103,952,735
<b>Balance at 01 July 2013 as restated*</b>	<b>1,229,663,466</b>	<b>1,229,663,466</b>
Changes in net assets		
Deficit for the year	7,983,558	7,983,558
Total changes	7,983,558	7,983,558
<b>Balance at 30 June 2014</b>	<b>1,237,647,024</b>	<b>1,237,647,024</b>

Note(s)

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

Figures in Rand	Notes	2014	2013 Restated
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property Taxation		15,774,465	13,907,945
Sale of goods and services		117,722,017	115,154,066
Grants		194,820,769	169,258,635
Interest income		5,334,396	2,223,914
		<b>333,651,647</b>	<b>300,544,560</b>
<b>Payments</b>			
Employee costs		(108,316,198)	(94,107,191)
Suppliers		(138,499,284)	(172,060,491)
Finance costs		(4,067,686)	(3,733,868)
		<b>(250,883,168)</b>	<b>(269,901,550)</b>
<b>Net cash flows from operating activities</b>	<b>38</b>	<b>82,768,479</b>	<b>30,643,010</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(98,092,348)	(40,992,234)
Proceeds from sale of property, plant and equipment	5	1,157,610	935,742
Proceeds from sale of financial assets		6,747,146	(559,312)
<b>Net cash flows from investing activities</b>		<b>(90,187,592)</b>	<b>(40,615,804)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(1,203,580)	(1,341,754)
<b>Net cash flows from financing activities</b>		<b>(1,203,580)</b>	<b>(1,341,754)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(8,622,693)</b>	<b>(11,314,548)</b>
Cash and cash equivalents at the beginning of the year		34,123,421	45,437,969
<b>Cash and cash equivalents at the end of the year</b>	<b>12</b>	<b>25,500,728</b>	<b>34,123,421</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	116,324,000	(2,462,000)	<b>113,862,000</b>	103,172,017	<b>(10,689,983)</b>	Variance not material (below 10%)
Income from agency services	5,800,000	2,374,000	<b>8,174,000</b>	7,290,663	<b>(883,337)</b>	Projected income from agency revenue were over budgeted on the principle of 20/80 split.
Licences and permits	26,000	68,000	<b>94,000</b>	41,059	<b>(52,941)</b>	Projected licence and permits from business and hawkers were over budgeted.
Rental income	525,000	412,000	<b>937,000</b>	528,131	<b>(408,869)</b>	Projected rental income was over budgeted as some of the properties belonging to the municipality did not levy rental charges as rental contracts were not in place.
Other income - (rollup)	33,491,000	1,081,000	<b>34,572,000</b>	13,426,266	<b>(21,145,734)</b>	Projected amount was budgeted on the basis that harvesting of Pine, wattle and gum trees (Forestry) will take place. However that will only materialise in the 2014/15 FY

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Interest received - investment	1,880,000	750,000	<b>2,630,000</b>	5,334,396	<b>2,704,396</b>	Actual interest received on investment increased due to the ring fencing of 2012/13 approved roll over of R31,6million which earned additional interest.
<b>Total revenue from exchange transactions</b>	<b>158,046,000</b>	<b>2,223,000</b>	<b>160,269,000</b>	<b>129,792,532</b>	<b>(30,476,468)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	25,222,000	-	<b>25,222,000</b>	19,951,677	<b>(5,270,323)</b>	Over budgeted, new property developments were envisage during the budget phase which never materialised
Government grants & subsidies	205,529,000	33,524,000	<b>239,053,000</b>	218,755,451	<b>(20,297,549)</b>	The increase in the variance is due to the revenue realised when conditions of the grant are meet including MIG
<b>Transfer revenue</b>						
Fines	1,167,000	23,000	<b>1,190,000</b>	4,033,691	<b>2,843,691</b>	Due to the collection success on the trucks passing through town
<b>Total revenue from non-exchange transactions</b>	<b>231,918,000</b>	<b>33,547,000</b>	<b>265,465,000</b>	<b>242,740,819</b>	<b>(22,724,181)</b>	
<b>Total revenue</b>	<b>389,964,000</b>	<b>35,770,000</b>	<b>425,734,000</b>	<b>372,533,351</b>	<b>(53,200,649)</b>	
<b>Expenditure</b>						
Personnel	(88,182,000)	(5,066,000)	<b>(93,248,000)</b>	(97,763,984)	<b>(4,515,984)</b>	Variance not material (below 10%)
Remuneration of councillors	(10,333,000)	(970,000)	<b>(11,303,000)</b>	(12,104,386)	<b>(801,386)</b>	Variance not material (below 10%)

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Depreciation and amortisation	(69,183,000)	-	<b>(69,183,000)</b>	(72,525,208)	<b>(3,342,208)</b>	Variance not material (below 10%)
Impairment loss/ Reversal of impairments	-	-	-	(3,345,047)	<b>(3,345,047)</b>	The impairment was due to the Amsterdam building damages during service delivery protest
Finance costs	(1,940,000)	1,060,000	<b>(880,000)</b>	(4,067,686)	<b>(3,187,686)</b>	Variance not material (below 10%)
Debt impairment	(15,491,000)	-	<b>(15,491,000)</b>	(19,646,494)	<b>(4,155,494)</b>	Due to more debt impairment during the year being recognised
Repairs and maintenance	(1,393,000)	(17,308,000)	<b>(18,701,000)</b>	(24,389,114)	<b>(5,688,114)</b>	Under spending due to lack of replacement/ maintenance plans by Departments particularly on infrastructure assets
Bulk purchases	(65,628,000)	(8,532,000)	<b>(74,160,000)</b>	(76,580,730)	<b>(2,420,730)</b>	Projected amount was not under budgeted as no scientific calculations were performed on all electricity purchased from Eskom
Contracted Services	(16,124,000)	(8,137,000)	<b>(24,261,000)</b>	-	<b>24,261,000</b>	Budget allocation has been allocated to general and repairs and maintenance
Grants and subsidies paid	(18,455,000)	10,222,000	<b>(8,233,000)</b>	(3,875,969)	<b>4,357,031</b>	Less consumers registered for free basis water and electricity as per the indigent policy.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
General Expenses	(86,546,000)	26,333,000	<b>(60,213,000)</b>	(73,529,328)	<b>(13,316,328)</b>	Under spending on votes due to budgetary monitoring by Departments
<b>Total expenditure</b>	<b>(373,275,000)</b>	<b>(2,398,000)</b>	<b>(375,673,000)</b>	<b>(387,827,946)</b>	<b>(12,154,946)</b>	
<b>Operating deficit</b>	<b>16,689,000</b>	<b>33,372,000</b>	<b>50,061,000</b>	<b>(15,294,595)</b>	<b>(65,355,595)</b>	
Gain on disposal of assets and liabilities	-	2,810,000	<b>2,810,000</b>	761,179	<b>(2,048,821)</b>	Net transfer after auctioned fleet and its carrying values
Fair value adjustments	-	-	-	22,516,974	<b>22,516,974</b>	Revaluation of biological assets
	-	<b>2,810,000</b>	<b>2,810,000</b>	<b>23,278,153</b>	<b>20,468,153</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>16,689,000</b>	<b>36,182,000</b>	<b>52,871,000</b>	<b>7,983,558</b>	<b>(44,887,442)</b>	



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	6,025,000	(2,098,000)	<b>3,927,000</b>	5,194,856	<b>1,267,856</b>	This was due revaluation of inventory after the stocktake
Other financial assets	33,674,000	15,578,000	<b>49,252,000</b>	-	<b>(49,252,000)</b>	There were investment that was paidout during the year.
Receivables from exchange transactions	3,708,000	-	<b>3,708,000</b>	2,142,717	<b>(1,565,283)</b>	Sharp increase in the collection of receivables
VAT receivable	-	-	-	11,143,456	<b>11,143,456</b>	Due to fact that the municipality had paid a large amount to it
Consumer debtors	127,974,000	(12,429,000)	<b>115,545,000</b>	18,498,601	<b>(97,046,399)</b>	commitments The amount disclosed as per the budget did not was a gross amount, no provision for doubtful debts was taken into account
Cash and cash equivalents	47,921,000	(46,373,000)	<b>1,548,000</b>	25,500,728	<b>23,952,728</b>	The amount reflected on the adjustment budget only was for the primary bank account balance excluding short term deposits.
	<b>219,302,000</b>	<b>(45,322,000)</b>	<b>173,980,000</b>	<b>62,480,358</b>	<b>(111,499,642)</b>	
<b>Non-Current Assets</b>						
Biological assets	55,216,000	3,697,000	<b>58,913,000</b>	78,745,390	<b>19,832,390</b>	This was due revaluation of additional biological assets.
Investment property	42,400,000	(23,457,000)	<b>18,943,000</b>	18,949,100	<b>6,100</b>	Variance not material (below 10%)
Property, plant and equipment	1,242,555,000	(103,191,000)	<b>1,139,364,000</b>	1,204,556,699	<b>65,192,699</b>	Variance not material (below 10%)

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Intangible assets	1,221,000	(844,000)	<b>377,000</b>	-	<b>(377,000)</b>	Prior period error
Other financial assets	22,503,000	67,197,000	<b>89,700,000</b>	16,251,926	<b>(73,448,074)</b>	There were investment that was paidout during the year.
Investments	39,675,000	(21,314,000)	<b>18,361,000</b>	-	<b>(18,361,000)</b>	There were investment that was paidout during the year.
	<b>1,403,570,000</b>	<b>(77,912,000)</b>	<b>1,325,658,000</b>	<b>1,318,503,115</b>	<b>(7,154,885)</b>	
<b>Total Assets</b>	<b>1,622,872,000</b>	<b>(123,234,000)</b>	<b>1,499,638,000</b>	<b>1,380,983,473</b>	<b>(118,654,527)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	1,475,000	(1,475,000)	-	1,160,914	<b>1,160,914</b>	No budgeted figure for the short term portion
Payables from exchange transactions	45,626,000	(7,685,000)	<b>37,941,000</b>	101,643,286	<b>63,702,286</b>	Accruals at year end not taken into account
Consumer deposits	3,516,000	-	<b>3,516,000</b>	3,054,632	<b>(461,368)</b>	New connections with regards to new developments
Unspent conditional grants and receipts	-	-	-	4,927,440	<b>4,927,440</b>	Not budgeted for in the current year
Provisions	4,570,000	1,253,000	<b>5,823,000</b>	242,944	<b>(5,580,056)</b>	Projected amount for landfill and long service were under budgeted
	<b>55,187,000</b>	<b>(7,907,000)</b>	<b>47,280,000</b>	<b>111,029,216</b>	<b>63,749,216</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	4,303,000	-	<b>4,303,000</b>	1,868,643	<b>(2,434,357)</b>	Payments to DBSA were made during the year
Employee benefit obligation	9,198,000	499,000	<b>9,697,000</b>	19,207,426	<b>9,510,426</b>	No increase in employee benefits were expected

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Provisions	-	-	-	11,231,167	<b>11,231,167</b>	Long term portion not budgeted for in the current year
	<b>13,501,000</b>	<b>499,000</b>	<b>14,000,000</b>	<b>32,307,236</b>	<b>18,307,236</b>	
<b>Total Liabilities</b>	<b>68,688,000</b>	<b>(7,408,000)</b>	<b>61,280,000</b>	<b>143,336,452</b>	<b>82,056,452</b>	
<b>Net Assets</b>	<b>1,554,184,000</b>	<b>(115,826,000)</b>	<b>1,438,358,000</b>	<b>1,237,647,021</b>	<b>(200,710,979)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,554,184,000	(115,826,000)	<b>1,438,358,000</b>	1,237,647,021	<b>(200,710,979)</b>	The net movement during the year was not taken into account for the year
<b>Total Net Assets</b>	<b>1,554,184,000</b>	<b>(115,826,000)</b>	<b>1,438,358,000</b>	<b>1,237,647,021</b>	<b>(200,710,979)</b>	

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Taxation	-	-	-	15,129,808	<b>15,129,808</b>	Due to under collection of billed amount i.e. consumers not honouring the property rates accounts
Sale of goods and services	105,540,000	41,225,000	<b>146,765,000</b>	97,770,551	<b>(48,994,449)</b>	Due to under collection of billed amount i.e. consumers not honouring the electricity, water, sanitation and refuse accounts
Grants	180,729,000	33,524,000	<b>214,253,000</b>	142,410,229	<b>(71,842,771)</b>	National treasury guidance not followed during the budget process
Interest income	1,880,000	750,000	<b>2,630,000</b>	-	<b>(2,630,000)</b>	Included in other receipts
Other receipts	-	-	-	38,678,551	<b>38,678,551</b>	Not taken into account
	<b>288,149,000</b>	<b>75,499,000</b>	<b>363,648,000</b>	<b>293,989,139</b>	<b>(69,658,861)</b>	
<b>Payments</b>						
Employee costs	(266,835,000)	(10,388,000)	<b>(277,223,000)</b>	(79,280,147)	<b>197,942,853</b>	Under spending on votes due to budgetary monitoring by Departments
Suppliers	-	-	-	(140,881,727)	<b>(140,881,727)</b>	Under spending on votes due to budgetary monitoring by Departments
Other payments	(1,940,000)	1,060,000	<b>(880,000)</b>	(2,148)	<b>877,852</b>	Over budgeted for
Taxes on surpluses	(18,455,000)	10,222,000	<b>(8,233,000)</b>	-	<b>8,233,000</b>	Wrong allocation of budget
	<b>(287,230,000)</b>	<b>894,000</b>	<b>(286,336,000)</b>	<b>(220,164,022)</b>	<b>66,171,978</b>	

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Approved adjustments budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net cash flows from operating activities</b>	<b>919,000</b>	<b>76,393,000</b>	<b>77,312,000</b>	<b>73,825,117</b>	<b>(3,486,883)</b>	
<b>Cash flows from investing activities</b>						
Receipts	-	2,810,000	<b>2,810,000</b>	-	<b>(2,810,000)</b>	Wrong allocation of budget
Other cash non cash item	(73,975,000)	(27,537,000)	<b>(101,512,000)</b>	-	<b>101,512,000</b>	Wrong allocation of budget
<b>Net cash flows from investing activities</b>	<b>(73,975,000)</b>	<b>(24,727,000)</b>	<b>(98,702,000)</b>	-	<b>98,702,000</b>	
<b>Cash flows from financing activities</b>						
Repayment of other financial liabilities	(1,374,000)	-	<b>(1,374,000)</b>	-	<b>1,374,000</b>	Wrong allocation of budget
<b>Net cash flows from financing activities</b>	<b>(1,374,000)</b>	-	<b>(1,374,000)</b>	-	<b>1,374,000</b>	
Net increase/(decrease) in cash and cash equivalents	(74,430,000)	51,666,000	<b>(22,764,000)</b>	73,825,117	<b>96,589,117</b>	Wrong allocation of budget
Cash and cash equivalents at the beginning of the year	83,299,000	(14,138,000)	<b>69,161,000</b>	-	<b>(69,161,000)</b>	Wrong allocation of budget
<b>Cash and cash equivalents at the end of the year</b>	<b>8,869,000</b>	<b>37,528,000</b>	<b>46,397,000</b>	<b>73,825,117</b>	<b>27,428,117</b>	

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2014</b>											
<b>Financial Performance</b>											
Property rates	25,222,000	-	25,222,000	-	-	25,222,000	19,951,677	-	(5,270,323)	79 %	79 %
Service charges	116,324,000	(2,462,000)	113,862,000	-	-	113,862,000	103,172,017	-	(10,689,983)	91 %	89 %
Investment revenue	1,880,000	750,000	2,630,000	-	-	2,630,000	5,334,396	-	2,704,396	203 %	284 %
Transfers recognised - operational	115,106,000	1,924,000	117,030,000	-	-	117,030,000	125,126,026	-	8,096,026	107 %	109 %
Other own revenue	41,009,000	6,768,000	47,777,000	-	-	47,777,000	48,597,963	-	820,963	102 %	119 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>299,541,000</b>	<b>6,980,000</b>	<b>306,521,000</b>	<b>-</b>	<b>-</b>	<b>306,521,000</b>	<b>302,182,079</b>	<b>-</b>	<b>(4,338,921)</b>	<b>99 %</b>	<b>101 %</b>
Employee costs	(88,182,000)	(5,066,000)	(93,248,000)	-	-	(93,248,000)	(97,763,984)	(4,515,984)	(4,515,984)	105 %	111 %
Remuneration of councillors	(10,333,000)	(970,000)	(11,303,000)	-	-	(11,303,000)	(12,104,386)	(801,386)	(801,386)	107 %	117 %
Debt impairment	-	-	-	-	-	-	(22,991,541)	(22,991,541)	(22,991,541)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(69,183,000)	-	(69,183,000)	-	-	(69,183,000)	(72,525,208)	(3,342,208)	(3,342,208)	105 %	105 %
Finance charges	(1,940,000)	1,060,000	(880,000)	-	-	(880,000)	(4,067,686)	(3,187,686)	(3,187,686)	462 %	210 %
Materials and bulk purchases	(67,020,000)	(25,841,000)	(92,861,000)	-	-	(92,861,000)	(76,580,730)	16,280,270	16,280,270	82 %	114 %
Transfers and grants	(18,455,000)	10,222,000	(8,233,000)	-	-	(8,233,000)	(3,875,969)	4,357,031	4,357,031	47 %	21 %
Other expenditure	(118,162,000)	18,197,000	(99,965,000)	-	-	(99,965,000)	(97,918,442)	2,046,558	2,046,558	98 %	83 %
<b>Total expenditure</b>	<b>(373,275,000)</b>	<b>(2,398,000)</b>	<b>(375,673,000)</b>	<b>-</b>	<b>-</b>	<b>(375,673,000)</b>	<b>(387,827,946)</b>	<b>(12,154,946)</b>	<b>(12,154,946)</b>	<b>103 %</b>	<b>104 %</b>
<b>Surplus/(Deficit)</b>	<b>(73,734,000)</b>	<b>4,582,000</b>	<b>(69,152,000)</b>	<b>-</b>	<b>-</b>	<b>(69,152,000)</b>	<b>(85,645,867)</b>	<b>-</b>	<b>(16,493,867)</b>	<b>124 %</b>	<b>116 %</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	65,623,000	31,600,000	97,223,000	-		97,223,000	93,629,425		(3,593,575)	96 %	143 %
Contributions recognised - capital and contributed assets	24,800,000	-	24,800,000	-		24,800,000	-		(24,800,000)	- %	- %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>16,689,000</b>	<b>36,182,000</b>	<b>52,871,000</b>	<b>-</b>		<b>52,871,000</b>	<b>7,983,558</b>		<b>(44,887,442)</b>	<b>15 %</b>	<b>48 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>16,689,000</b>	<b>36,182,000</b>	<b>52,871,000</b>	<b>-</b>		<b>52,871,000</b>	<b>7,983,558</b>		<b>(44,887,442)</b>	<b>15 %</b>	<b>48 %</b>

### Capital expenditure and funds sources

#### Cash flows

Net cash from (used) operating	919,000	76,393,000	77,312,000	-		77,312,000	82,768,479		5,456,479	107 %	9,006 %
Net cash from (used) investing	(73,975,000)	(24,727,000)	(98,702,000)	-		(98,702,000)	(90,187,592)		8,514,408	91 %	122 %
Net cash from (used) financing	(1,374,000)	-	(1,374,000)	-		(1,374,000)	(1,203,580)		170,420	88 %	88 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(74,430,000)</b>	<b>51,666,000</b>	<b>(22,764,000)</b>	<b>-</b>		<b>(22,764,000)</b>	<b>(8,622,693)</b>		<b>14,141,307</b>	<b>38 %</b>	<b>12 %</b>
Cash and cash equivalents at the beginning of the year	83,299,000	(14,138,000)	69,161,000	-		69,161,000	34,123,421		(35,037,579)	49 %	41 %
<b>Cash and cash equivalents at year end</b>	<b>8,869,000</b>	<b>37,528,000</b>	<b>46,397,000</b>	<b>-</b>		<b>46,397,000</b>	<b>25,500,728</b>		<b>20,896,272</b>	<b>55 %</b>	<b>288 %</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
<b>2013</b>				
<b>Financial Performance</b>				
Property rates				18,622,388
Service charges				98,269,841
Investment revenue				2,223,914
Transfers recognised - operational				152,729,831
Other own revenue				19,073,853
<b>Total revenue (excluding capital transfers and contributions)</b>				<b>290,919,827</b>
Employee costs	532,131	-	532,131	(84,719,507)
Remuneration of councillors	(1,934,456)	-	(1,934,456)	(12,159,230)
Debt impairment	(3,241,066)	-	(3,241,066)	(18,823,525)
Depreciation and asset impairment	(70,749,167)	-	(70,749,167)	(71,714,111)
Finance charges	(239,294)	-	(239,294)	(3,733,868)
Materials and bulk purchases	(1,181,366)	-	(1,181,366)	(63,157,736)
Transfers and grants	255,103	-	255,103	(3,465,897)
Other expenditure	(5,730,200)	-	(5,730,200)	(104,809,100)
<b>Total expenditure</b>	<b>(82,288,315)</b>	<b>-</b>	<b>(82,288,315)</b>	<b>(362,582,974)</b>
<b>Surplus/(Deficit)</b>				<b>(71,663,147)</b>
Fair value adjustment				(2,926,624)
<b>Surplus (Deficit) after capital transfers and contributions</b>				<b>(74,589,771)</b>
<b>Surplus/(Deficit) for the year</b>				<b>(74,589,771)</b>



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
<b>Cash flows</b>				
Net cash from (used) operating				30,643,010
Net cash from (used) investing				(40,615,804)
Net cash from (used) financing				(1,341,754)
<b>Net increase/(decrease) in cash and cash equivalents</b>				<b>(11,314,548)</b>
Cash and cash equivalents at the beginning of the year				45,437,969
<b>Cash and cash equivalents at year end</b>				<b>34,123,421</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

These accounting policies are consistent with the previous period.

#### 1.1 Going concern assumption

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

#### 1.2 Significant judgements and sources of estimation uncertainty

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

##### **Trade receivables / Held to maturity investments and/or loans and receivables / Consumer debtors**

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

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

##### **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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.2 Going concern assumption (continued)

#### Fair value estimation

The fair value estimation 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.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### 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 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.

#### 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 16 - Provisions.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### 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 7.

#### Effective interest rate

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

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.2 Going concern assumption (continued)

#### 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.

#### Offsetting

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a GRAP Standard or where offsetting reflects the substance of the transaction or other event.

### 1.3 Biological assets

The entity recognises a biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of the plantations is based on the combined fair value of the land and the trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the trees.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Item	Useful life
Trees in a plantation	Indefinite

### 1.4 Investment property

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

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

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

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

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

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

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

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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### 1.4 Investment property (continued)

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

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

Item	Useful life
Property - land	Indefinite
Property - buildings	50 years

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.

### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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

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

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

<b>Item</b>	<b>Average useful life</b>
Electricity Equipment	30 - 45 years
Electricity Cables	50 years
Electricity Poles	30 years
Roads	10 - 50 years
Road furniture	7 - 50 years
Street lights	25 years
Sewer Equipment	10 - 50 years
Sewer & Manholes	36 years
Stormwaters	20 - 50 years
Waterequipment	8 - 75 years
Water reticulation	40 - 50 years
Computer Equipment	2 - 7 years
Furniture and Office equipment	2 - 7 years
Other machinery and equipment	2 - 15 years
Transport assets	5 - 10 years
Other structures (Infrastructure assets)	5 years
Buildings	2 - 50 years
Work in Progress	Not depreciated
Land	Indefinite
Land fill site	12 years

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

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 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.

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 their 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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### 1.6 Financial instruments (continued)

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

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

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

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

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

- equity instruments or similar forms of unithold 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.



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Classification

The municipality 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:

<b>Class</b>	<b>Category</b>
Fixed Deposit	Financial asset measured at fair value
Collective Investment Scheme	Financial asset measured at fair value
Listed Equity	Financial asset measured at fair value
Revenue from exchange transactions	Financial asset measured at amortised cost
Revenue from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Loan 10861/103	Financial liability measured at amortised cost
Loan 10883/103	Financial liability measured at amortised cost
Loan 12527/102	Financial liability measured at amortised cost
Loan 9630/103	Financial liability measured at amortised cost
Loan 12528/102	Financial liability measured at amortised cost
Loan 12526/102	Financial liability measured at amortised cost
Loan 9920/103	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

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

The municipality measures a financial asset and financial liability initially at cost.

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

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

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

- Financial instruments at cost.

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

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.7 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.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### 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.

### 1.8 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Inventories (continued)

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value 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.

### 1.9 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### 1.10 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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.

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Discount rate

The discount rate is a 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.10 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.



# Mkhondo Local Municipality

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## Accounting Policies

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### 1.10 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.

### 1.11 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.

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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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]

Auditor General

# Mkhondo Local Municipality

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### 1.12 Employee benefits

Employee benefits are all forms of consideration given by an municipality 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 municipality, 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 municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations.

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

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

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

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

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality 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 municipality 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 municipality 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.12 Employee benefits (continued)

#### Post-employment benefits

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

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

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

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

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

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

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

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

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.12 Employee benefits (continued)

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

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.12 Employee benefits (continued)

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.12 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect 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 post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.13 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 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.13 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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

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.



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.14 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.

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest, royalties and dividends

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

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

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

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

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

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

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.15 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.15 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.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### 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.

IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it. Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.

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

#### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.15 Revenue from non-exchange transactions (continued)

#### Services in-kind

Services in-kind are not recognised.

#### Property rates

Revenue from property rates is calculated from the date when the legal entitlement to this revenue arises and is recognised when invoiced. Collection charges are recognised when such amounts are legally enforceable and invoiced. Penalty interest on unpaid rates is recognised on a time proportion basis. A rating system charging one tariff is employed. Rebates and remissions are granted to certain categories of ratepayers and are recognised net of revenue.

#### Government Grants

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

### 1.16 Investment income

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

### 1.17 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.

### 1.18 Comparative figures

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

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.20 Fruitless and wasteful expenditure

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

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

### 1.21 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.22 Use of estimates

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

### 1.23 Presentation currency

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

### 1.24 Grants-in-aid

Mkhondo local municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, Mkhondo local municipality does not:

- receive any goods or services directly in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period during which the events giving rise to the transfer occurred.

### 1.25 Commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Commitments are not recognised in the Statement of Financial Position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.26 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements. Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

### 1.27 Value-Added Tax

Mkhondo local municipality accounts for value-added tax (VAT) on the payment basis.

### 1.28 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 functional 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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.28 Budget information (continued)

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

### 1.29 Related parties

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

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

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

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

### 1.30 Budget information

The municipality are subject to budgetary limits in the form of appropriations or budget authorisations, which is given effect through authorising legislation, appropriation or similar.

A statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting.

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand	2014	2013
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25: Employee benefits	01 April 2013	Additional disclosure required
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013	Additional disclosure required
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	Additional disclosure required
• IGRAP16: Intangible assets website costs	01 April 2013	Additional disclosure required
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013	Additional disclosure required

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	Additional disclosure required
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	Additional disclosure required
• GRAP 107: Mergers	01 April 2014	Additional disclosure required
• GRAP 20: Related parties	01 April 2014	Additional disclosure required
• GRAP32: Service Concession Arrangements: Grantor	01 April 2015	Additional disclosure required
• GRAP108: Statutory Receivables	01 April 2015	Additional disclosure required
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2015	Additional disclosure required

#### 2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	No date available yet	Additional disclosure required

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014			2013		
<b>3. Biological assets</b>						
		2014			2013	
	<b>Cost / Valuation</b>	<b>Accumulated depreciation and accumulated impairment</b>	<b>Carrying value</b>	<b>Cost / Valuation</b>	<b>Accumulated depreciation and accumulated impairment</b>	<b>Carrying value</b>
Trees in a plantation forest	78,745,390	-	78,745,390	58,912,732	-	58,912,732
<b>Total</b>	<b>78,745,390</b>	<b>-</b>	<b>78,745,390</b>	<b>58,912,732</b>	<b>-</b>	<b>58,912,732</b>

### Reconciliation of biological assets - 2014

	Opening balance	Gains or losses arising from changes in fair value	Total
Trees in a plantation forest	58,912,732	19,832,658	78,745,390
	<b>58,912,732</b>	<b>19,832,658</b>	<b>78,745,390</b>

### Reconciliation of biological assets - 2013

	Opening balance	Gains or losses arising from changes in fair value	Total
Trees in a plantation forest	63,199,166	(4,286,434)	58,912,732
	<b>63,199,166</b>	<b>(4,286,434)</b>	<b>58,912,732</b>

### Non - Financial information

#### Quantities of each consumable biological asset

Trees in a plantation forest	78,745,390	58,912,732
	<b>78,745,390</b>	<b>58,912,732</b>

Total population of plantation area:

- Wattle:	19% (503.5ha)
- Gum:	41% (1098.6ha)
- Pine:	40% (1046.5ha)

Next fair valuation on the plantation will be due the 30 June 2015.

### Mature biological assets

Trees in a plantation forest	78,745,390	58,912,732
	<b>78,745,390</b>	<b>58,912,732</b>

### Commitments

The municipality does not have any commitment relating to the development or future acquisitions of biological assets.

### Pledged and restriction

No biological assets were pledged as security. Further more no title has been restricted which will affect the carrying amount.



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 3. Biological assets (continued)

#### Restrictions imposed by regulations

No restrictions imposed by regulations on the capacity to sell biological assets for the year under review.

#### Other information

#### Methods and assumptions used in determining fair value

Mean annual increment (MAI) was used on a given index age for a specified silviculture regime (Gum 10 years, Pine 25 years and Wattle 10 years), to determine volume production potential. Historical sales volumes of the Mkhondo area, as well as FES data for 2013 and 2014 were used to determine MAI (gum:15 tons/ha/year, Pine: 12 tons/ha/year, Wattle: 10 tons/ha/year).

Furthermore the municipality used a expert to calculate the fair value of biological assets as at 30 June 2014.

#### Financial risk strategy

The entity is exposed to financial risks arising from changes in market prices for timber. The entity does not anticipate that timber prices will decline significantly in the foreseeable future and, therefore, has not entered into derivative or other contracts to manage the risk of a decline in timber prices. The entity reviews its outlook for timber prices regularly in considering the need for active financial risk management.

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 4. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	32,464,300	(13,515,200)	18,949,100	32,464,300	(12,875,700)	19,588,600
<b>Total</b>	<b>32,464,300</b>	<b>(13,515,200)</b>	<b>18,949,100</b>	<b>32,464,300</b>	<b>(12,875,700)</b>	<b>19,588,600</b>

#### Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	19,588,600	(639,500)	18,949,100
	<b>19,588,600</b>	<b>(639,500)</b>	<b>18,949,100</b>

#### Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	20,228,100	(639,500)	19,588,600
	<b>20,228,100</b>	<b>(639,500)</b>	<b>19,588,600</b>

#### Additional disclosure relating to Investment property

Investment property Type	2014	2013
- Agricultural	650,000.00	650,000.00
- Business	20,288,060.00	20,288,060.00
- Residential	11,366,240.00	11,366,240.00
- Vacant land	160,000.00	160,000.00

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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014			2013		
<b>5. Property, plant and equipment</b>						
	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	41,050,371	-	41,050,371	41,050,371	-	41,050,371
Buildings	31,921,152	(11,950,572)	19,970,580	31,921,152	(11,296,788)	20,624,364
Infrastructure	2,036,545,936	(995,713,420)	1,040,832,516	1,983,201,362	(930,536,973)	1,052,664,389
Community	17,097,890	(8,498,669)	8,599,221	15,664,500	(8,245,300)	7,419,200
Other property, plant and equipment	46,308,555	(29,123,421)	17,185,134	46,855,077	(26,050,545)	20,804,532
Work in progress	76,918,877	-	76,918,877	45,317,973	-	45,317,973
<b>Total</b>	<b>2,249,842,781</b>	<b>(1,045,286,082)</b>	<b>1,204,556,699</b>	<b>2,164,010,435</b>	<b>(976,129,606)</b>	<b>1,187,880,829</b>

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Property, plant and equipment (continued)

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

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	41,050,371	-	-	-	-	-	41,050,371
Buildings	20,624,364	-	-	-	-	(653,784)	19,970,580
Infrastructure	1,052,664,389	-	-	53,344,575	-	(65,176,448)	1,040,832,516
Community	7,419,200	-	-	1,433,390	-	(253,369)	8,599,221
Other property, plant and equipment	20,804,532	2,579,141	(396,431)	-	-	(5,802,108)	17,185,134
Work in progress	45,317,973	95,513,207	-	(54,777,965)	(9,134,338)	-	76,918,877
	<b>1,187,880,829</b>	<b>98,092,348</b>	<b>(396,431)</b>	<b>-</b>	<b>(9,134,338)</b>	<b>(71,885,709)</b>	<b>1,204,556,699</b>

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

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	41,050,371	-	-	-	-	-	41,050,371
Buildings	21,278,149	-	-	-	(653,785)	-	20,624,364
Infrastructure	1,088,900,134	-	28,333,983	-	(64,569,728)	-	1,052,664,389
Community	9,472,490	-	-	-	(313,290)	(1,740,000)	7,419,200
Other property, plant and equipment	23,717,364	3,289,852	-	-	(6,025,640)	(177,044)	20,804,532
Work in progress	40,985,353	37,702,382	(28,333,983)	(5,035,779)	-	-	45,317,973
	<b>1,225,403,861</b>	<b>40,992,234</b>	<b>-</b>	<b>(5,035,779)</b>	<b>(71,562,443)</b>	<b>(1,917,044)</b>	<b>1,187,880,829</b>

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.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>6. Other financial assets</b>		
<b>Designated at fair value</b>		
Sanlam: 040485057X0 This is a life policy investment insurable with an effective date of 01/11/2002. The policy and insurance has been terminated in 2014 and all funds transferred.	-	2,922,488
Sanlam: 042223507X7 This is a life policy investment insurable with an effective date of 01/03/2007. The policy and insurance has been terminated in 2014 and all funds transferred.	-	1,718,403
Sanlam: 042473066X1 This is a life policy investment insurable with an effective date of 01/08/2007. The policy and insurance has been terminated in 2014 and all funds transferred.	-	832,646
Sanlam: 10322450X7 This is a life policy investment insurable with an effective date of 01/08/1988. The policy and insurance has been terminated in 2014 and all funds transferred.	-	1,117,613
Sanlam Ltd The following ordinary share were aquired on the 23 March 2001:	2,286,973	1,339,962
Account Number:            Number of shares		
C0000164698                    319		
C0000612270                    36418		
C0000141498                    299		
Total                                37036		
Listed Shares - Old Mutual: 13093141 This is a Old Mutual Wealth Life wrapped Investment. Commencement date is 25 June 2002 with an initial amount of R3 539 867.76.	13,105,251	11,706,790
Fixed Deposit - ABSA: 5008322939 This is a fixed term investment account effective from 24 September 1993 on a three month reinvestment period. Interest rate is 11.9 % per annum.	6,595	6,277
Fixed Deposit - ABSA: 2056165426 This is a fixed term investment account effective from 09 March 2004 on a three month reinvestment period. Interest rate is 4% per annum.	25,135	23,940
Old Mutual Ltd The following ordinary share were aquired on the 23 February 2003:	827,972	646,637
Account Number:            Number of shares		
U0777133016                    11025		
U0777133059                    11987		
Total                                23012		
	16,251,926	17,392,268
	<b>16,251,926</b>	<b>20,314,756</b>
<b>Total other financial assets</b>	<b>16,251,926</b>	<b>20,314,756</b>
<b>Non-current assets</b>		
Designated at held for trading and available for sale	16,251,926	20,314,756
	<b>16,251,926</b>	<b>20,314,756</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand	2014	2013
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### 7. Employee benefit obligations

#### Defined benefit plan

The plan is a post employment medical benefit plan.

#### Post retirement benefit plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 7. Employee benefit obligations (continued)

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

**Contributions-based Liability:** This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

**Benefits-based Liability:** This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

**Cross-subsidy Liability:** This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s).

**Past-service and future-service liability:** Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called **Death-in-service Liability** would be regarded as a post-employment liability under the requirements of GRAP 25.

**Accrued Liability:** In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

**Cross-subsidy Liability:** The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

**Unfunded Accrued Liability:** This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 7. Employee benefit obligations (continued)

#### Sensitivity Analysis

##### 7.1 Introduction

The results presented in Section 6 are based on a number of assumptions. The extent to which the actual liability faced in the future by the Municipality differs from these results will depend on the extent to which actual experience differs from the assumptions made. The assumption which tends to have the greatest impact on the results is the rate of health care cost inflation relative to the discount rate.

##### 7.2 Sensitivity Results

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed rate of health care cost inflation;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A one-year age reduction in the assumed rates of post-retirement mortality;
- (iv) A one-year decrease in the assumed average retirement age; and
- (v) A 10% decrease in the assumed proportion of in-service members that continue to receive the subsidy after retirement.

Table 7.1 summarises the results of the sensitivity analysis.

**Table 7.1: Sensitivity Analysis on the Accrued Liability (R Millions)**

Assumption	Change	In-service	Continuation	Total	%Change
Central Assumptions		9.244	12.762		
Health care inflation	1%	4.231	10.167	14.398	13%
	-1%	2.915	8.438	11.353	-11%
Discount Rate	1%	2.894	8.449	11.343	-11%
	-1%	4.317	10.170	14.487	14%
Post-retirement mortality	-1 yr	3.656	9.654	13.310	4%
Average retirement age	-1 yr	3.853	9.244	13.098	3%
Continuation of membership at retirement	-10%	2.334	9.244	11.578	-9%

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer. The table above indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 13% higher than that shown.

Table 7.2 summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2014.

Assumption change	Change	Current-service Cost	Interest Cost	Total	%
Central Assumptions		137,900	915,200	1,053,100	
Health care inflation	+1%	166,800	1,042,500	1,209,300	15%
	-1%	114,400	807,500	921,900	-12%
Post-retirement mortality	-1 yr	143,400	953,100	1,096,500	4%
Average retirement age	-1 yr	151,300	941,800	1,093,100	4%
Withdrawal Rate	-50%	147,100	930,600	1,077,700	2%

These figures were derived at the last valuation and were also presented in that report.

Table 7.3 summarises the results of this analysis on the Current-service and Interest Costs for the year ending 30 June 2015.

**Table 7.3: Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2015**

Assumption change	Change	Current-service Cost	Interest Cost	Total	%
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# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand			2014	2013	
<b>7. Employee benefit obligations (continued)</b>					
Central Assumptions		151,500	1,075,400	1,226,900	
Health care inflation	+1%	182,300	1,217,100	1,399,400	14%
	-1%	125,200	953,400	1,078,600	-12%
Discount rate	+1%	125,300	1,062,600	1,187,900	-3%
	-1%	185,000	1,083,400	1,268,400	3%
Post-retirement mortality	-1 yr	157,500	1,123,000	1,280,500	4%
Average retirement age	-1 yr	162,800	1,104,500	1,267,300	3%
Continuation of membership at retirement	-10%	102,500	972,900	1,075,400	-12%

### Long service awards

#### Introduction

In estimating the unfunded liability for LSA of Mkhondo Municipality a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions.

#### Financial Assumptions

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the liabilities should be used.

Consequently, a discount rate of 8.12% per annum has been used. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.32%. These rates do not reflect any adjustment for taxation. These rates were deduced from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2014.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award.

The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.22% was obtained from the differential between market yields on index-linked bonds (1.32%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.12%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.12\%-0.50\%)/(1+1.32\%))-1$ .

Thus, a general salary inflation rate of 7.22% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.84%.

It has been assumed that the next salary increase will take place on 1 July 2015.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>7. Employee benefit obligations (continued)</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(19,207,426)	(16,705,268)
	<b>(19,207,426)</b>	<b>(16,705,268)</b>

The fair value of plan assets includes:

### Net expense recognised in the statement of financial performance

Opening balance	16,705,268	13,933,722
Current service cost	688,468	571,158
Interest cost	1,292,396	1,006,432
Actuarial (gains)/losses	1,470,299	1,936,981
Expected Employer Benefit Vestings	(949,005)	(743,025)
	<b>19,207,426</b>	<b>16,705,268</b>

### Key assumptions used

Assumptions used at the reporting date:

Long service awards - Discount rate	8.12 %	7.46 %
Long service awards - General Salary Inflation (long-term)	7.22 %	6.84 %
Long service awards - Net effective discount rate	0.84 %	0.58 %
Post retirement benefit plan - Discount rates used	8.66 %	8.18 %
Post retirement benefit plan - Health care cost inflation rate	7.94 %	7.32 %
Post retirement benefit plan - Net effective discount rate	0.67 %	0.80 %

### Key Demographic Assumptions

#### Long service award

##### Assumption

Assumption	Value	
	2014	2013
Average retirement age	65	65
Mortality during employment	SA 85-90	SA 85-90

##### Withdrawal from service (sample annual rates)

Age	Rate	
	Female	Male
20	24%	16%
30	15%	10%
40	6%	6%
50	2%	2%
55	0%	0%

### Post retirement benefit plan

##### Assumption

Assumption	Value
Average retirement age	65
Pre-retirement mortality	SA 85-90
Post-retirement mortality	PA(90) -1
Proportion married at retirement	90%
Continuation of membership at retirement	90%
Proportion of eligible non-members joining the scheme by retirement	20%

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>8. Inventories</b>		
Consumable stores	5,064,853	2,349,569
Water	130,003	149,117
	<b>5,194,856</b>	<b>2,498,686</b>
<b>9. Receivables from exchange transactions</b>		
Sundry Debtors	2,142,717	1,893,415
	<b>2,142,717</b>	<b>1,893,415</b>
<b>Credit quality of trade and other receivables</b>		
The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:		
<b>Trade receivables</b>		
<b>Counterparties with external credit rating (Moody's)</b>		
Baa2	2,142,717	1,893,415
	<b>2,142,717</b>	<b>1,893,415</b>
<b>Fair value of trade and other receivables</b>		
Trade and other receivables	2,142,717	1,893,415
<b>10. VAT receivable</b>		
SARS - VAT	11,143,456	3,764,472
	<b>11,143,456</b>	<b>3,764,472</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>11. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	30,026,204	25,848,992
Electricity	22,918,893	6,964,916
Water	19,006,292	17,028,994
Sewerage	14,793,921	13,146,332
Refuse	23,093,692	18,921,989
Other	22,723,655	31,039,937
	<b>132,562,657</b>	<b>112,951,160</b>
<b>Less: Allowance for impairment</b>		
Rates	(26,330,026)	(22,569,957)
Electricity	(16,600,118)	(5,099,317)
Water	(17,208,759)	(15,373,639)
Sewerage	(13,631,402)	(12,058,676)
Refuse	(21,490,543)	(17,435,521)
Other	(18,803,208)	(25,200,494)
	<b>(114,064,056)</b>	<b>(97,737,604)</b>
<b>Net balance</b>		
Rates	3,696,178	3,279,035
Electricity	6,318,775	1,865,599
Water	1,797,533	1,655,355
Sewerage	1,162,519	1,087,656
Refuse	1,603,149	1,486,468
Other	3,920,447	5,839,443
	<b>18,498,601</b>	<b>15,213,556</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	6,318,775	1,865,599
Water	1,797,533	1,655,355
Sewerage	1,162,519	1,087,656
Refuse	1,603,149	1,486,468
Other not specified	3,920,447	3,279,035
	<b>14,802,423</b>	<b>9,374,113</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	3,696,178	5,839,443
	<b>3,696,178</b>	<b>5,839,443</b>
<b>Net balance</b>	<b>18,498,601</b>	<b>15,213,556</b>
<b>Rates</b>		
Current (0 -30 days)	1,735,650	1,351,523
31 - 60 days	1,113,152	1,112,426
61 - 90 days	847,376	815,086
	<b>3,696,178</b>	<b>3,279,035</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>11. Consumer debtors (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	3,468,332	963,566
31 - 60 days	1,894,724	577,724
61 - 90 days	955,719	324,309
	<b>6,318,775</b>	<b>1,865,599</b>
<b>Water</b>		
Current (0 -30 days)	740,635	576,220
31 - 60 days	657,965	725,629
61 - 90 days	398,933	353,506
	<b>1,797,533</b>	<b>1,655,355</b>
<b>Sewerage</b>		
Current (0 -30 days)	490,316	441,804
31 - 60 days	357,033	374,499
61 - 90 days	315,170	271,353
	<b>1,162,519</b>	<b>1,087,656</b>
<b>Refuse</b>		
Current (0 -30 days)	600,570	535,662
31 - 60 days	521,915	498,062
61 - 90 days	480,664	452,744
	<b>1,603,149</b>	<b>1,486,468</b>
<b>Other</b>		
Current (0 -30 days)	1,582,482	2,535,829
31 - 60 days	1,243,071	2,272,088
61 - 90 days	1,094,894	1,031,526
	<b>3,920,447</b>	<b>5,839,443</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(97,737,604)	(81,612,600)
Contributions to allowance	(16,326,452)	(16,125,004)
	<b>(114,064,056)</b>	<b>(97,737,604)</b>
<b>Fair value of consumer debtors</b>		
Consumer debtors	18,498,601	15,213,556
	<b>18,498,601</b>	<b>15,213,556</b>

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	18,498,601	15,213,556
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# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>12. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	8,171	8,171
Bank balances	3,002,081	1,137,794
Short-term deposits	22,490,476	32,977,456
Bank overdraft	-	-
	<b>25,500,728</b>	<b>34,123,421</b>

The municipality had the following bank accounts

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
First National Bank - Cheque Account - 62013126356	3,017,479	1,137,709	2,807,641	2,960,363	1,137,794	4,369,360
First National Bank - Fixed deposit - 62254274732	3,389,281	1,908,105	1,124,443	3,389,281	1,908,105	1,124,443
First National Bank - Public sector - 62242238534	41,718	-	-	41,718	-	-
First National Bank - Call Account - 740280175876	17,461,237	29,771,388	12,345,149	17,461,236	29,771,388	12,345,149
First National Bank - Call Account - 62016967351	1,639,959	1,297,963	27,590,846	1,639,958	1,297,963	27,590,846
<b>Total</b>	<b>25,549,674</b>	<b>34,115,165</b>	<b>43,868,079</b>	<b>25,492,556</b>	<b>34,115,250</b>	<b>45,429,798</b>

### 13. Non-current assets held for sale

The municipality has sold a property in the prior year. The cost of the land sold was R410 000. The total revenue that has been collected was R1 140 000.

The decision was made by the accounting officer and approved by council.

The disposal was completed by 2013-02-28.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>14. Other financial liabilities</b>		
<b>At amortised cost</b>		
DBSA Sewerage The initial capital amount on this loan is R 2,344,630.83. This loan carries an interest rate of 10% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1994 and matures on 30th of September 2014.	139,013	397,514
DBSA Streets Ethanda The initial capital amount on this loan is R 1,099,477.42. This loan carries an interest rate of 14% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1995 and matures on 30th of September 2015.	505,231	594,308
DBSA Electricity Ethanda The initial capital amount on this loan is R 4,162,979.77. This loan carries an interest rate of 12% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1995 and matures on 30th of September 2015.	1,011,420	1,593,907
DBSA Electricity Ext 7 & 9 The initial capital amount on this loan is R 3,089,958.68. This loan carries an interest rate of 15% with redemption and interest payments made bi-annually. The loan commenced on 01 October 1997 and matures on 30th of September 2017.	1,373,893	1,647,408
	<b>3,029,557</b>	<b>4,233,137</b>
<b>Total other financial liabilities</b>	<b>3,029,557</b>	<b>4,233,137</b>
The municipality have not made any pledgees against the above loans.		
<b>Non-current liabilities</b>		
At amortised cost	1,868,643	1,290,563
	<b>1,868,643</b>	<b>1,290,563</b>
<b>Current liabilities</b>		
At amortised cost	1,160,914	2,942,574
	<b>1,160,914</b>	<b>2,942,574</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	3,611,324	31,614,749
Municipal Systems Improvement Grant	-	68,214
Financial Management Grant	-	255,806
Local government sector education and training authority	301,663	329,827
Integrated National Electrification Programme	1,006,570	449,000
Expanded Public Works Programme Incentive Grant	7,883	689,217
	<b>4,927,440</b>	<b>33,406,813</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	32,957,812	14,990,694
Additions during the period	79,920,000	70,602,070
Income recognition during the year	(107,950,372)	(52,185,951)
	<b>4,927,440</b>	<b>33,406,813</b>

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

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

See note 23 for reconciliation of grants from National/Provincial Government.



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013	
<b>16. Provisions</b>			
<b>Reconciliation of provisions - 2014</b>			
	<b>Opening Balance</b>	<b>Additions</b>	<b>Total</b>
Environmental rehabilitation provision	9,697,021	1,777,090	11,474,111
	<b>9,697,021</b>	<b>1,777,090</b>	<b>11,474,111</b>
<b>Reconciliation of provisions - 2013</b>			
	<b>Opening Balance</b>	<b>Additions</b>	<b>Total</b>
Environmental rehabilitation provision	5,336,172	4,360,849	9,697,021
	<b>5,336,172</b>	<b>4,360,849</b>	<b>9,697,021</b>
Non-current liabilities		11,231,167	9,490,739
Current liabilities		242,944	206,282
		<b>11,474,111</b>	<b>9,697,021</b>

### Environmental rehabilitation provision

Financial assumptions used

Adjustment of unit costs

The baseline for the unit costs used in the MLCCM was set in 2011. Unit costs were adjusted on 1 July 2014. For the various cost elements relating to pre-closure planning as well as post-closure monitoring and maintenance, the 3-month average of the CPI was used to adjust the unit cost for each cost element. The unit cost of the various costs elements relating to rehabilitation and closure were adjusted using the Civil Engineering Indices (drawn from the South African Federation of Civil Engineering Contractors website [www.safcec.org.za](http://www.safcec.org.za)) and the Contract Price Adjustment Factors (drawn from the [www.dialytenders.co.za](http://www.dialytenders.co.za) website), using the coefficients for Earthworks as provided in the General Conditions of Contract. The price adjustment for 2014 resulting from these formulas amounted to 7.5305%.

CPI

The CPI was used for the annual adjustment of unit costs as well as for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI was obtained from Statistics SA's website [www.statssa.gov.za/keyindicators/cpi.asp](http://www.statssa.gov.za/keyindicators/cpi.asp). The average of the CPI for the last three months as published on 30 June 2014 (reporting date) was used for the adjustment of unit costs, as well as for the determination of future value of current costs, i.e. 6.2663%.

Discount rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used as published on the RSA Retail Savings Bond website [www.rsaretailbonds.gov.za](http://www.rsaretailbonds.gov.za). The rate most consistent with the remaining life of the landfill published on 30 June was used. In the case of this landfill the rate associated with the maximum available period of 10 years was used, i.e. 2.25% above CPI.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>17. Payables from exchange transactions</b>		
13th Cheque accrual	2,569,614	2,049,107
Accrued leave pay	7,814,709	7,630,877
Debtors with negative balances	9,195,063	4,975,091
Sundry creditors	11,309,496	5,675,101
Trade payables	70,754,401	27,208,470
	<b>101,643,283</b>	<b>47,538,646</b>

### 18. Financial instruments disclosure

#### Categories of financial instruments

##### 2014

#### Financial assets

	At amortised cost	Total
Other financial assets	16,251,926	16,251,926
Trade and other receivables from exchange transactions	2,142,717	2,142,717
Consumer debtors	18,498,601	18,498,601
Cash and cash equivalents	25,500,728	25,500,728
VAT	11,143,456	11,143,456
	<b>73,537,428</b>	<b>73,537,428</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	3,029,557	3,029,557
Trade and other payables from exchange transactions	91,258,960	91,258,960
Consumer Deposits	3,054,632	3,054,632
Unspent conditional grants	4,927,440	4,927,440
	<b>102,270,589</b>	<b>102,270,589</b>

##### 2013

#### Financial assets

	At amortised cost	Total
Other financial assets	20,314,756	20,314,756
Trade and other receivables from exchange transactions	1,893,415	1,893,415
Consumer debtors	15,213,556	15,213,556
Cash and cash equivalents	34,123,421	34,123,421
VAT	3,764,472	3,764,472
	<b>75,309,620</b>	<b>75,309,620</b>

#### Financial liabilities

	At amortised cost	Total
Other financial liabilities	4,233,137	4,233,137
Trade and other payables from exchange transactions	37,858,662	37,858,662
Consumer deposits	2,946,120	2,946,120
Unspent conditional grants	33,406,813	33,406,813

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>Financial instruments disclosure (continued)</b>	<b>78,444,732</b>	<b>78,444,732</b>
<b>19. Consumer deposits</b>		
Electricity, Water and Zero consumption	3,054,632	2,946,120
	<b>3,054,632</b>	<b>2,946,120</b>
<b>20. Revenue</b>		
Service charges	103,172,017	98,269,841
Income from agency services	7,290,663	4,785,179
Licences and permits	41,059	20,375
Rental income	528,131	556,634
Other income	13,426,266	11,867,058
Interest received	5,334,396	2,223,914
Property rates	19,951,677	18,622,388
Government grants & subsidies	218,755,451	152,729,831
Fines	4,033,691	953,302
Gains on disposal of assets	761,179	730,000
	<b>373,294,530</b>	<b>290,758,522</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	103,172,017	98,269,841
Income from agency services	7,290,663	4,785,179
Licences and permits	41,059	20,375
Rental income	528,131	556,634
Gains on disposal of assets	761,179	730,000
Other income	13,426,266	11,867,058
Interest received - investment	5,334,396	2,223,914
	<b>130,553,711</b>	<b>118,453,001</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	19,951,677	18,622,388
<b>Transfer revenue</b>		
Government grants & subsidies	218,755,451	152,729,831
Fines	4,033,691	953,302
	<b>242,740,819</b>	<b>172,305,521</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>21. Property rates</b>		
<b>Rates received</b>		
Residential	8,803,969	19,668,284
Commercial	5,461,322	862,783
State	3,017,278	474,290
Small holdings and farms	3,805,298	591,629
Less: Income forgone	(1,136,190)	(2,974,598)
	<b>19,951,677</b>	<b>18,622,388</b>

### Valuations

Residential	1,425,509,800	1,425,509,800
Commercial	732,092,300	732,092,300
State	245,598,500	245,598,500
Municipal	104,907,379	104,907,379
Small holdings and farms	2,185,616,400	2,185,616,400
Vacant Land	71,183,500	71,183,500
Other	461,629,500	461,629,500
	<b>5,226,537,379</b>	<b>5,226,537,379</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis. The new general valuation will be implemented on 01 July 2014.

### 22. Service charges

Sale of electricity	80,990,521	76,366,023
Sale of water	9,344,699	9,534,655
Sewerage and sanitation charges	5,742,279	5,631,377
Refuse removal	7,094,518	6,737,786
	<b>103,172,017</b>	<b>98,269,841</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>23. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	110,201,000	99,692,000
Municipal systems improvement grant	958,214	804,176
Finance management grant	1,805,806	1,244,194
Human settlement grant	-	1,512,290
Local government sector education and training authority	183,242	357,243
Expanded public works programme incentive grant	2,635,334	1,308,783
Integrated national electrification programme	9,342,430	2,585,973
	<b>125,126,026</b>	<b>107,504,659</b>
<b>Capital grants</b>		
Municipal infrastructure grant	93,629,425	45,225,172
	<b>93,629,425</b>	<b>45,225,172</b>
	<b>218,755,451</b>	<b>152,729,831</b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

#### Equitable Share

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

#### Municipal infrastructure grant (MIG)

Balance unspent at beginning of year	31,614,749	17,758,921
Current-year receipts	65,626,000	59,081,000
Conditions met - transferred to revenue	(93,629,425)	(45,225,172)
	<b>3,611,324</b>	<b>31,614,749</b>

Conditions still to be met - remain liabilities (see note 15).

#### Municipal systems improvement grant (MSIG)

Balance unspent at beginning of year	68,214	72,390
Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(958,214)	(804,176)
	<b>-</b>	<b>68,214</b>

#### Financial management grant (FMG)

Balance unspent at beginning of year	255,806	-
Current-year receipts	1,550,000	1,500,000
Conditions met - transferred to revenue	(1,805,806)	(1,244,194)
	<b>-</b>	<b>255,806</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>23. Government grants and subsidies (continued)</b>		
<b>Local government sector education and training authority</b>		
Balance unspent at beginning of year	329,827	-
Current-year receipts	155,078	687,070
Conditions met - transferred to revenue	(183,242)	(357,243)
	<b>301,663</b>	<b>329,827</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>Integrated national electrification programme</b>		
Balance unspent at beginning of year	449,000	-
Current-year receipts	9,900,000	3,034,973
Conditions met - transferred to revenue	(9,342,430)	(2,585,973)
	<b>1,006,570</b>	<b>449,000</b>
<b>Expanded public works programme incentive grant</b>		
Balance unspent at beginning of year	689,217	-
Current-year receipts	1,954,000	1,998,000
Conditions met - transferred to revenue	(2,635,334)	(1,308,783)
	<b>7,883</b>	<b>689,217</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>24. Other revenue</b>		
Rental income	528,131	556,634
Other income	13,426,266	11,867,058
	<b>13,954,397</b>	<b>12,423,692</b>
<b>25. Other income</b>		
Administration costs	23,370	14,888
Advertising	18,983	22,020
Building and clearance certificates	9,531	8,283
Cemetery fees	138,322	133,779
Commission income	124,375	108,171
Escourting fees	1,626,093	1,091,246
Miscellaneous income	382,812	(723,398)
Other revenue	4,494,608	5,142,407
Insurance payouts received	2,536,775	-
Photo copies	240,124	147,413
Sale of refuse bins	486	128
Sub-division of stands	36,505	5,659
Sundry income	167,798	176,235
Timber sales	3,626,484	5,740,227
	<b>13,426,266</b>	<b>11,867,058</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. General expenses</b>		
Advertising	1,216,076	926,569
Auditors remuneration	2,309,480	3,481,595
Bank charges	1,041,552	878,982
Cleaning	3,781,663	2,309,244
Community development and training	447,017	7,078,075
Consulting and professional fees	25,749,531	25,379,867
Consumables	947,519	961,804
Donations	-	4,474
Election expenses	810,724	816,388
Electricity	3,050,057	3,057,142
Entertainment	556,468	1,296,155
IT expenses	263,150	-
Insurance	3,028,833	2,899,035
Motor vehicle expenses	9,133,154	8,612,523
Placement fees	8,266	-
Printing and stationery	2,099,129	2,395,367
Protective clothing	1,245,953	856,577
Research and development costs	25,828	-
Security	9,244,909	8,263,330
Subscriptions and membership fees	244,191	1,928,886
Subsistence and travel	3,200,785	3,358,733
Telephone and fax	2,851,992	2,572,221
Training	1,098,942	795,196
Water	1,174,109	1,907,080
	<b>73,529,328</b>	<b>79,779,243</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>27. Employee related costs</b>		
Basic	53,985,033	50,911,435
Bonus	5,445,697	4,294,497
Housing benefits and allowances	1,063,856	1,080,538
Long-service awards	71,460	(1,668,292)
Medical aid contributions	2,645,986	2,246,143
Overtime payments	6,695,256	5,640,953
Pension fund contributions	11,270,008	9,781,945
Standby	5,118,426	2,176,206
Shift allowance	232,908	-
Employee benefit plan	2,502,158	3,800,608
Travel allowance	2,578,107	2,014,557
Unemployment insurance fund contributions	588,886	542,503
	<b>92,197,781</b>	<b>80,821,093</b>

### Remuneration of municipal manager

Annual Remuneration	606,480	640,719
Car Allowance	497,607	389,120
Contributions to UIF, Medical and Pension Funds	144,508	43,853
	<b>1,248,595</b>	<b>1,073,692</b>

The Municipal Manager Mr. A.N. Mahlangu served for the full period up to 30 June 2014.

### Remuneration of Chief finance officer

Annual Remuneration	315,096	499,327
Gratuity	853,384	-
Leave gratuity	56,716	-
Travel, motor car, accommodation, subsistence and other allowances	145,728	216,967
Contributions to UIF, Medical and Pension Funds	145,728	34,554
	<b>1,516,652</b>	<b>750,848</b>

The Chief Financial Officer Mr. T.D. Mabuya served for an 8 month period up to 31 January 2014. The post was vacant from 1 February 2014 to 20 June 2014.

### General manager - Corporate services

Annual Remuneration	472,644	596,979
Travel, motor car, accommodation, subsistence and other allowances	274,761	108,000
Contributions to UIF, Medical and Pension Funds	133,076	46,801
	<b>880,481</b>	<b>751,780</b>

The General Manager for Corporate Services Mr. M.J. Mkhonza served for the full period up to 30 June 2014.



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>27. Employee related costs (continued)</b>		
<b>General manager - Technical services</b>		
Annual Remuneration	498,462	332,645
Car Allowance	344,814	141,197
Leave Gratuity	-	70,780
Contributions to UIF, Medical and Pension Funds	115,461	19,986
	<b>958,737</b>	<b>564,608</b>

The General Manager for Technical Services Mr. K.L. Mashile served for the full period up to 30 June 2014.

### General manager - Community Services

Annual Remuneration	472,644	592,485
Car Allowance	343,366	120,000
Contributions to UIF, Medical and Pension Funds	145,728	45,001
	<b>961,738</b>	<b>757,486</b>

The General Manager for Community Services Mr. A.W. Nkonyane served for the full period up to 30 June 2014.

### 28. Remuneration of councillors

Executive Major	748,987	772,135
Speaker	588,277	593,880
Councillors salaries	10,145,575	10,081,282
Councillors pension contribution	621,547	711,933
	<b>12,104,386</b>	<b>12,159,230</b>

### Additional information

Please refer to note 39 for full detail packages of council members

### 29. Debt impairment

Contributions to debt impairment provision	19,646,494	18,823,525
	<b>19,646,494</b>	<b>18,823,525</b>

### 30. Investment revenue

#### Interest revenue

Consumer debtors	2,820,022	-
Bank	2,514,374	2,223,914
	<b>5,334,396</b>	<b>2,223,914</b>

### 31. Fair value adjustments

Biological assets - (Fair value model)	19,832,658	(4,286,434)
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	2,684,316	1,359,810
	<b>22,516,974</b>	<b>(2,926,624)</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>32. Depreciation and amortisation</b>		
Property, plant and equipment	71,885,708	71,562,442
Investment property	639,500	639,500
	<b>72,525,208</b>	<b>72,201,942</b>

Depreciation is provided on all assets in use by the municipality. Assets that have been completely depreciated but are still in use are assets that have been used for its economic lifespan of the said asset. Due to budget constraints the municipality had limited funding to replace the said assets. The municipality did review its asset management policy to ensure that the useful life of assets per category are a true reflection of its use.

### 33. Impairment of assets

#### Impairments

Property, plant and equipment	-	1,917,044
Other receivables from non-exchange revenue	3,345,047	-

An amendment to IGRAP 1, require the Mkhondo Local Municipality to account for Traffic Fine Income on the accrual basis.

The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (GRAP 23), requires that revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured.

IGRAP 1 clarifies that an entity should recognise the full amount of revenue at the transaction date when there is uncertainty about the entity's ability to collect such revenue based on past history, as the entity has an obligation to collect all revenue due to it.

Entities should not consider or assess the probability of collecting revenue at the transaction date because this is a subsequent measurement event. Subsequent to initial recognition and measurement, an entity should assess the collectability of the revenue and recognise an impairment loss where appropriate.

The municipality therefore accounted for each fine issued on the accrual basis, however the probability was assessed and it was found that the current year cash received from fines related to less than 10% of fines issued. Therefore the receivable created was impaired.

	<b>3,345,047</b>	<b>1,917,044</b>
<b>Total impairment losses (recognised) reversed</b>	<b>3,345,047</b>	<b>1,917,044</b>

### 34. Finance costs

Bank	3,415,406	2,875,189
Current borrowings	445,998	858,679
Other interest paid	206,282	-
	<b>4,067,686</b>	<b>3,733,868</b>

### 35. Auditors' remuneration

Fees	2,309,480	3,481,595
	<b>2,309,480</b>	<b>3,481,595</b>

### 36. Grants and subsidies paid

#### Other subsidies

Equitable share	1,240,635	1,519,468
Expanded Public Works Programme Incentive Grant	2,635,334	1,946,429
	<b>3,875,969</b>	<b>3,465,897</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>37. Bulk purchases</b>		
Electricity	65,855,012	61,540,005
Water	10,725,718	1,617,731
	<b>76,580,730</b>	<b>63,157,736</b>
<b>38. Cash generated from operations</b>		
Surplus/(deficit)	7,983,558	(66,188,059)
<b>Adjustments for:</b>		
Depreciation and amortisation	72,525,208	72,201,942
Sale of assets and liabilities	(761,179)	(935,742)
Fair value adjustments	(22,516,974)	2,926,624
Impairment deficit	3,345,047	1,917,044
Debt impairment	19,646,494	18,823,525
Movements in retirement benefit assets and liabilities	2,502,158	2,771,546
Movements in provisions	1,777,090	4,360,849
<b>Changes in working capital:</b>		
Inventories	(2,696,170)	(334,642)
Receivables from exchange transactions	(249,302)	930,437
Consumer debtors	(22,931,539)	(21,048,954)
Payables from exchange transactions	59,893,933	6,096,385
VAT	(7,378,984)	(6,531,341)
Unspent conditional grants and receipts	(28,479,373)	15,575,502
Consumer deposits	108,512	77,894
	<b>82,768,479</b>	<b>30,643,010</b>
<b>39. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	26,400,159	50,409,019
	<b>26,400,159</b>	<b>50,409,019</b>
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one year	300,869	-
- in second to fifth year inclusive	547,948	-
	<b>848,817</b>	<b>-</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of three years. No contingent rent is payable.

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>40. Contingencies</b>		
1.	The Municipality is being sued for unknown by Maloke A. Phahla Construction Projects as result of a demand letter that emanated from an order issued in favour of the claimant. Claimant was informed not to proceed with the work. A letter was sent to the claimant informing them of the Municipality's position with regard to the claim.	
2.	The Municipality is being sued for R 21,277,570.63 by Olwethu Mkhondo Trading C. A notice was received from Sefalafala Attorneys on behalf of Olwethu Mkhondo Trading CC. The claim stems from an appointment letter that was issued to Olwethu Mkhondo Trading CC. The letter appoints the claimant under conditions still to be discussed. Claimant is demanding that work be apportioned to them otherwise they will approach the court for an order to that effect. Summonses were issued to the Municipality and were send to the Municipality Attorneys.	
3.	The Municipality is being sued for an unknown amount as a result of a dispute between the Municipality and the Claimant following an alleged breach of contract by the municipality. Plaintiff is claiming damages suffered due to the alleged breach.	
4.	The Municipality is being sued for R 1,396,370.67 by Pamoja Technologies. Summonses were received from the sheriff's office. The claimant is demanding payment for an alleged breach of contract by the Municipality. The claimant alleges that they were appointed by the Municipality. A service level agreement was signed detailing the obligations of the parties. The Claimant avers that at the time the contract was terminated all amounts owing in terms of the contract to it became due and payable immediately.	
5.	The Municipality is being sued for R 26,000.00 by Busami Investments CC. A claim was instituted by the Plaintiff following an alleged breach of contract by the Municipality. Rule 35(1) (6) (8) & (10) was filed. A discovery affidavit is due as well. Parties are to meet for a pre-trial conference. The plaintiff's attorneys served a notice of withdrawal as attorneys of records. The plaintiff is silent of the way forward in this matter. SM; Legal Services attended a consultation with Senior Counsel, Adv. Ncongwanane in Pretoria. It was resolved in the consultation that the matter should be set down for trial to have an official closure of the court.	
6.	The Municipality is being sued for R 100,000.00 by Dr H. Van Blerk. The Municipality is sued for negligence for failing to maintain a manhole. The plaintiff fell in one of the municipal manhole and sustained injuries. Our attorneys of records advised that we settle the matter as we do not have evidence that our manhole was fully maintained. Attempts to get the responsible section to assist did not materialise. Our attorneys of records advised that the witnesses identified are hostile and can therefore not assist this case. A proposed settlement in the sum of R 90,000.00 has since been reached and now awaits the signature of the Plaintiff.	
7.	The Municipality is being sued for R 3,249,043.64 by Rethuseng Live Line Services CC. Summons were issued by the plaintiff against two defendants. The Municipality is cited as the second defendant. The plaintiff is claiming from the first defendant an amount of R 4 846 015.42 and alternatively R 3 249 043.64 from the second defendant. The matter was referred to our attorneys of records for advice and or litigation.	
8.	The Municipality is being sued for R 18,478.88 by Telkom SA SOC limited for damages and repair cost they incurred due to negligence on the part of the Municipality employees. The municipality received the summons late and on inquiries it turned out that judgement has been granted against it. Attorneys were then appointed to assist in defending the matter and also with the rescission application to reverse and or rescind the judgement given. The plaintiff's attorneys issued a writ of execution against property of the defendant following the judgement. The Municipality attorney of record lodged an urgent application to interdict the Sheriff from proceeding with the execution pending the outcome of the rescission application.	
9.	The Municipality is being sued for R 27,139.07 by Telkom SA SOC Limited. The Municipality received a letter in line with the Institution of Legal Proceedings Against Certain Organs of State Act, No 40 of 2002. The plaintiff is claiming an amount of R 27,139.07 for damages and repairs they incurred as a result of the alleged negligence by municipal employees who happened to cut and damage cables belonging to the Plaintiff on the 10th of February 2014 whilst carrying out their duties. Internal investigations are in progress. The municipality has no records at this stage of any works that was carried out at the street in question. A different approach must be taken to ascertain which team worked at the above address on the date in question.	
10.	The Municipality is being sued for R 127,082.46 by Urban-econ for breach of contract.	
11.	The Municipality is being sued for R 150,000.00 by Bareki Managment for breach of contract.	

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>40. Contingencies (continued)</b>		
12. The Municipality is being sued for R 92,007.92 by Bareki Managment for services and googs delivered in a fire incident.		
13. <b>Employee Related Contingencies</b>		
<b>Mdluli TP:</b> The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.		
<b>L Manamela:</b> The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.		
<b>BD Matebula:</b> The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.		
<b>Y Erasmus:</b> The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.		
<b>BV Masima:</b> On suspension for gross dishonesty involving financial irregularity.		
<b>QZ Mbata:</b> The employee is on suspension for gross dishonesty, financial irregularity and gross negligence of duty.		

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

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### 41. Related parties

#### Relationships

Mr A.N. Mahlangu(Accounting Officer)	Refer to accounting officer's report note
Mr M.J. Mkhonza(Corporate Services)	Section 56 Manager
Mr M.J. Mabuza(Technical Services)	Section 56 Manager
Mr W.T. Nkonyane(Community Services)	Section 56 Manager
Mr S. Thobela(CFO)	Section 56 Manager
Employee related costs	Note 25 - Payments
National Treasury	State controlling entity
Development Bank of South Africa	

#### Councillors and their packages:

Please refer to note 25 for council packages in aggregate.

Cllr. B.H. Mtshali (Mayor)	R	748,986.58
Cllr. P.C. Langa (Speaker)	R	588,277.10
Cllr. Z.E. Mthimkhulu (Chief Whip)	R	575,780.92
Cllr. N.C. Ndhlovu (MMC Finance & Corporate)	R	584,751.21
Cllr. V.D. Nkosi (MMC Technical Services)	R	597,517.76
Cllr. A.T. Thwala	R	234,374.29
Cllr. T.S. Nkosi	R	240,125.93
Cllr. S.S. Mathebule	R	238,225.28
Cllr. S.N. Kambule	R	143,758.38
Cllr. P.S. Nhlabathi	R	242,466.39
Cllr. J.L.I. Brussow	R	245,616.79
Cllr. S.P. Kunene	R	232,484.56
Cllr. N.B. Masuku	R	228,496.24
Cllr. M.D. Ntuli	R	246,751.76
Cllr. S.R. Sangweni	R	353,736.56
Cllr. C.G. Mtshali	R	233,965.96
Cllr. Z.J. Mnisi	R	233,990.46
Cllr. K.D. Masondo	R	245,525.40
Cllr. M.O Nkosi	R	234,374.29
Cllr. M.L. Yende	R	259,556.45
Cllr. M.E Phakathi	R	236,790.87
Cllr. B.J Vilakazi	R	238,592.06
Cllr. S.C. Mtshali	R	233,953.71
Cllr. N.L. Nhlengethwa	R	234,088.47
Cllr. D.M. Thwala	R	253,484.69
Cllr. S.J. Methula	R	226,311.66
Cllr. V.W. Masuku	R	233,243.20
Cllr. H.P. Sunkel (Resign)	R	40,114.81
Cllr. R.J. Wilson (Resign)	R	159,105.05
Cllr. T.E. Khumalo	R	228,308.40
Cllr. H.A. Mncube	R	227,034.41
Cllr. T.G.F Nhlek	R	233,243.21
Cllr. T.E. Motha	R	236,524.48
Cllr. B.T. Mabuza	R	233,990.46
Cllr. S.J. Nkosi	R	159,548.77
Cllr. L.V.A. Mkhwa	R	230,983.39
Cllr. J.M. Phakathi	R	228,400.43
Cllr. H.C. Du Toit	R	74,644.18
Cllr. S.N. Kambule	R	233,659.71
Cllr. N.L. Nhlengethwa	R	234,088.47
Cllr. G.T. Nkosi	R	243,625.33
Cllr. L. Bosch	R	181,961.78
Cllr. S.E. Nhleko	R	148,975.56

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>41. Related parties (continued)</b>		
<b>Related party balances</b>		
<b>Loan accounts - Owing to related parties</b>		
National Treasury	(4,927,440)	(33,406,813)
Development Bank of South Africa	(3,029,557)	(4,233,137)
<b>Amounts included in trade receivable regarding related parties</b>		
Councillors	158,287	96,853

The amounts owing to National treasury are unsecured, upon the rollover process the amount owing was ring-fenced through investment accounts.

### Key management information

Executive Mayor	Cllr. B.H. Mtshali
Councillors	Please refer to the general information page
Municipal Managers	Mr A.N. Mahlangu

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand

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### 42. Prior period errors

The following reasons arise in terms of the prior period errors:

- Rendering of services in agricultural activities incorrectly recognised in terms of GRAP 9
- Property rates not recognised in terms of GRAP 9
- Service charges not recognised in terms of GRAP 9
- Fines received incorrectly recognised in terms of GRAP 9
- Government grants & subsidies not recognised in terms of GRAP 23
- Miscellaneous other revenue incorrectly recognised in terms of GRAP 9
- Commissions received incorrectly recognised in terms of GRAP 9
- Other income not recognised in terms of GRAP 9
- Employee related costs not recognised in terms of GRAP 25
- Remuneration of councillors not recognised in terms of GRAP 25
- Administration not recognised in terms of GRAP 1
- Depreciation and amortisation not recognised in terms of GRAP 17
- Finance costs not recognised in terms of GRAP 5
- Repairs and maintenance not recognised in terms of GRAP 1
- Bulk purchases not recognised in terms of GRAP 1
- Grants and subsidies paid not recognised in terms of GRAP 25
- General Expenses not recognised in terms of GRAP 1
- Finance lease obligation not recognised in terms of GRAP 13
- Unspent Conditional Government Grants and Receipts not recognised in terms of GRAP 1
- Vat incorrectly recognised
- Trade and other payables from exchange transactions not recognised in terms of ISA 39
- Bank Overdraft not recognised in terms of GRAP 1
- Property, Plant and Equipment not recognised in terms of GRAP 17
- Investment Property not recognised in terms of GRAP 13
- Trade Receivables from exchange transactions not recognised in terms of GRAP 9
- Other Receivables from non-exchange transactions not recognised in terms of GRAP 23
- Cash and Cash Equivalents not recognised in terms of GRAP 1
- Other financial assets not recognised in terms of GRAP 104



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Prior period errors (continued)

The correction of the error(s) results in adjustments as follows:

Statement of Financial Position	2013 as Restated	2013 Audited	Difference	Reason
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	34,123,421.00	32,985,627.00	(1,137,794.00)	ERROR
Consumer debtors	15,213,556.00	13,738,613.00	(1,474,943.00)	ERROR
Inventories	2,498,686.00	2,498,686.00	-	
Other financial assets	-	30,217.00	30,217.00	ERROR
Receivables from exchange transact	1,893,415.00	700,096.00	(1,193,319.00)	ERROR
VAT receivable(Payable)	3,764,472.00	(3,547,811.00)	(7,312,283.00)	ERROR
<b>Total current assets</b>	<b>57,493,550.00</b>	<b>46,405,428.00</b>	<b>(11,088,122.00)</b>	
<b>Non-Current Assets</b>				
Biological assets	58,912,732.00	58,912,732.00	-	
Intangible assets	-	376,875.00	376,875.00	ERROR
Investment property	19,588,600.00	19,106,200.00	(482,400.00)	ERROR
Property, plant and equipment	1,187,880,829.00	1,297,330,372.00	109,449,543.00	ERROR
Other financial assets	20,314,756.00	19,047,996.00	(1,266,760.00)	ERROR
<b>Total Non-current assets</b>	<b>1,286,696,917.00</b>	<b>1,394,774,175.00</b>	<b>108,077,258.00</b>	
Non-current assets held for sale and	-	410,000.00	410,000.00	ERROR
<b>Total Assets</b>	<b>1,344,190,467.00</b>	<b>1,441,589,603.00</b>	<b>97,399,136.00</b>	
<b>Liabilities</b>				
<b>Current Liabilities</b>				

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Prior period errors (continued)

Consumer deposits	2,946,120.00	2,946,120.00	-	
Bank overdraft	-	9,228,767.00	9,228,767.00	ERROR
Provisions	206,282.00	7,045,369.00	6,839,087.00	ERROR
Taxes and transfers payable (non-ex)	-	2,645,313.00	2,645,313.00	ERROR
Payables from exchange transaction	48,049,646.00	15,404,612.00	(32,645,034.00)	ERROR
Unspent conditional grants and recei	32,895,813.00	38,833,402.00	5,937,589.00	ERROR
Other financial liabilities	2,942,574.00	1,290,563.00	(1,652,011.00)	ERROR
<b>Total Current liabilities</b>	<b>87,040,435.00</b>	<b>77,394,146.00</b>	<b>(9,646,289.00)</b>	

### Non-Current Liabilities

Other financial liabilities	1,290,563.00	4,176,971.00	2,886,408.00	ERROR
Employee benefit obligation	16,705,268.00	16,705,268.00	-	ERROR
Provisions	9,490,739.00	9,697,021.00	206,282.00	ERROR
<b>Total Non-Current Liabilities</b>	<b>27,486,570.00</b>	<b>30,579,260.00</b>	<b>3,092,690.00</b>	

<b>Total Liabilities</b>	<b>114,527,005.00</b>	<b>107,973,406.00</b>	<b>(6,553,599.00)</b>	
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### Net Assets

Accumulated surplus	1,229,663,462.00	1,333,616,197.00	103,952,735.00	
<b>Total Net Assets</b>	<b>1,229,663,462.00</b>	<b>1,333,616,197.00</b>	<b>103,952,735.00</b>	

### Statement of Financial Performance

2013 as Restated

2013 Audited

Difference

Reason

### Revenue

#### Revenue from exchange transacti

Service charges	98,269,841.00	103,484,141.00	5,214,300.00	ERROR
Income from agency services	4,785,179.00	2,510,825.00	(2,274,354.00)	ERROR
Licences and permits	20,375.00	-	(20,375.00)	ERROR

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Prior period errors (continued)

Rental income	556,634.00	556,634.00	-
Other income	11,867,058.00	9,949,117.00	(1,917,941.00) ERROR
Interest received - investment	2,223,914.00	2,347,181.00	123,267.00 ERROR
Gains on disposal of assets	935,742.00	1,392,620.00	456,878.00 ERROR
<b>Total revenue from exchange trans</b>	<b>118,658,743.00</b>	<b>120,240,518.00</b>	<b>1,581,775.00</b>

### Revenue from non-exchange trans

#### Taxation revenue

Property rates	18,622,388.00	18,892,904.00	270,516.00 ERROR
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#### Transfer revenue

Government grants & subsidies	152,729,831.00	150,930,610.00	(1,799,221.00) ERROR
Fines	953,302.00	859,161.00	(94,141.00) ERROR
<b>Total revenue from non-exchange</b>	<b>172,305,521.00</b>	<b>170,682,675.00</b>	<b>(1,622,846.00)</b>

<b>Total revenue</b>	<b>290,964,264.00</b>	<b>290,923,193.00</b>	<b>(41,071.00)</b>
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Expenditure	2013 as Restated	2013 Audited	Difference	Reason
Personnel	(84,719,507.00)	(86,756,665.00)	(2,037,158.00) ERROR	
Remuneration of councillors	(12,159,230.00)	(12,099,930.00)	59,300.00 ERROR	
Depreciation and amortisation	(72,201,942.00)	(71,497,732.00)	704,210.00 ERROR	
Impairment loss/ Reversal of impairm	(1,917,044.00)	(1,917,044.00)	-	
Finance costs	(3,733,868.00)	(1,184,293.00)	2,549,575.00 ERROR	
Debt impairment	(18,823,525.00)	-	18,823,525.00 ERROR	
Repairs and maintenance	(14,267,707.00)	(11,582,602.00)	2,685,105.00 ERROR	
Bulk purchases	(63,157,736.00)	(63,268,366.00)	(110,630.00) ERROR	
Grants and subsidies paid	(3,465,897.00)	(3,465,897.00)	-	
General Expenses	(79,779,243.00)	(68,387,164.00)	11,392,079.00 ERROR	
<b>Total expenditure</b>	<b>(354,225,699.00)</b>	<b>(320,159,693.00)</b>	<b>34,066,006.00</b>	

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Prior period errors (continued)

<b>Operating deficit</b>	(63,261,435.00)	(29,236,500.00)	34,024,935.00
Fair value adjustments	(2,926,624.00)	(4,286,434.00)	(1,359,810.00) ERROR
<b>Deficit for the year</b>	<b>(66,188,059.00)</b>	<b>(33,522,934.00)</b>	<b>32,665,125.00</b>
Attributable to:	-	-	-
Owners of the controlling entity	<b>(66,188,059.00)</b>	<b>(33,522,934.00)</b>	<b>32,665,125.00</b>

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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### 43. Risk management

#### Financial risk management

##### Liquidity risk

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, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

### 44. Going concern

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

### 45. Events after the reporting date

On the 6th of November 2014 an armed robbery occurred at the Traffic and Licence department and a amount of R3,200.00 have been stolen. A criminal investigation has been lodged at the South African Police Service.

### 46. Unauthorised expenditure

Opening balance	132,167,884	88,958,393
Unauthorised expenditure	12,154,946	43,209,491
Less: Condoned	-	-
	<b>144,322,830</b>	<b>132,167,884</b>

### 47. Fruitless and wasteful expenditure

Opening balance	9,110,749	3,312,824
Penalties, interest and other	8,870,484	5,797,925
Less: Condoned	-	-
	<b>17,981,233</b>	<b>9,110,749</b>

The following fruitless and wasteful expenditure occurred during the year:

- South African Revenue Service - Penalties and interest:	R 91 668.98
- Eskom - Interest:	R 3 319 385.03
- Debt collection - No value for money	R 5 455 078.93
- SARS - Interest	R 91 668.98
- AG - Interest	R 4 351.54
	<b>R 8 870 484.48</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>48. Irregular expenditure</b>		
Opening balance	20,562,367	12,057,940
Add: Irregular Expenditure - current year	48,558,699	8,504,427
Less: Amounts condoned	-	-
	<b>69,121,066</b>	<b>20,562,367</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	48,558,699	8,504,427
Prior years	20,562,367	12,057,940
	<b>69,121,066</b>	<b>20,562,367</b>

### Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
SCM Not followed	All matters were deviation in the SCM was followed	48,558,669
		<b>48,558,669</b>

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

#### Material losses

##### 2014

Electricity losses for the current year amounted to 31% i.e. R 27 252 134.25. These losses comprise of technical and non-technical losses. Technical losses are losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 84% i.e. R 717 116.67.

##### 2013

Electricity losses for the current year amounted to 28% i.e. R 22 144 405.94. These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network. Non-technical losses, being theft, faults, billing errors etc. Attempts are currently being made to reduce these non-technical losses. Non-revenue water i.e. non billed water amounted to 85% i.e. R 1,352,951.85, 37.56% of these losses can be accounted for it terms of the National Guidelines for nonrevenue water. 25% of these losses cannot be accounted for mainly due to the non-metering of this water. This problem is currently being addressed whereby additional meters are being installed.

#### Audit fees

Current year subscription / fee	2,308,870	2,728,054
Amount paid - current year	(2,313,222)	(2,728,054)
	<b>(4,352)</b>	-

#### PAYE and UIF

Current year subscription / fee	12,377,538	8,779,914
Amount paid - current year	(11,426,409)	(8,779,914)
	<b>951,129</b>	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	20,371,513	12,491,109
Amount paid - current year	(18,289,980)	(12,491,109)
	<b>2,081,533</b>	-

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>49. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>VAT</b>		
VAT receivable	11,143,456	3,764,472
	<b>11,143,456</b>	<b>3,764,472</b>

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

Auditor General

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>49. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Councillors' arrear consumer accounts</b>		
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:		
<b>30 June 2014</b>	<b>Total outstanding R</b>	<b>Total R</b>
Cllr. B.H. Mtshali (Mayor)	2,301	2,301
Cllr. Z.E. H.A. Mncube	3,709	3,709
Cllr. S.C. Mtshali	30,388	30,388
Cllr. R.J.A. Wilson	1,353	1,353
Cllr. D.M. Thwala	9,024	9,024
Cllr. J.S. Methula	299	299
Cllr. S.S. Mathebula	77	77
Cllr. T.S. Nkosi	7,288	7,288
Cllr. M.E. Phakathi	3,261	3,261
Cllr. S.P. Kunene	4,197	4,197
Cllr. S.R. Sangweni	4,885	4,885
Cllr. N.B. Masuku	4,399	4,399
Cllr. L.V.A. Mkhwanazi	17,028	17,028
Cllr. Z. Mnisi	8,579	8,579
Cllr. M.O. Nkosi	3,503	3,503
Cllr. H.P. Sunkel	534	534
Cllr. T.E. Motha	8,019	8,019
Cllr. J.L.I. Brussow	46,683	46,683
Cllr. J.M. Phakathi	824	824
Cllr. L. Bosch	1,936	1,936
	<b>158,287</b>	<b>158,287</b>
<b>30 June 2013</b>	<b>Total outstanding R</b>	<b>Total R</b>
Cllr. B.H. Mtshali (Mayor)	1,336	1,336
Cllr. V.D. Nkosi (MMC Technical)	2,153	2,153
Cllr. Z.E. Mthimkhulu (Chief Whip)	235	235
Cllr. C. Mtshali	166	166
Cllr. R.J.A. Wilson	2,672	2,672
Cllr. D.M. Thwala	7,700	7,700
Cllr. J.S. Methula	47	47
Cllr. S.S. Mathebula	804	804
Cllr. T.S. Nkosi	6,744	6,744
Cllr. M.D. Ntuli	1,831	1,831
Cllr. M.E. Phakathi	2,728	2,728
Cllr. S.P. Kunene	2,814	2,814
Cllr. S.R. Sangweni	3,833	3,833
Cllr. N.B. Masuku	3,098	3,098
Cllr. L.V.A. Mkhwanazi	8,280	8,280
Cllr. Z. Mnisi	5,691	5,691
Cllr. M.O. Nkosi	2,428	2,428
Cllr. H.P. Sunkel	1,931	1,931
Cllr. T.E. Motha	8,228	8,228
Cllr. J.L.I. Brussow	32,382	32,382
Cllr. J.M. Phakathi	1,752	1,752
	<b>96,853</b>	<b>96,853</b>



# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>49. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>30 June 2014</b>		
	<b>Highest outstanding amount</b>	
Cllr. J.L.I. Brussow	46,683	
Cllr. S.C. Mtshali	30,388	
Cllr. L.V.A. Mkhwanazi	17,028	
Cllr. D.M. Thwala	9,024	
Cllr. Z. Mnisi	8,579	
Cllr. T.E. Motha	8,019	
Cllr. T.S. Nkosi	7,288	
Cllr. S.R. Sangweni	4,885	
Cllr. N.B. Masuku	4,399	
Cllr. S.P. Kunene	4,197	
Cllr. H.A. Mncube	3,709	
Cllr. M.O. Nkosi	3,503	
Cllr. M.E. Phakathi	3,261	
Cllr. B.H. Mtshali (Mayor)	2,301	
Cllr. L. Bosch	1,936	
Cllr. R.J.A. Wilson	1,353	
Cllr. J.M. Phakathi	824	
Cllr. H.P. Sunkel	534	
Cllr. J.S. Methula	299	
Cllr. S.S. Mathebula	77	
	<b>158,287</b>	<b>-</b>
<b>30 June 2013</b>		
	<b>Highest outstanding amount</b>	
Cllr. J.L.I. Brussow	32,382	
Cllr. L.V.A. Mkhwanazi	8,280	
Cllr. T.E. Motha	8,228	
Cllr. D.M. Thwala	7,700	
Cllr. T.S. Nkosi	6,744	
Cllr. Z. Mnisi	5,691	
Cllr. S.R. Sangweni	3,833	
Cllr. N.B. Masuku	3,098	
Cllr. S.P. Kunene	2,814	
Cllr. M.E. Phakathi	2,728	
Cllr. R.J.A. Wilson	2,672	
Cllr. M.O. Nkosi	2,428	
Cllr. V.D. Nkosi (MMC Technical)	2,153	
Cllr. H.P. Sunkel	1,931	
Cllr. M.D. Ntuli	1,831	
Cllr. J.M. Phakathi	1,752	
Cllr. B.H. Mtshali (Mayor)	1,336	
Cllr. S.S. Mathebula	804	
Cllr. Z.E. Mthimkhulu (Chief Whip)	235	
Cllr. C. Mtshali	166	
Cllr. J.S. Methula	47	
	<b>96,853</b>	<b>-</b>

# Mkhondo Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand	2014	2013
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### 50. Deviation from supply chain management regulations

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

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

A register of deviations are kept at the Municipal Manager's office and is available for inspection.

Auditor General

**Mkhondo Local Municipality  
Appendix B**

**Analysis of property, plant and equipment as at 30 June 2014**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land	41,050,371	-	-	-	-	-	<b>41,050,371</b>	-	-	-	-	-	-	41,050,371
	<b>41,050,371</b>	-	-	-	-	-	<b>41,050,371</b>	-	-	-	-	-	-	<b>41,050,371</b>
<b>Infrastructure</b>														
Roads, Pavements & Bridges	1,093,323,875	30,308,864	-	-	-	-	<b>1,123,632,739</b>	(451,269,399)	-	-	(43,828,309)	-	<b>(495,097,708)</b>	628,535,031
Storm water	51,495,876	-	-	-	-	-	<b>51,495,876</b>	(28,895,817)	-	-	(1,249,566)	-	<b>(30,145,383)</b>	21,350,493
Transmission & Reticulation	460,233,575	-	-	-	-	-	<b>460,233,575</b>	(248,575,441)	-	-	(11,136,054)	-	<b>(259,711,495)</b>	200,522,080
Water purification	171,743,294	12,107,382	-	-	-	-	<b>183,850,676</b>	(91,336,347)	-	-	(4,775,845)	-	<b>(96,112,192)</b>	87,738,484
Sewerage purification	206,404,741	9,890,384	-	-	-	-	<b>216,295,125</b>	(110,459,969)	-	-	(4,161,933)	-	<b>(114,621,902)</b>	101,673,223
	<b>1,983,201,361</b>	<b>52,306,630</b>	-	-	-	-	<b>2,035,507,991</b>	<b>(930,536,973)</b>	-	-	<b>(65,151,707)</b>	-	<b>(995,688,680)</b>	<b>1,039,819,311</b>
<b>Community Assets</b>														
Parks & gardens	2,724,500	-	-	-	-	-	<b>2,724,500</b>	(1,144,290)	-	-	(54,490)	-	<b>(1,198,780)</b>	1,525,720
Sportsfields and stadium	2,807,000	-	-	-	-	-	<b>2,807,000</b>	(1,178,940)	-	-	(56,140)	-	<b>(1,235,080)</b>	1,571,920
Community halls	7,780,000	-	-	-	-	-	<b>7,780,000</b>	(3,267,600)	-	-	(95,600)	(1,740,000)	<b>(5,103,200)</b>	2,676,800
Libraries	1,560,000	-	-	-	-	-	<b>1,560,000</b>	(591,410)	-	-	(31,200)	-	<b>(622,610)</b>	937,390
Other	500,000	1,433,390	-	-	-	-	<b>1,933,390</b>	(200,000)	-	-	(10,079)	-	<b>(210,079)</b>	1,723,311
Cemeteries	293,000	-	-	-	-	-	<b>293,000</b>	(123,060)	-	-	(5,860)	-	<b>(128,920)</b>	164,080
	<b>15,664,500</b>	<b>1,433,390</b>	-	-	-	-	<b>17,097,890</b>	<b>(6,505,300)</b>	-	-	<b>(253,369)</b>	<b>(1,740,000)</b>	<b>(8,498,669)</b>	<b>8,599,221</b>

**Mkhondo Local Municipality  
Appendix B**

**Analysis of property, plant and equipment as at 30 June 2014**  
**Cost/Revaluation** **Accumulated depreciation**

	<b>Opening Balance Rand</b>	<b>Additions Rand</b>	<b>Disposals Rand</b>	<b>Transfers Rand</b>	<b>Revaluations Rand</b>	<b>Other changes, movements Rand</b>	<b>Closing Balance Rand</b>	<b>Opening Balance Rand</b>	<b>Disposals Rand</b>	<b>Transfers Rand</b>	<b>Depreciation Rand</b>	<b>Impairment loss Rand</b>	<b>Closing Balance Rand</b>	<b>Carrying value Rand</b>
<b>Other assets</b>														
General vehicles	18,997,316	522,300	2,092,811	-	-	-	<b>21,612,427</b>	(10,618,230)	(1,767,489)	-	(2,469,164)	(514,551)	<b>(15,369,434)</b>	6,242,993
Plant & equipment	535,429	179,550	-	-	-	-	<b>714,979</b>	(228,544)	-	-	(62,154)	(2,729)	<b>(293,427)</b>	421,552
Computer Equipment	3,446,396	772,592	85,702	-	-	-	<b>4,304,690</b>	(1,541,762)	(73,508)	-	(179,550)	(6,424)	<b>(1,801,244)</b>	2,503,446
Furniture & Fittings	4,496,243	133,228	97,430	-	-	-	<b>4,726,901</b>	(2,488,394)	(77,052)	-	(677,508)	(63,109)	<b>(3,306,063)</b>	1,420,838
Office Equipment	993,634	-	1,602	-	-	-	<b>995,236</b>	(360,857)	(1,318)	-	(198,906)	-	<b>(561,081)</b>	434,155
Other	17,091,503	351,978	848,118	-	-	-	<b>18,291,599</b>	(9,886,499)	(809,865)	-	(2,042,153)	(261,345)	<b>(12,999,862)</b>	5,291,737
	<b>45,560,521</b>	<b>1,959,648</b>	<b>3,125,663</b>	-	-	-	<b>50,645,832</b>	<b>(25,124,286)</b>	<b>(2,729,232)</b>	-	<b>(5,629,435)</b>	<b>(848,158)</b>	<b>(34,331,111)</b>	<b>16,314,721</b>

**Mkhondo Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2014**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	41,050,371	-	-	-	-	-	41,050,371	-	-	-	-	-	-	41,050,371
Infrastructure	1,983,201,361	52,306,630	-	-	-	-	2,035,507,991	(930,536,973)	-	-	(65,151,707)	-	(995,688,680)	1,039,819,311
Community Assets	15,664,500	1,433,390	-	-	-	-	17,097,890	(6,505,300)	-	-	(253,369)	(1,740,000)	(8,498,669)	8,599,221
Other assets	45,560,521	1,959,648	3,125,663	-	-	-	50,645,832	(25,124,286)	(2,729,232)	-	(5,629,435)	(848,158)	(34,331,111)	16,314,721
	<b>2,085,476,753</b>	<b>55,699,668</b>	<b>3,125,663</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,144,302,084</b>	<b>(962,166,559)</b>	<b>(2,729,232)</b>	<b>-</b>	<b>(71,034,511)</b>	<b>(2,588,158)</b>	<b>1,038,518,460</b>	<b>1,105,783,624</b>
<b>Agricultural/Biological assets</b>														
Biological assets	58,912,732	-	-	-	19,832,658	-	78,745,390	-	-	-	-	-	-	78,745,390
	<b>58,912,732</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,832,658</b>	<b>-</b>	<b>78,745,390</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>78,745,390</b>
<b>Investment properties</b>														
Investment property	31,459,300	-	-	-	-	-	31,459,300	(12,353,100)	-	-	(619,400)	-	(12,972,500)	18,486,800
	<b>31,459,300</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,459,300</b>	<b>(12,353,100)</b>	<b>-</b>	<b>-</b>	<b>(619,400)</b>	<b>-</b>	<b>(12,972,500)</b>	<b>18,486,800</b>
<b>Total</b>														
Land and buildings	41,050,371	-	-	-	-	-	41,050,371	-	-	-	-	-	-	41,050,371
Infrastructure	1,983,201,361	52,306,630	-	-	-	-	2,035,507,991	(930,536,973)	-	-	(65,151,707)	-	(995,688,680)	1,039,819,311
Community Assets	15,664,500	1,433,390	-	-	-	-	17,097,890	(6,505,300)	-	-	(253,369)	(1,740,000)	(8,498,669)	8,599,221
Other assets	45,560,521	1,959,648	3,125,663	-	-	-	50,645,832	(25,124,286)	(2,729,232)	-	(5,629,435)	(848,158)	(34,331,111)	16,314,721
Agricultural/Biological assets	58,912,732	-	-	-	19,832,658	-	78,745,390	-	-	-	-	-	-	78,745,390
Investment properties	31,459,300	-	-	-	-	-	31,459,300	(12,353,100)	-	-	(619,400)	-	(12,972,500)	18,486,800
	<b>2,175,848,785</b>	<b>55,699,668</b>	<b>3,125,663</b>	<b>-</b>	<b>19,832,658</b>	<b>-</b>	<b>2,254,506,774</b>	<b>(974,519,659)</b>	<b>(2,729,232)</b>	<b>-</b>	<b>(71,653,911)</b>	<b>(2,588,158)</b>	<b>1,051,490,960</b>	<b>1,203,015,814</b>