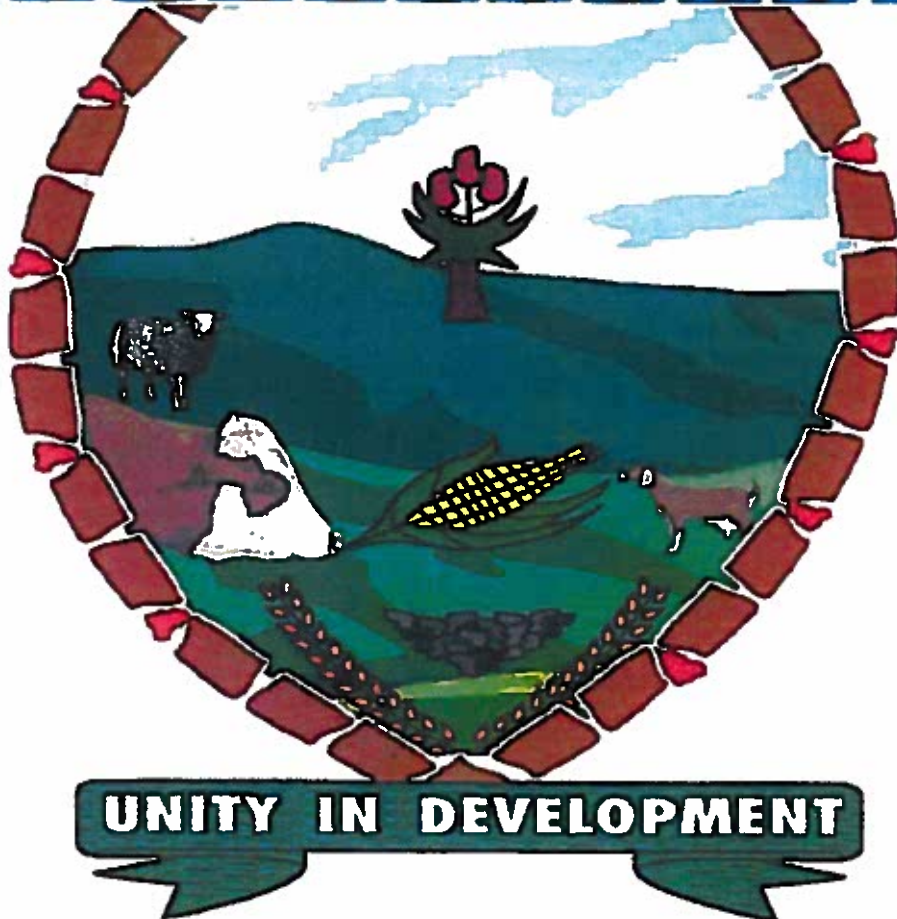


EMALAHLENI MUNICIPALITY



[These financial statements have been audited]

ANNUAL FINANCIAL STATEMENTS

30 JUNE 2015



EMALAHLENI MUNICIPALITY

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EMALAHLENI MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

GENERAL INFORMATION

NATURE OF BUSINESS

Emalahleni Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996)

COUNTRY OF ORIGIN AND LEGAL FORM

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

JURISDICTION

The Emalahleni Municipality includes the following towns and surrounding rural areas:

*Dordrecht
Indwe
Lady Frere*

MUNICIPAL MANAGER

Dr. S. W. Vatala

CHIEF FINANCIAL OFFICER

GP De Jager

REGISTERED OFFICE

Emalahleni Municipality; 37 Indwe Road; Lady Frere; 5410

AUDITORS

Office of the Auditor General

PRINCIPLE BANKERS

Standard Bank; 92 Cathcart RD; Queenstown; 5320

RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act
The Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no 117 of 1998)
Municipal Systems Act (Act no 32 of 2000)
Municipal Planning and Performance Management Regulations
Water Services Act (Act no 108 of 1997)
Housing Act (Act no 107 of 1997)
Municipal Property Rates Act (Act no 6 of 2004)
Electricity Act (Act no 41 of 1987)
Skills Development Levies Act (Act no 9 of 1999)
Employment Equity Act (Act no 55 of 1998)
Unemployment Insurance Act (Act no 30 of 1966)
Basic Conditions of Employment Act (Act no 75 of 1997)
Supply Chain Management Regulations, 2005
Collective Agreements
Infrastructure Grants
SALBC Leave Regulations

EMALAHLENI MUNICIPALITY

MEMBERS OF THE EMALAHLENI MUNICIPALITY

COUNCILLORS

1 Nyukwana, N.	Mayor	ANC	Mayor Ward 8
2 Lali, N.	Speaker	ANC	Speaker Ward 13
3 Liwani, S.	Chief Whip	ANC	Executive Committee Ward 6
4 Kalolo, D.S.	Executive Committee	ANC	Executive Committee Ward 7
5 Kulashe, T.	Executive Committee	ANC	Executive Committee Ward 11
6 Twala, B.P.	Executive Committee	ANC	Executive Committee Ward 10
7 Nkasela, K.	Executive Committee part time	ANC	Executive Committee Ward 2
8 Mooi, L.	Chairperson of Section 79 Committee	ANC	Ward Councillor 2
9 Koni, N.F.	Councillor	ANC	Ward Councillor 1
10 Ziduli, N.	Councillor	ANC	Ward Councillor 3
11 Bobotyana, H.C.	Councillor	ANC	Ward Councillor 4
12 Mapete, P.	Councillor	ANC	Ward Councillor 5
13 Qashani, N.	Councillor	ANC	Ward Councillor 6
14 Peter, N.	Councillor	ANC	Ward Councillor 7
15 Nobaza, P.	Councillor	ANC	Ward Councillor 8
16 Dudumashe, T.R.	Councillor	ANC	Ward Councillor 9
17 Gwegwana, L.	Councillor	ANC	Ward Councillor 10
18 Teka, Z.H.	Councillor	ANC	Ward Councillor 11
19 Dyonase, Z.	Councillor	ANC	Ward Councillor 12
20 Kraqa, N.	Councillor	ANC	Ward Councillor 13
21 Godla, M.	Councillor	ANC	Ward Councillor 14
22 Mnyuko, S.	Councillor	ANC	Ward Councillor 15
23 Komani, B.	Councillor	ANC	Ward Councillor 16
24 Papiso, Z.	Councillor	ANC	Proportional Ward 17
25 Jordaan, V.	Councillor	ANC	Proportional Ward 4
26 Dikilili, N.	Councillor	UDM	Proportional Ward 14
27 Holana, N.	Councillor	ANC	Proportional Ward 17
28 Ndlela, T.R.	Councillor	DA	Proportional Ward 12
29 Mjezu, K.	Councillor	UDM	Proportional Ward 10
30 Greyling, P.	Councillor	DA	Proportional Ward 14
31 Mketsu, Z.	Councillor	COPE	Proportional Ward 5
32 Kwatshana, T.	Councillor	PAM	Proportional Ward 16
33 Sixishe, TD.	Councillor	ANC	Proportional Ward 3
34 Boklaini, SN	Councillor	ANC	Proportional Ward 10

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements year ended 30 June 2015, which are set out on pages 1 to 94 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with GRAP.

I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the Municipality's cash flow forecast for the year to 30 June 2016 and is satisfied that the Municipality can continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.


Dr. S. W. Vataia
ACCOUNTING OFFICER

30 AUGUST 2015
Date

EMALAHLENI LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2015

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the financial position of EMALAHLENI LOCAL MUNICIPALITY for the fiscal year 2012/2013

In rendering a corporate financial management service to all departments, the Finance Department's primary objective is to assist the Municipal Manager and Senior Management to manage their budgets and ensure the effective application of financial resources in rendering services to the community.

Emalahleni Municipality is now compliant with the requirements of GRAP. It has been a long, difficult and very expensive process, the worth of which is at best minimal. In times when municipalities are battling to balance their budgets and when there is little or no local economic growth, to be able to know what the depreciated replacement cost of a pipe buried three metres under the ground beggars belief. It was once said that municipal financials were opaque and there was truth in that statement, but in making them less opaque and embracing transparency, we have assumed that people will understand them better and, even more so, that they actually care about what they are reading. People, just like banks and credit agencies, want to know what the budget is, what the debtors are like and have you got cash to pay your creditors. Nothing we have done in the last six years, in order to reach GRAP compliance, changes that.

2. KEY FINANCIAL INDICATORS

The economic downturn and the Eskom issues continue to play havoc with good financial management. The Emalahleni economy has been battered of late and all indications are that it will get worse before it gets better.

This is not because of bad or incompetent management, but because it is the nature of the business and the economy. I would therefore hope that National and Provincial bureaucrats take heed of this fact before making any incorrect or ill-conceived statements or judgements.

Financial Statement Ratios:

INDICATOR	2014/2015	2013/2014
Surplus / (Deficit) for the year before Appropriations	(11 156 838)	(5 545 828)
Accumulated Surplus / (Deficit) at the end of the Year	458 386 485	469 543 326
Expenditure Categories as a percentage of Total Expenses:		
Employee related costs	23.53%	24.40%
Remuneration of Councillors	5.56%	6.34%
Debt Impairment	7.46%	0.58%
Depreciation and Amortisation	12.14%	13.16%
Impairments	5.09%	7.34%
Repairs and Maintenance	2.80%	2.26%
Actuarial losses	0.00%	0.51%
Finance Charges	0.43%	0.45%
Bulk Purchases	8.15%	8.30%
Contracted services	3.06%	2.60%
Operating Grant Expenditure	12.69%	12.49%
General Expenses	18.47%	16.13%
Loss on disposal of Property, Plant and Equipment	0.63%	5.44%
Fair Value Adjustments	0.00%	0.00%
Current Ratio:		
Creditors Days	96	120
Debtors Days	1 305	2 624

One indicator needing comment is that of repairs and maintenance. In recent years there has been made much comments as to how low this ratio is. It should be noted that the ratio improvement has been achieved despite the massive increases in Eskom charges.

3. OPERATING RESULTS

The overall operating results for the year ended 30 June 2015 are as follows:

DETAILS	Actual 2014/2015 R	Actual 2013/2014 R	Percentage Variance %	Budgeted 2014/2015 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	469 543 326	475 089 154	-1.17%	469 919 148	-
Operating income for the year (incl. gains in disposal of assets)	170 634 412	152 035 689	12.23%	203 104 747	-15.99%
Appropriations for the year	-	-	0.00%	-	-
	640 177 737	627 124 843	2.08%	673 023 895	-4.88%
Expenditure:					
Operating expenditure for the year	181 791 250	154 748 167	17.48%	202 968 746	-10.43%
Sundry transfers	-	-	0.00%	-	-
Closing surplus / (deficit)	458 386 487	472 376 675	-2.96%	470 055 149	-
	640 177 737	627 124 843	2.08%	673 023 895	-4.88%
Closing surplus / (deficit)	458 386 487	469 543 326	-2.38%		

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Property, Plant and Equipment during the year amounted to R 38 175 478 (2013/2014: R 37 101 365), and in percentage terms amounts to 93.93% of budget. Full details of Property, Plant and Equipment are disclosed in note number 10 to the Annual Financial Statements.

The capital expenditure of R 38 175 478 (2014/15) was financed as follows:

DETAILS	Actual 2014/2015 R	Budgeted 2014/2015 R	Percentage Variance %	Source of funding as % of total Cap exp
Appropriation Account (Own Funds)	6 903 034	10 103 500	68.32%	18.18%
External Loans	-	-	-	-
Grants and Subsidies	30 399 227	30 537 293	99.55%	80.04%
Leased Assets	678 074	-	100.00%	-
Public Contributions	-	-	-	-
	37 980 335	40 640 793	93.45%	100.00%

5. RECONCILIATION OF BUDGET TO ACTUAL

5.1 Operating Budget:

DETAILS	2014/2015
<i>Variance per Category:</i>	
Budgeted surplus before appropriations	(11 292 839)
Revenue variances	(32 332 270)
Expenditure variances:	
Executive and Council	(2 363 687)
Budget and Treasury Office	1 863 269
Corporate Services	21 246
Community and Social Services	8 097 319
IPED	(3 323 726)
Technical Services	(3 076 653)
Actual surplus before appropriations	(42 407 340)

DETAILS	2014/2015
<i>Variance per Expenditure by Type:</i>	
Budgeted surplus before appropriations	(11 292 839)
Employee related costs	(18 016 055)
Remuneration of councillors	(3 651)
Debt impairment	(4 158)
Depreciation & asset impairment	8 229 820
Finance charges	111 829
Bulk purchases	(2 404 209)
Other materials	
Contracted services	(247 110)
Grants and subsidies paid	91 175
Other expenditure	(10 082 634)
Loss on disposal of PPE	1 147 498
Actual surplus before appropriations	(32 470 336)

Details of the operating results per segmental classification of expenditure and of operational results per category of expenditure, together with an explanation of variances of more than 10% from budget, are included in Statement of Comparisons of Budget and Actual Amounts

5.2 Capital Budget:

DETAILS	Actual 2014/2015 R	Budgeted 2014/2015 R	Variance actual/ budgeted R
Budget and Treasury	1 511 718	1 512 000	(282)
Community and Social Services	24 030 825	25 614 656	(1 583 831)
Corporate Services	457 623	458 000	(377)
Executive and Council	4 277 127	4 325 000	(47 873)
IPED	712 735	860 000	(147 265)
Technical Services	7 185 450	8 301 137	(1 115 687)
	38 175 478	41 070 793	(2 895 315)

Refer to Note number 11 and 36 for more detail.

5. LONG-TERM LIABILITIES

The outstanding amount of Long-term Liabilities as at 30 June was :

2015 R	2014 R
810 383	546 033

New loans taken up during the financial year to enable the municipality to finance part of its capital requirements.

-

Refer to Note number 2 and Appendix "A" for more detail.

6. NON-CURRENT PROVISIONS AND NON-CURRENT EMPLOYEE BENEFITS

Non-current Provisions and Employee Benefits at 30 June are made up as follows:

	5 536 817	8 793 293
Provision for Post Retirement Benefits	4 328 789	5 220 472
Provision for Ex-Gratia Pension Benefits	-	-
Provision for Long Service Awards	1 208 028	1 453 534
Provision for Rehabilitation of Landfill-sites	0	2 119 287
Provision for Clearing of Alien Vegetation	-	-
	5 536 817	8 793 293

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Notes number 3 and 4 for more detail.

7. CURRENT LIABILITIES

Current Liabilities are made up as follows:

Consumer Deposits	Note Number 5	-	-
Current Employee benefits	Note Number 6	7 097 272	6 129 053
Provisions	Note number 4	11 514 635	648 650
Payables from exchange transactions	Note Number 7	15 803 079	15 077 414
Unspent Conditional Government Grants and Receipts	Note Number 8	348 701	1 801 337
Current Portion of Long-term Liabilities	Note Number 2	263 459	311 299
		35 027 146	23 967 753

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason to why the municipality will not be able to meet its obligations.

Refer to the indicated Note numbers for more detail.

8. INTANGIBLE ASSETS

The net value of Intangible Assets is:

206 752 258 564

These are assets which cannot physically be identified and verified and are all in respect of

Refer to Note Number 13 for more detail.

9. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment is:

439 281 466 422 240 399

Refer to Note Number 10 for more detail.

10. INVESTMENTS

The municipality held Investments to the value of :

28 563 011 41 614 217

These investments are ring-fenced for purposes of either the security for and repayment of Long-term Liabilities, Unspent Conditional Grants and Capital Commitments.

Refer to Note Number 19 for more detail.

11. CURRENT ASSETS

Current Assets are made up as follows:

Inventory	Note Number 15	-	618 865
Receivables from exchange transactions	Note Number 16	17 964 462	10 402 833
Receivables from non-exchange transactions	Note Number 17	3 920 135	5 860 616
Unpaid Conditional Government Grants and Receipts	Note Number 8	-	34 684
Operating Lease Asset	Note Number 18	77 416	63 222
Taxes	Note Number 9	2 077 851	2 522 476
Cash and Cash Equivalents	Note Number 19	31 776 400	50 993 250
		<u>55 816 264</u>	<u>70 495 947</u>

Refer to the indicated Note numbers for more detail.

13. INTER-GOVERNMENTAL GRANTS

The municipality plays the major role in the upliftment of the poor and in sustaining and improving infrastructure for all its citizens for which it uses grants received from government and other organisations, and thus it has a big responsibility as custodian of these funds.

Refer to note 8 and 19 for more detail

14. EVENTS AFTER THE REPORTING DATE

Full details of all events after reporting date are disclosed in note 44.

15. DISCLOSURE ISSUES

Possible outflow of recourses due the contingent liability disclosed in note 47.

16. EXPRESSION OF APPRECIATION

I am grateful to the Municipal Manager, Directors and Heads of Departments for the support they extended during the financial year.

The work involved in producing these financial statements just gets more detailed each year and therefore my heartfelt thanks goes to my own staff at all levels and in all departments, for their hard work and dedication.


GP DE JAGER
CHIEF FINANCIAL OFFICER

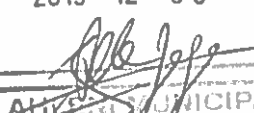
30 AUGUST 2015


Date

EMALAHLENI MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

	Notes	2015 R	2014 R
NET ASSETS AND LIABILITIES			
Net Assets		458 386 485	469 543 326
Accumulated Surplus/(Deficit)		458 386 485	469 543 326
Non-Current Liabilities		6 241 283	8 953 829
Long-term Liabilities	2	546 924	234 735
Employee benefits	3	5 694 359	6 599 807
Non-Current Provisions	4	0	2 119 287
Current Liabilities		35 027 146	23 967 753
Current Employee benefits	5	7 097 272	6 129 053
Provisions	4	11 514 635	648 650
Payables from exchange transactions	6	15 803 079	15 077 414
Unspent Conditional Government Grants and Receipts	7	348 701	1 801 337
Current Portion of Long-term Liabilities	2	263 459	311 299
Liabilities associated with Discontinued Operations	51	2 265 864	
Total Net Assets and Liabilities		501 920 778	502 464 908
ASSETS			
Non-Current Assets		446 104 515	431 968 960
Property, Plant and Equipment	9	439 281 466	422 240 399
Investment Property	10	6 433 761	8 394 358
Capitalised Restoration cost	11	-	951 638
Intangible Assets	12	206 752	258 564
Heritage Assets	13	182 536	124 000
Current Assets		55 816 264	70 495 947
Inventory	14	-	618 865
Receivables from exchange transactions	15	17 964 462	10 402 833
Receivables from non-exchange transactions	16	3 920 135	5 860 616
Unpaid Conditional Government Grants and Receipts	7	-	34 684
Operating Lease Asset	17	77 416	63 222
VAT	8	2 077 851	2 522 476
Cash and Cash Equivalents	18	31 776 400	50 993 250
Total Assets		501 920 779	502 464 908

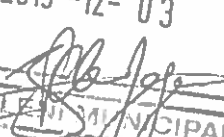
CHIEF FINANCIAL OFFICER
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 EMALAHLENI MUNICIPALITY


MUNICIPAL MANAGER'S OFFICE
APPROVED
 2015 -12- 03
 MUNICIPAL MANAGER
 EMALAHLENI MUNICIPALITY
 SIGN: 

EMALAHLENI MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

	Notes	2015 Actual R	2014 Restated R
REVENUE			
Revenue from Non-exchange Transactions		148 389 883	131 289 151
Taxation Revenue		3 719 278	3 218 438
Property rates	19	3 719 278	3 218 438
Transfer Revenue		143 279 952	126 639 577
Government Grants and Subsidies - Capital	20	30 399 227	28 198 258
Government Grants and Subsidies - Operating	20	112 880 725	98 441 321
Other Revenue		1 390 653	1 431 138
Actuarial Gains		928 454	-
Reversal of Impairment		10 341	3 547
Fines		107 783	115 438
Contributed Assets		346 075	1 312 150
Revenue from Exchange Transactions		22 244 529	20 746 538
Service Charges	21	11 179 543	10 742 672
Rental of Facilities and Equipment		720 791	737 342
Interest Earned - external investments	22	3 349 949	3 004 556
Interest Earned - outstanding debtors	22	3 929 602	3 495 172
Licences and Permits		462 097	383 000
Agency Services		65 702	61 196
Other Income	23	2 536 845	2 322 599
Total Revenue		170 634 412	152 035 689
EXPENDITURE			
Employee related costs	24	42 782 608	37 750 857
Remuneration of Councillors	25	10 103 758	9 811 645
Debt Impairment	26	13 567 042	895 628
Depreciation and Amortisation	27	22 066 517	20 359 826
Impairments	10,11,12	9 247 688	11 354 726
Repairs and Maintenance	29	5 083 299	3 502 964
Actuarial losses	3	-	791 293
Finance Charges	28	788 929	669 786
Bulk Purchases	30	14 809 208	12 850 609
Contracted services		5 564 390	4 029 759
Other Operating Grant Expenditure	31	23 060 456	19 330 609
General Expenses	32	33 571 856	24 981 757
Loss on disposal of Property, Plant and Equipment		1 147 498	8 418 708
Total Expenditure		181 791 250	154 748 167
Discontinued Operations	50.2	-	(2 833 350)
NET (DEFICIT) FOR THE YEAR		(11 156 838)	(5 545 828)

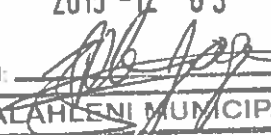
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2015 -12- 03
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MUNICIPAL MANAGER'S OFFICE
APPROVED
2015 -12- 03
MUNICIPAL MANAGER
EMALAHLENI MUNICIPALITY
SIGN: 

EMALAHLENI MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2015

	Accumulated Surplus/(Deficit)	Total
	R	R
Balance at 1 JULY 2013	475 112 096	475 112 096
Correction of errors	(22 943)	(22 943)
Restated Balance at 1 JULY 2013	475 089 154	475 089 154
Net Deficit for the year	(5 545 828)	(5 545 828)
Balance at 30 JUNE 2014	469 543 326	469 543 326
Net Deficit for the year	(11 156 838)	(11 156 838)
Balance at 30 JUNE 2015	458 386 485	458 386 485

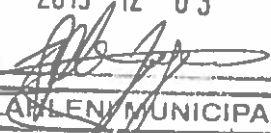
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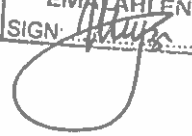
MUNICIPAL MANAGER'S OFFICE
APPROVED
2015 -12- 03
MUNICIPAL MANAGER
EMALAHLENI MUNICIPALITY
SIGN: 

EMALAHLENI MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

	Notes	30 JUNE 2015 R	30 JUNE 2014 R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Ratepayers and other		(410 345)	14 281 594
Government - operating	20	112 880 725	98 441 321
Government - capital	20	28 981 275	22 739 452
Interest		7 279 550	6 499 728
Payments			
Suppliers		(79 574 671)	(58 852 523)
Employees	24	(40 841 931)	(37 764 676)
Councillors	25	(10 103 758)	(9 811 645)
Finance charges	29	(57 785)	(137 287)
Cash generated by operations	34	<u>18 153 060</u>	<u>35 395 953</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	9	(36 827 585)	(36 899 432)
Purchase of Heritage Assets		(58 536)	(124 000)
Purchase of Intangible Assets	12	(70 066)	(77 913)
Net Cash from Investing Activities		<u>(38 956 187)</u>	<u>(37 101 365)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Loans repaid		(413 725)	(306 352)
(Decrease)/Increase in Consumer Deposits		-	(110 146)
Net Cash from Financing Activities		<u>(413 725)</u>	<u>(416 499)</u>
NET (INCREASE) /DECREASE IN CASH AND CASH EQUIVALENTS		<u>(19 216 851)</u>	<u>(2 121 910)</u>
Cash and Cash Equivalents at the beginning of the year		50 993 250	53 115 160
Cash and Cash Equivalents at the end of the year	35	<u>31 776 400</u>	<u>50 993 250</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		<u>(19 216 850)</u>	<u>(2 121 910)</u>

CHIEF FINANCIAL OFFICER
APPROVED
2015 -12- 03
SIGN: 
EMALAHLENI MUNICIPALITY

MUNICIPAL MANAGER'S OFFICE
APPROVED
2015 -12- 03
MUNICIPAL MANAGER
EMALAHLENI MUNICIPALITY
SIGN: 

EMALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2015 R	2015 R	2015 R	(Variance)	%	Explanations for material variances more than 10% of a specific line-item with a total amount of R1 million
ASSETS						
Current assets						
Cash	3 213 389	13 873 897	(10 660 508)	-78.84%		Surplus cash has been invested to optimise the income from surplus cash
Car investment deposits	28 563 011	20 678 705	7 884 306	18.80%		More were invested than expected
Consumer elections	17 064 462	10 736 850	7 227 603	81.37%		Increased billing with a lower than expected payment rate increased the debtor balance
Other Receivables	6 015 403	068 337	5 107 066	537.41%		Increased billing with a lower than expected payment rate increased the other receivables
Inventory	-	618 865	(618 865)	-100.00%		Inventory was transferred to CHDM
Total current assets	50 818 264	46 776 793	5 009 511			
Non current assets						
Investment property	8 433 701	0 394 358	(1 060 507)	-23.58%		Transfer to PPE not budgeted
Property, plant and equipment	429 281 465	440 052 062	(771 406)	-0.18%		
Intangible Assets	206 752	259 564	(51 812)	-70.04%		Capital acquisitions for the year were not budget for in full
Heritage Assets	182 636	-	182 636	100.00%		Previously not budgeted
Total non current assets	448 104 515	440 705 884	(2 001 360)			
TOTAL ASSETS	501 920 779	495 482 637	8 438 142			
LIABILITIES						
Current liabilities						
Borrowing	263 459	-	263 459	100.00%		Lease payments budget for under balances and not for the short term portion, short term portion provided for in statement of Financial Performance in Special adjustment budget
Trade and other payables	10 151 790	0 316 213	9 835 577	73.37%		Increased due to provision for retention on all capital projects and surety
Provisions and Employee Benefits	10 811 007	8 021 601	11 600 306	168.90%		Less were budget for Employee benefits provision
Total current liabilities	25 027 146	10 237 814	15 789 332			
Non current liabilities						
Borrowing	548 024	516 033	801	0.16%		
Provisions and Employee Benefits	5 804 360	8 779 642	(3 085 282)	-35.34%		More were budget for Employee benefits provision
Total non current liabilities	6 352 384	9 295 675	(2 943 291)			
TOTAL LIABILITIES	41 259 429	25 503 480	15 704 940			
NET ASSETS	460 661 350	469 918 148	(9 256 798)	-1.97%		
COMMUNITY WEALTH						
Accumulated Surplus (Deficit)	438 366 485	469 918 148	(11 532 663)	-2.45%		
TOTAL COMMUNITY WEALTH/EQUITY	438 366 485	469 918 148	-11 532 663	-0		

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EMALAHLENI MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2015

ADJUSTMENTS TO APPROVED BUDGET

	2015 R	2015 R	2015 R	%	Explanations for material variances more than 10% of a specific line-item with a misstatement of R1 million
ASSETS					
Current assets					
Cash	2 305 267	11 478 530	13 873 897	475%	Budget was understated
Call investment deposits	14 000 000	6 578 705	20 578 705	47%	Final Budget was understated
Consumed disburse	13 558 796	(2 820 137)	10 738 659	-21%	Reduced impairment provided in Adjustment Budget
Other Receivables	968 337	-	968 337	0%	
Inventory	424 000	194 865	618 865	46%	Inventory were increased due to Major Repair & Maintenance
Total current assets	31 344 700	15 432 053	48 776 753		
Non current assets					
Investment property	25 415 000	(17 022 542)	8 392 458	-67%	Were reduced according previous years AFS
Property, plant and equipment	419 899 515	20 963 447	440 862 962	5%	Additions were not provided for in the budget.
Intangible Assets	225 000	3 584	228 584	1%	
Total non current assets	445 551 415	3 144 489	448 705 904		
TOTAL ASSETS	476 896 115	18 576 542	495 482 657		
LIABILITIES					
Current liabilities					
Trade and other payables	9 316 213	-	9 316 213	0%	
Provisions and Employee Benefits	6 021 601	-	6 021 601	0%	
Total current liabilities	15 337 814	-	15 337 814		
Non current liabilities					
Borrowing	657 020	(110 807)	546 213	-17%	Correction of budget oversight.
Provisions and Employee Benefits	13 083 070	(4 004 328)	8 778 742	-36%	Correction of budget oversight.
Total non current liabilities	14 340 090	(5 015 315)	9 324 775		
TOTAL LIABILITIES	29 677 904	(5 015 315)	24 662 589		
NET ASSETS	446 327 311	23 591 837	469 919 148	5%	Net result off all adjustments made
COMMUNITY WEALTH					
Accumulated Surplus (Deficit)	446 327 311	23 591 837	469 919 148	5%	Net result off all adjustments made
TOTAL COMMUNITY WEALTH/EQUITY	446 327 311	23 591 837	469 919 148	0	Net result off all adjustments made

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2015 R	2015 R	(Adjustment Budget)	(Variance)	2015 R	(Final Budget)	(Variance)	2015 R	2015 R	2015 R	%	Explanations for material variances more than 10% of a specific line-item with a minimum of R1 million
REVENUE BY SOURCE												
Property rates	3 719 278	2 809 844		910 234		2 809 844	810 234				32.4%	
Service charges	11 170 543	10 036 759		348 784		10 036 759	348 784				3.1%	
Rental of facilities and equipment	720 791	703 614		17 177		703 614	17 177				2.4%	
Interest earned - related investments	3 349 910	3 085 720		264 190		3 085 720	264 190				8.0%	
Interest earned - in declining debits	3 829 822	2 558 200		1 271 402		2 558 200	1 271 402				53.6%	Higher rates of interest due to low payment rate by consumers
Fees	187 283	113 300		(5 511)		113 300	(5 511)				-4.0%	
Licenses and permits	482 097	498 108		(36 011)		498 108	(36 011)				-7.2%	
Agency services	65 702	1 235 680		(1 169 978)		1 235 680	(1 169 978)				-84.7%	Advertisement cost from CHCMA were wrongly budgeted for
Government Grants and Subsidies - Operating	112 880 725	111 815 114		1 065 281		111 815 114	1 065 281				1.0%	
Other revenue	3 473 540	30 000 844		(33 430 204)		30 000 844	(33 430 204)				-97.1%	Due to transfers of discontinued operations i.e. CHCMA
Contributed Assets	346 815	-		346 815		-	346 815				100.0%	
Total Operating Revenue	140 235 184	177 567 454		(37 332 270)		177 567 454	(37 332 270)					
EXPENDITURE BY TYPE												
Employee related costs	42 782 600	60 700 664		(18 918 063)		60 700 664	(18 918 063)				-23.6%	Due to transfers of discontinued operations i.e. CHCMA
Remuneration of councillors	18 103 758	10 107 410		(3 631)		10 107 410	(3 631)				0.0%	
Debt repayment	13 562 047	1 071 200		12 490 847		1 071 200	12 490 847				0.0%	
Depreciation & asset impairment	31 314 295	23 084 305		8 229 990		23 084 305	8 229 990				33.7%	
Finance charges	760 879	175 100		611 829		175 100	611 829				10.0%	
Bank purchases	14 800 200	17 213 417		(2 404 295)		17 213 417	(2 404 295)				-14.0%	More electricity were purchased
Contracted services	5 564 390	5 811 500		(247 110)		5 811 500	(247 110)				-4.3%	
Grants and subsidies paid	23 860 450	21 708 281		1 291 175		21 708 281	1 291 175				0.4%	
Other expenditure	38 855 155	62 937 700		(24 082 544)		62 937 700	(24 082 544)				-26.7%	Due to transfers of discontinued operations i.e. CHCMA
Loss on disposal of PPE	1 147 490	-		1 147 490		-	1 147 490				0.0%	
Total Operating Expenditure	181 701 524	202 068 746		(21 377 400)		202 068 746	(21 377 400)				-10.6%	
Operating Deficit for the year	(41 526 062)	(20 481 292)		(11 154 774)		(20 481 292)	(11 154 774)				30.7%	
Government Grants and Subsidies - Capital	30 390 227	30 537 293		(138 066)		30 537 293	(138 066)				-0.5%	
Net Surplus/(Deficit) for the year	(11 150 835)	(136 001)		(11 292 639)		(136 001)	(11 292 639)				-830.5%	

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ADJUSTMENTS TO APPROVED BUDGET

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2015

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2015 R	2015 R	2015 R	
	(Actual)	(Final Budget)	(Variance)	%
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Ratipayers and other	(410 345)	58 100 361	(58 518 706)	-101%
Government - operating	112 890 725	111 815 144	1 075 581	1%
Government - capital	28 091 279	30 537 293	(11 556 018)	-5%
Interest	7 279 550	5 643 950	1 635 601	29%
Payments				
Suppliers and Employees	(79 574 871)	(85 962 787)	6 388 916	-7%
Employees	(40 841 931)	(60 708 684)	19 866 753	-33%
Councillors	(110 403 758)	(10 107 410)	3 851	0%
Finance charges	(57 785)	(175 100)	117 315	-87%
Transfers and Grants	-	(21 769 281)	21 769 281	-100%
NET CASH FROM(USED) OPERATING ACTIVITIES	18 153 060	24 291 586		
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments				
Capital assets	(30 956 187)	(40 525 793)	3 569 606	-9%
NET CASH FROM(USED) INVESTING ACTIVITIES	(30 956 187)	(40 525 793)	3 569 606	
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments				
Repayment of borrowing	(413 725)	(306 352)	(107 373)	35%
NET CASH FROM(USED) FINANCING ACTIVITIES	(413 725)	(306 352)	-107 373	
NET INCREASE(DECREASE) IN CASH HELD	(19 216 851)	(10 540 559)	3 462 234	
Cash and Cash Equivalents at the beginning of the year	50 893 250	50 893 250	(0)	0%
Cash and Cash Equivalents at the end of the year	31 776 400	34 452 091	(2 676 292)	-8%


Explanations for material variances more than 10% of a specific line-item with a minimum of R1 million


Decrease in Service Charges
 Grants and Subsidies were utilized in full
 Grants and Subsidies were not utilized in full
 More interest was received on outstanding debitors during the year
 Payments on Suppliers were wrongly budgeted for
 Transfer of discontinued operations
 Interest were more for Employees Benefits Provision
 Were utilized under Ratipayers for indigents

Less Capital grants were utilized


New leased assets were purchased

Less Grants were utilized and air provided.

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ADJUSTMENTS TO APPROVED BUDGET

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~~GENERAL AUSTRIAN MUNICIPALITY~~

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2015-12-03

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1.4. COMPARATIVE INFORMATION

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5. AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the annual financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

1.6. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the annual financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.7. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The comparison of budget and actual amounts are disclosed as separate additional financial statements, namely Statements of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2014 to 30 June 2015. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included in the Statements of Comparison of Budget and Actual Amounts. Material differences are being defined by Management as 10% of a specific line-item with a minimum of R1 million.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

Standard	Description	Effective Date
GRAP 18 (Original – Feb 2011)	<p>Segment Reporting</p> <p>The objective of this Standard is to establish principles for reporting financial information by segments.</p> <p>No significant impact is expected as information to a large extent is already included in the appendices to the financial statements which do not form part of the audited financial statements.</p>	1 April 2015
GRAP 20 (Original – June 2011)	<p>Related Party Disclosure</p> <p>The objective of this Standard is to ensure that an Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to formulate an accounting policy based on the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	Unknown
GRAP 32 (Original – Aug 2013)	<p>Service Concession Arrangements: Grantor</p> <p>The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	Unknown
GRAP 105 (Original – Nov 2010)	<p>Transfer of Functions Between Entities Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions and no such transactions or events are expected in the foreseeable future.</p>	1 April 2015

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

GRAP 106 (Original – Nov 2010)	Transfer of Functions Between Entities Not Under Common Control <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions and no such transactions or events are expected in the foreseeable future.</p>	1 April 2015
GRAP 107 (Original – Nov 2010)	Mergers <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact is expected as the Municipality does not participate in such business transactions and no such transactions or events are expected in the foreseeable future.</p>	1 April 2015
GRAP 108 (Original – Sept 2013)	Statutory Receivables <p>The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.</p> <p>The Municipality has resolved to adopt the principles as set out in GRAP 108 to formulate its own accounting policy.</p>	Unknown
IGRAP 11	Consolidation - Special Purpose Entities (SPE) <p>The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.</p> <p>No significant impact is expected as the Municipality does not have any SPE's at this stage.</p>	1 April 2015
IGRAP 12	Jointly Controlled Entities non-monetary contributions <p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality does not have any JCE's at this stage.</p>	1 April 2015

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

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1.9. LEASES

1.9.1 Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.9.2 Municipality as Lessor

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

1.11. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

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

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

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

1.12. PROVISIONS

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a

EMALAHLENI MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The Municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented.

(b) The Municipality 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.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

1.13. EMPLOYEE BENEFITS

Defined contribution plans are post-employment benefit plans under which the Municipality 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.

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

1.13.1 Post-Retirement Medical Obligations

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. For retired members, Council pays 70% as contribution and the remaining 30% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are

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charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

1.13.2 Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically, unless circumstances change significantly in which case it is done annually, by independent qualified actuaries.

1.13.3 Staff Leave accrued

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term. Unused leave is being capped at 48 days.

Accumulated leave is vesting.

1.13.4 Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

1.13.5 Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

1.13.6 Pension and retirement fund obligations

The Municipality provides retirement benefits for its employees and councillors.

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal

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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.

The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable.

The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are recognised in the Statement of Financial Performance in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

1.13.7 Other Short-term Employee Benefits

When an employee has rendered service to the Municipality during a reporting period, the Municipality recognises 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 recognises 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.

1.14. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset.

The amount of borrowing costs that the Municipality capitalises during a period does not exceed the amount of borrowing costs it incurred during that period. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

1.15. PROPERTY, PLANT AND EQUIPMENT

1.15.1 Initial Recognition

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

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year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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 assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.15.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits or service potential associated with the asset.

1.15.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation

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method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The annual depreciation rates are based on the following estimated useful lives:

Asset Class	Asset Sub-grouping	Useful Life (Yrs)
Land	None	Indefinite
Buildings	None	20 - 100
Infrastructure	Landfill Site	10 - 100
	Electricity	2 - 75
	Water	12 - 182
	Roads	2 - 103
	Security Measures	5 - 50
Community Assets	Cemeteries & Fencing	10 - 100
	Halls	90 - 100
	Library	90 - 100
	Buildings Other	20 - 100
	Parks and Gardens	10 - 50
	Recreation	5 - 100
Leased Asset	None	1 - 13
Heritage	None	Indefinite
Other Assets	Computer Hardware	2 - 15
	Plant and Equipment	1 - 20
	Furniture and Other Office Equipment	2 - 35
	Vehicles and Specialised Vehicles	2 - 55

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

1.15.4 De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.15.5 Land and buildings and Other Assets – application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2010.

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1.16. INTANGIBLE ASSETS

1.16.1 Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

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

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project;
- it is probable that the Municipality will receive future economic benefits or service potential; and
- the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

Where an intangible asset 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 is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

1.16.2 Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

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1.16.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	2 - 10
Computer Software Licenses	2 - 10

1.16.4 De-recognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.16.5 Application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2010.

1.17. INVESTMENT PROPERTY

1.17.1 Initial Recognition

Investment property is recognised as an asset when, and only 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 includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

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Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

1.17.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

1.17.3 Depreciation and Impairment – Cost Model

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	20 - 100

1.17.4 De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.17.5 Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.18. HERITAGE ASSETS

1.18.1 Initial Recognition

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance and is held and preserved indefinitely for the benefit of present and future generations.

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

A heritage asset that qualifies for recognition as an asset, is measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

1.18.2 Subsequent Measurement – Cost Model

After recognition as an asset, heritage assets are carried at its cost less any accumulated impairment losses.

1.18.3 Depreciation and Impairment

Heritage assets are not depreciated

Heritage assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

1.18.4 De-recognition

Heritage assets are derecognised when it is disposed or when there are no further economic benefits expected from the use of the heritage asset. The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value of the heritage asset and is recognised in the Statement of Financial Performance.

1.18.5 Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2010.

1.19. IMPAIRMENT OF NON-FINANCIAL ASSETS

1.19.1 Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

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In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur

when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.19.2 Non-cash-generating assets

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

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

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An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

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

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. 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

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impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

1.20. INVENTORIES

1.20.1 Initial Recognition

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.20.2 Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The basis of allocating cost to inventory items is the weighted average method.

1.21. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

1.21.1 Initial Recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of

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the municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

1.21.2 Subsequent Measurement

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

1.21.2.1 Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics

and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1.21.2.2 Payables and Annuity Loans

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

1.21.2.3 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

1.21.2.4 Non-Current Investments

Investments which include investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

1.21.3 De-recognition of Financial Instruments

1.21.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.21.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

1.21.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

1.22 STATUTORY RECEIVABLES

Statutory receivables arise from legislation, supporting regulations, or similar means and require settlement by another entity in cash or another financial asset. Statutory receivables can arise from both exchange and non-exchange transactions.

1.22.1 Initial Recognition

Statutory receivables are recognised when the related revenue is recognised.

1.22.2 Measurement

The Municipality initially measures the statutory receivables at their transaction amount. The Municipality measure statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to reflect any:

- (a) interest or other charges that may have accrued on the receivable;
- (b) impairment losses; and
- (c) amounts derecognised.

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The Municipality assesses at each reporting date whether there is any indication that a statutory receivable may be impaired. If there is an indication that a statutory receivable may be impaired, the Municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced, through the use of an allowance account. The amount of the loss is recognised in the Statement of Financial Performance. In estimating the future cash flows, the Municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the Municipality discounts the estimated future cash flows using a rate that reflects the current risk free rate and any risks specific to the statutory receivable for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows. Any previously recognised impairment loss is adjusted by adjusting the allowance account. The amount of any adjustment is recognised in the Statement of Financial Performance.

1.22.3 Derecognition

The Municipality derecognises a statutory receivable when:

- (a) the rights to the cash flows from the receivable are settled, expire or are waived;
- (b) the Municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- (c) the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable 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 Municipality:
 - (i) derecognise the receivable; and
 - (ii) recognise separately any rights and obligations created or retained in the transfer.

1.23. REVENUE

1.23.1 *Revenue from Non-Exchange Transactions*

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

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

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Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of GRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

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

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

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

All unclaimed deposits are initially recognised as a liability until 12 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. Historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore the substance of these transactions indicate that even though the prescription period for unclaimed monies is legally three years, it is reasonable to recognise all unclaimed monies older than twelve months as revenue. Although unclaimed deposits are recognised as revenue after 12 months, the Municipality still keep record of these unclaimed deposits for three years in the event that a party should submit a claim after 12 months, in which case it will be expensed.

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

Revenue is measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a 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 present 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 will be recognised as revenue.

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1.23.2 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

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

- The Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- The Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity is based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

Service charges relating to refuse removal are recognised on an annual basis in advance by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

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Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue from the sale of goods is recognised when:

- Substantially all the risks and rewards in those goods are passed to the consumer; and
- The municipality seizes managerial involvement and control of the goods; and
- The amount of the revenue can be measured reliably; and
- It is probable that economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred can be measured reliably.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the Municipality as compensation for executing the agreed services.

Revenue is measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable.

However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1.24. RELATED PARTIES

The Municipality resolved to formulate an accounting policy based on the disclosure requirements as per GRAP 20 – "Related Party Disclosures".

A related party is a person or an entity:

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

The following are regarded as related parties of the Municipality:

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

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

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

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

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

Management personnel include:

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

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.25. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26. 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), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure

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(measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.28. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability. A Contingent assets usually arise from unplanned or other unexpected events that are not wholly within the control of the entity and give rise to the possibility of an inflow of economic benefits or service potential to the entity.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities and assets.

1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the annual financial statements:

1.29.1 *Post-retirement medical obligations and Long service awards*

The cost of post-retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 3 of the annual financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.29.2 *Impairment of Receivables*

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

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1.29.3 Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

The cost for depreciated replacement cost was determined by using either one of the following:

- cost of items with a similar nature currently in the Municipality's asset register;
- cost of items with a similar nature in other municipalities' asset registers, given that the other municipality has the same geographical setting as the Municipality and that the other municipality's asset register is considered to be accurate;
- cost as supplied by suppliers.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

1.29.4 Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

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For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the asset.

1.29.5 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

1.29.6 Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

1.29.7 Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.29.8 Provision for Landfill Sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

1.29.9 Staff leave accrued

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated. Unused leave is being capped at 48 days.

1.29.10 Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

1.29.11 Pre-paid electricity estimation

Pre-paid electricity is only recognised as income once the electricity is consumed. The pre-paid electricity balance (included under payables) represents the best estimate of electricity sold at year-end that is still unused. The average pre-paid electricity sold per day during the year under review is used and the estimate is calculated using 5 days' worth of unused electricity.

1.29.12 Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

1.29.13 Impairments of assets – Capitalised Restoration Cost

Impairment charges relating to capitalised restoration costs are linked to fluctuations in the discount rate used to unwind the provision relating to this asset. This discount rate is linked to the prime interest rate and any movement in this rate will result in the impairment/reversal of impairment of the asset.

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1.30. TAXES – VALUE ADDED TAX

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

1.31. CAPITAL COMMITMENTS

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

1.32. EVENTS AFTER REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the annual financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

1.33. DISCONTINUED OPERATIONS

Discontinued operation is a component of the Municipality that has been disposed of and:

- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

To qualify as a discontinued operation, the disposal must occur within a single co-ordinated plan. Once the disposal plan has been approved, the Municipality reclassifies all related assets and liabilities associated with the discontinued operations as a separate line-item in the Statement of Financial Position. The Municipality subsequently measures and account for assets and liabilities associated with discontinued operations in accordance with the respective Standards of GRAP applicable to that asset or liability.

All revenue and expenditure associated with the discontinued operations is disclosed as a one line-item in the Statement of Financial Performance. Detail of the revenue and expenditure associated with the discontinued operations is disclosed in the notes.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2

LONG-TERM LIABILITIES

Capitalised Lease Liability - At amortised cost
Hire Purchase

2015 R	2014 R
664 370	203 916
146 012	342 118
810 383	546 033
263 459	311 299
190 510	203 916
72 950	107 383
546 924	234 735

Less: Current Portion transferred to Current Liabilities

Capitalised Lease Liability - At amortised cost
Hire Purchase

Total Long-term Liabilities - At amortised cost

The obligations under finance leases are scheduled below:

**Minimum
lease payments**

Amounts payable under finance leases:

Payable within one year
Payable within two to five years
Payable after five years

292 251	232 895
561 795	-
-	-
854 046	232 895
(189 676)	(28 979)
664 370	203 916

Less: Future finance obligations

Present value of lease obligations

The capitalised lease liability consist out of the following contracts:

Supplier	Description of leased item	Effective Interest rate	Annual Escalation	Lease Term	Maturity Date
NRG Office Solutions (Pty) Ltd	3 x Kyocera FS 3640	32.04%	0%	3 Years	20/03/2015
NRG Office Solutions (Pty) Ltd	2 x Taskalfa 3500i	32.04%	0%	3 Years	20/03/2015
NRG Office Solutions (Pty) Ltd	1 x Taskalfa 6550ci	32.04%	0%	3 Years	20/03/2015
NRG Office Solutions (Pty) Ltd	1 x Taskalfa 8000i	32.04%	0%	3 Years	20/03/2015
Aloe Office and Business Solutions	1 x Xerox D95A CP PRO	17.39%	0%	3 Years	26/05/2018
Aloe Office and Business Solutions	2 x Xerox 7970 CPSF	17.72%	0%	3 Years	11/08/2018
Aloe Office and Business Solutions	5 x Xerox 5325 CPSF	17.39%	0%	3 Years	26/05/2018
Aloe Office and Business Solutions	8 x Xerox 6505 CPSF	17.39%	0%	3 Years	26/05/2018

The municipality terminated the lease agreements with NRG Office Solutions (Pty) Ltd

The obligations under hire purchase agreements are scheduled below:

**Minimum
hire purchase payments**

Amounts payable under hire purchase agreements:

Payable within one year
Payable within two to five years
Payable after five years

83 445	133 825
76 491	256 499
-	-
159 936	390 324
(13 924)	(48 206)
146 012	342 118

Less: Future finance obligations

Present value of hire purchase obligations

Leases are secured by property, plant and equipment - Note

The capitalised hire purchase liability consist out of the following contracts:

Supplier	Description of leased item	Effective Interest rate	Annual Escalation	Lease Term	Maturity Date
Standard Bank	TOYOTA COROLLA	9.25%	0%	5 Years	15/05/2017
Standard Bank	NISSAN QASHQAI	9.25%	0%	5 Years	15/05/2017

The Toyota Corolla is no longer in use.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

EMPLOYEE BENEFITS

	R	R
Post Retirement Benefits - Refer to Note 3.1	5 476 374	5 220 472
Long Service Awards - Refer to Note 3.2	1 445 055	1 237 175
Total Non-current Employee Benefit Liabilities	6 921 429	6 457 647
Less: Transferred to Discontinued Operations - Note 51.2	(1 384 812)	-
Balance 30 June	5 536 617	6 457 647

Post Retirement Benefits

	R	R
Balance 1 July	5 220 472	3 671 582
Contribution for the year	698 798	429 760
Interest Cost	479 769	350 081
Expenditure for the year	-	(14 405)
Actuarial Loss/(Gain)	(905 337)	783 454
Total post retirement benefits 30 June	5 493 702	5 220 472
Less: Transfer of Current Portion - Note 5	(17 328)	-
Balance 30 June	5 476 374	5 220 472
Less: Transferred to Discontinued Operations - Note 50.2	(1 147 585)	-
Balance 30 June	4 328 789	5 220 472

Long Service Awards

	R	R
Balance 1 July	1 453 534	1 169 744
Contribution for the year	290 393	241 094
Interest Cost	104 381	78 853
Expenditure for the year	(115 773)	(43 996)
Actuarial Loss/(Gain)	(21 117)	7 839
Total long service 30 June	1 711 418	1 453 534
Less: Transfer of Current Portion - Note 5	(266 363)	(216 359)
Balance 30 June	1 445 055	1 237 175
Less: Transferred to Discontinued Operations - Note 50.2	(237 027)	-
Balance 30 June	1 208 028	1 237 175

TOTAL NON-CURRENT EMPLOYEE BENEFITS

	R	R
Balance 1 July	6 674 008	4 841 328
Contribution for the year	989 191	670 854
Interest cost	584 150	428 934
Expenditure for the year	(115 773)	(58 401)
Actuarial Loss/(Gain)	(926 454)	791 293
Total employee benefits 30 June	7 205 120	6 674 006
Less: Transfer of Current Portion - Note 5	(283 691)	(216 359)
Balance 30 June	6 921 429	6 457 647
Less: Transferred to Discontinued Operations - Note 50.2	(1 384 812)	-
Balance 30 June	5 536 617	6 457 647

3.1 Post Retirement Benefits

The Post Retirement Benefit Plan is a defined contribution plan, of which the members are made up as follows:

	88	87
In-service (employee) members	116	112
In-service (employee) non-members	1	-
Continuation members (e.g. Retirees, widows, orphans)	-	-
Total Members	205	199

The liability in respect of past service has been estimated to be as follows:

	R	R
In-service members	4 192 116	4 533 826
In-service non-members	1 009 782	686 646
Continuation members	291 804	-
Total Liability	5 493 702	5 220 472

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	R	R
In-service members	4 533 826	3 423 100
In-service non-members	686 646	248 482
Continuation members	-	-
Total Liability	5 220 472	3 671 582

Experience adjustments were calculated as follows:

	2015 Rm	2014 Rm	2013 Rm
Liabilities: (Gain) / loss	-0.814	0.282	0.546
Assets: Gain / (loss)	0.000	-	-

EMPLOYEE BENEFITS (CONTINUED)

2015

2014

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Bonitas;
Hosmed
LA Health
Samwumed; and
Key health.
Key actuarial assumptions used:

i) Rate of Interest

Discount rate	9.22%	9.19%
Health Care Cost Inflation Rate	8.32%	8.28%
Net Effective Discount Rate	0.84%	0.84%

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping"

ii) Mortality rates

The PA 90 ultimate table, rated down by 1 year of age was used by the actuaries.

iii) Normal retirement age

It has been assumed that in-service members will retire at age 60 for females and 65 for males, which then implicitly allows for expected rates of early and ill-health retirement.

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	5 493 702	5 220 472
Total Liability	5 493 702	5 220 472

The fund is entirely unfunded.

The municipality has elected to recognise the full increase in this defined contribution liability immediately as per GRAP 25

Reconciliation of present value of fund obligation:

Present value of fund obligation at the beginning of the year	5 220 472	3 671 582
Total expenses	1 178 567	765 438
Current service cost	698 798	429 760
Interest Cost	479 769	350 081
Benefits Paid	-	(14 405)
Actuarial (gains)/losses	(905 337)	783 454
Present value of fund obligation at the end of the year	5 493 702	5 220 472
Less: Transfer of Current Portion - Note 5	(17 328)	-
Balance 30 June	5 476 374	5 220 472
Less: Transferred to Discontinued Operations - Note 50.2	(1 147 585)	-
Balance 30 June	4 328 789	5 220 472

Sensitivity Analysis on the Accrued Liability

Assumption	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Central Assumptions	5,202	0.262	5,464	

The effect of movements in the assumptions are as follows:

Assumption	Change	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Health care inflation	1%	6,317	0,323	6,640	21%
Health care inflation	-1%	4,323	0,265	4,588	-16%
Discount Rate	1%	4,338	0,265	4,601	-16%
Discount Rate	-1%	6,318	0,323	6,641	21%
Post-retirement mortality	-1 year	5,396	0,303	5,699	4%
Average retirement age	-1 year	5,761	0,292	6,053	10%
Continuation of membership at retirement	-10%	4,257	0,292	4,549	-17%

Assumption	Change	Current-service Cost (R)	Interest Cost (R)	Total (R)	% change
Central Assumption		698 800	479 800	1 178 600	
Health care inflation	1%	858 500	577 200	1 435 700	22%
Health care inflation	-1%	574 500	402 400	976 900	-17%
Discount Rate	1%	581 700	447 500	1 029 200	-13%
Discount Rate	-1%	850 800	514 500	1 365 300	16%
Post-retirement mortality	-1 year	724 800	497 800	1 222 600	4%
Average retirement age	-1 year	714 500	532 400	1 246 900	6%
Continuation of membership at retirement	-10%	544 500	404 300	948 800	-19%

3.2 Long Service Bonuses

The Long Service Bonus plans are defined benefit plans.

As at year end, the following number of employees were eligible for Long Service Bonuses:

	2014	2013
	204	199

Key actuarial assumptions used:

	%	%
--	---	---

i) Rate of Interest

Discount rate	7.80%	7.75%
General Salary Inflation (long-term)	6.95%	6.99%
Net Effective Discount Rate applied to salary-related Long Service Bonuses	0.79%	0.70%

The discount rate used is a composite of all government bonds and is calculated using a technique known as "bootstrapping"

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations	1 711 418	1 453 534
Net liability	1 711 418	1 453 534

The liability in respect of periods commencing prior to the comparative year has been estimated as

	R	R
Total Liability	1 453 534	1 169 744
Reconciliation of present value of fund obligation:	R	R
Present value of fund obligation at the beginning of the year	1 453 534	1 169 744
Total expenses	279 001	275 951
Current service cost	290 393	241 094
Interest Cost	104 381	78 853
Benefits Paid	(115 773)	(43 986)
Actuarial (gains)/losses	(21 117)	7 839
Present value of fund obligation at the end of the year	1 711 418	1 453 534
Less: Transfer of Current Portion - Note 5	(266 363)	(216 359)
Balance 30 June	1 445 055	1 237 175
Less: Transferred to Discontinued Operations - Note 50.2	(237 027)	-
Balance 30 June	1 208 028	1 237 175

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	Change	Liability (R)	% change
Central assumptions		1 711	
General salary inflation	1.00%	1 807	6%
General salary inflation	-1.00%	1 624	-5%
Discount Rate	1.00%	1 619	-5%
Discount Rate	-1.00%	1 614	6%
Average retirement age	-2 yrs	1 620	-5%
Average retirement age	+2 yrs	1 801	5%
Withdrawal rates	+50.00%	2 048	20%

3 EMPLOYEE BENEFITS (CONTINUED)

3.3 Retirement funds

2015

2014

<u>CAPE JOINT PENSION FUND</u>	Contributing members
The contribution rate payable is 9% by members and 18% by Council.	98

Contributions paid recognised in the Statement of Financial Performance

R
2 530 353

R
1 618 198

DEFINED CONTRIBUTION FUNDS

Council contribute to the South African Local Authorities Pension Fund, Municipal Councillors Pension Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

	Last Actuarial Valuation	Contributing members
South African Local Authorities Pension Fund	2013/06/30	37
Municipal Councillors Pension Fund	2009/06/30	33
SAMWU National Provident Fund	2008/06/30	85

The last actuarial valuation performed for the year ended 30 June 2014 revealed that the fund is in a sound financial position with

Note: The results of the actuarial valuations dated 30 June 2008 for SAMWU National Provident Fund and 30 June 2009 for Municipal Councillors Pension Funds are not yet available.

Contributions paid recognised in the Statement of Financial Performance

Sala Pension Fund
Municipal Councillors Pension Fund
SAMWU National Provident Fund

739 864	928 313
781 782	736 760
1 185 255	1 176 615
<u>2 686 901</u>	<u>2 841 689</u>

3.4 Provision for Ex-Gratia payment- CFO

Balance at beginning of year	142 160	128 400
Contribution to current portion	15 382	13 760
Balance at end of year	157 542	142 160

In terms of the section 57 Employment contract of the Chief Financial Officer, an amount of 15% of his total package must be paid to him at the time of termination of employment

4 NON-CURRENT PROVISIONS

	2015 R	2014 R
Provision for Rehabilitation of Landfill-sites	0	2 119 287
Total Non-current Provisions	0	2 119 287

The Municipality operate on three landfill sites. The in year actual operational costs is expensed in the statement of financial performance. The provision is calculated in order to finance the rehabilitation cost of each cell when it reaches 100% capacity. The expected cash flow outflow, within one year, relates to all three sites of the case of all three sites there is already a shortcoming in the day to day operations of the sites these cost is represented by the short-term portion of the non-current provision.

The landfill sites in operation are Lady Frere, Dordrecht and Indwe.

Landfill Sites

	R	R
Balance 1 July	2 767 937	2 624 251
Increase in Estimate	8 601 703	20 131
Unwinding of discounted interest	144 994	123 555
Total provision 30 June	11 514 635	2 767 937
Less: Transfer of Current Portion to Current Provisions - Note	(11 514 635)	(648 650)
Balance 30 June	0	2 119 287

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life. Total cost of rehabilitation of the current cell in operation and estimated date of decommission of the cell are as follows:

<u>Location</u>	<u>Estimated decommission date</u>	<u>Rehabilitation cost of cell in use</u>	<u>Rehabilitation cost of cell in use</u>
		R	R
Lady Frere landfill site is located approximately 2.0km west off Indwe road R 394	2015	6 750 984	1 211 112
Dordrecht landfill site is located off R56 about 900m after the Dordrecht town to Queenstown Route	2015	3 898 739	908 176
Indwe landfill site is located east off R56 approximately 260m before the town of Indwe	2015	864 912	648 650
		11 514 635	2 767 937

Material Assumptions used

<u>Area of landfill site consumed</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Lady Frere landfill site is located approximately 2.0km west off Indwe road R 394	39.15%	40.45%	100.00%
Dordrecht landfill site is located off R56 about 900m after the Dordrecht town to Queenstown Route	73.79%	74.83%	100.00%
Indwe landfill site is located east off R56 approximately 260m before the town of Indwe	85.41%	89.78%	100.00%
Discount Rate used	4.53%	4.71%	5.24%

The discount rate used to calculate the present value of the rehabilitation costs at each reporting period is based on a calculated risk free rate as determined by the municipality. This rate is in line with a competitive investment rate the municipality can obtain from an A grade financial institution. This rate used is also within the inflation target range of the South African Reserve Bank of between 3% to 6%.

CURRENT EMPLOYEE BENEFITS

	R	R
Current Portion of Post Retirement Benefits - Note 3	17 328	-
Current Portion of Long-Service Provisions - Note 3	266 363	216 359
Staff leave accrued	5 156 292	4 126 161
Provision for Performance Bonuses	720 918	511 610
Staff Bonuses accrued	1 080 569	936 324
Provision for Compensation for injuries on duty contribution	737 054	338 599
Total Current Employee Benefits	7 978 524	6 129 053
Less: Transferred to Discontinued Operations - Note 50.2	(881 252)	-
Total Current Employee Benefits Continued	7 097 272	6 129 053

The movement in current employee benefits is reconciled as follows:

Staff leave accrued

Balance at beginning of year	4 126 161	3 166 356
Contribution to current portion	1 443 856	1 834 676
Expenditure incurred	(413 725)	(874 871)
Balance at end of year	5 156 292	4 126 161
Less: Transferred to Discontinued Operations - Note 50.2	(672 161)	-
Balance 30 June	4 484 110	4 126 161

Staff leave accrued to employees according to collective agreement. An accrual is made for the full cost of accrued leave at reporting date. The accrual will be realised as employees take leave. There is a possibility of reimbursement based on trends in the past.

Provision for Performance Bonuses

Balance at beginning of year	511 610	2 485 821
Contribution to current portion	714 879	435 190
Expenditure incurred	(505 572)	(2 409 401)
Balance at end of year	720 918	511 610

Performance bonuses are being paid to Municipal Manager and Directors after an evaluation of performance by the council.

Staff Bonuses accrued

Balance at beginning of year	936 324	780 571
Contribution to current portion	2 268 155	1 830 950
Expenditure incurred	(2 123 910)	(1 675 197)
Balance at end of year	1 080 569	936 324
Less: Transferred to Discontinued Operations - Note 50.2	(137 104)	-
Balance 30 June	943 465	936 324

Bonuses are being paid to all permanent employed municipal staff, excluding section 57 Managers. The balance at year end represent to portion of the bonus that have already vested for the current salary cycle.

Provision for Compensation for injuries on duty contribution

Balance at beginning of year	338 599	1 460 988
Contribution to current portion	398 455	232 381
Expenditure incurred	-	(1 354 770)
Balance at end of year	737 054	338 599

The balance on the compensation for injuries on duty contribution represents the current liability of the municipality that has not yet been paid over to the relevant authorities. The balance represents the best estimate the outflow of resources. The timing and amount of the outflow is dependant on when an assessment is received from the relevant authorities.

PAYABLES FROM EXCHANGE TRANSACTIONS

Trade Payables	9 207 542	9 311 156
Third party payables (Payroll)	1 035 923	114 198
Payments received in advance	89 579	126 273
Retentions and Guarantees	4 207 194	1 978 352
SECTION 57 EX GRATIA:	-	3 404 749
Sundry Deposits	11 900	36 873
Sundry Creditors	1 250 941	105 812
Total Trade Payables	15 803 079	15 077 414

Payables are being recognised net of any discounts.

Payables are being paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables on initial recognition is not deemed necessary

The carrying value of trade and other payables approximates its fair value. All payables are unsecured. Sundry deposits include hall, tender and other general deposits. The Municipality did not default on any of their payables

7 UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Unspent Grants

National Government Grants
 Provincial Government Grants
 District Municipality

Less: Unpaid Grants

District Municipality

Total Conditional Grants and Receipts

	R	R
	348 701	1 801 337
	43 176	764 069
	305 525	727 781
	-	309 487
	-	34 684
	-	34 684
	348 701	1 766 653

See appendix "D" for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

8 VAT

8.1 VAT PAYABLE

VAT RECEIVABLE/(PAYABLE)

Less: Provision for impairment of receivables

NET VAT RECEIVABLE/(PAYABLE)

	R	R
	(924 736)	11 327 404
	3 002 587	(8 804 928)
	2 077 851	2 522 476

VAT is receivable/payable on the cash basis.

A register containing the information required by section 60 of the Municipal Finance Management Act is available for inspection at the registered office of the Municipality.

The effect of the Change in Accounting estimates due to the review of useful lives and residual values is as follows:

Increase / (Decrease) in depreciation on buildings for the year

Increase / (Decrease) in depreciation on infrastructure assets for the year

Increase / (Decrease) in depreciation on community assets for the year

Increase / (Decrease) in depreciation on leased assets for the year

Increase f (Decrease) in depreciation on other assets for the year

EMALAHLENI MUNICIPALITY

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

30 June 2014

[illegible]

No property, plant and equipment is used as security for long term liabilities, except assets acquired in terms of a finance lease- or hire purchase agreement as disclosed in Appendix A to the financial statements

Anybody who is interested in the information required by section 6(3) of the LRA 1999 is available for inspection at the registered office of the municipality.

Properties owned by the Municipality and situated on Block-formalised land from which the state economic benefits

Hall name	Communal Land
Niganda Community Hall	Communal Land
Dododola Community Hall	Communal Land
Vaibani Community Hall	Communal Land
Zwaraster Community Hall	Communal Land
Mahanyira Community Hall	Communal Land
Rwarinda Community Hall	Communal Land
Bwobwas Community Hall	Communal Land
Bwobwas Community Hall	Communal Land

There are currently 693 properties owned by the Municipality as per the Deeds office and not controlled by the municipality. As such, these properties are not accounted for in the fixed asset register.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

9	PROPERTY, PLANT AND EQUIPMENT (CONTINUED)	2015	2014
		R	R
10	INVESTMENT PROPERTY	R	R
	Net Carrying amount at 1 July	8 394 358	14 200 523
	Cost	8 491 400	14 281 400
	Buildings	1 016 985	1 016 985
	Land	7 474 415	13 264 415
	Accumulated Depreciation	(97 042)	(80 877)
	Acquisitions	1 000	-
	Depreciation for the year	(10 858)	(16 165)
	Disposals	(18 500)	-
	Transfers to/from other classes	(1 932 438)	(5 790 000)
	Net Carrying amount at 30 June	6 433 761	8 394 358
	Cost	6 541 462	8 491 400
	Buildings	695 572	1 016 985
	Land	5 845 890	7 474 415
	Accumulated Depreciation	(107 701)	(97 042)

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

11 CAPITALISED RESTORATION COST

	R	R
Net Carrying amount at 1 July	951 838	1 202 813
Additions	8 601 703	20 131
Depreciation	(951 638)	(271 934)
Impairments	(8 612 044)	(2 918)
Reversal of impairments	10 341	3 547
Net Carrying amount at 30 June	-	951 638
Cost	10 665 431	2 063 728
Accumulated Depreciation	(1 964 816)	(1 012 977)
Accumulated Impairments	(8 700 816)	(99 112)

12 INTANGIBLE ASSETS

	R	R
Computer Software		
Net Carrying amount at 1 July	258 564	255 189
Cost	911 380	833 467
Accumulated Amortisation	(652 816)	(578 278)
Acquisitions	70 068	77 913
Disposals	(59 173)	-
Amortisation	(62 706)	(74 538)
Net Carrying amount at 30 June	206 752	258 564
Cost	922 273	911 380
Accumulated Amortisation	(715 521)	(652 816)

13 HERITAGE ASSETS

Net Carrying amount at 1 July	124 000	-
Acquisitions	58 536	124 000
Net Carrying amount at 30 June	182 536	124 000
Cost	182 536	124 000

14 INVENTORY

	R	R
Maintenance Materials - At cost	-	582 841
Water - at cost	-	36 024
Total Inventory	-	618 865

The FIFO method was applied. The inventory system is currently manually operated and all calculations for that matter were performed manually.

15 RECEIVABLES FROM EXCHANGE TRANSACTIONS

	R	R
Electricity	3 511 144	2 392 760
Water	-	32 816 228
Refuse	33 762 148	29 974 988
Sewerage	-	36 083 924
Rental	1 880 540	1 357 160
Other Consumer Debtors	3 837 022	3 880 110
Chris Hani Debtor	14 540 111	6 260 996
Sundry Receivables	493 784	5 841
Total Receivables from Exchange Transactions	58 024 750	112 772 007
Less: Provision for Impairment	(40 060 287)	(102 369 174)
Total Net Receivables from Exchange Transactions	17 964 462	10 402 833

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

15

RECEIVABLES FROM EXCHANGE TRANSACTIONS (Continued)

Ageing of Receivables from Exchange Transactions:

(Electricity): Ageing

Current (0 - 30 days)
 31 - 60 Days
 61 - 90 Days
 + 90 Days

Total

(Water): Ageing

Current (0 - 30 days)
 31 - 60 Days
 61 - 90 Days
 + 90 Days

Total

(Refuse): Ageing

Current (0 - 30 days)
 31 - 60 Days
 61 - 90 Days
 + 90 Days

Total

(Sewerage): Ageing

Current (0 - 30 days)
 31 - 60 Days
 61 - 90 Days
 + 90 Days

Total

(Rental): Ageing

Current (0 - 30 days)
 31 - 60 Days
 61 - 90 Days
 + 90 Days

Total

(Other): Ageing

Current (0 - 30 days)
 31 - 60 Days
 61 - 90 Days
 + 90 Days

Total

(Total): Ageing

Current (0 - 30 days)
 31 - 60 Days
 61 - 90 Days
 + 90 Days

Total

Reconciliation of Provision for Bad Debts

Balance at beginning of year
 Contribution to provision/(Reversal of provision)
 VAT portion of Contribution/(Reversal)
 Transferred to Discontinued Operations - note 50.2
 Balance at end of year

The Provision for Impairment could be allocated between the different classes of receivables as follows:

Electricity	700 411	367 105
Water	-	29 895 986
Refuse	34 224 239	26 395 297
Sewerage	-	32 917 913
VAT	-	8 804 928
Other	5 135 637	3 987 965
Total	40 060 287	102 369 174

Summary of Debtors by Customer Classification Exchange

	Residential	Industrial/ Commercial	National and Provincial Government	Other
30 JUNE 2015	R	R	R	R
Current (0 - 30 days)	459 740	68 683	422 006	15 069 321
31 - 60 Days	502 157	68 688	90 302	44 438
61 - 90 Days	465 261	43 493	58 938	28 656
+ 90 Days	36 056 694	1 338 783	2 371 172	936 419
Sub-total	37 483 852	1 519 646	2 942 418	16 078 834
Less: Provision for bad debts	(37 461 716)	(1 348 464)	-	(393 921)
Total debtors by customer classification	22 135	171 183	2 942 418	15 684 913

Summary of Debtors by Customer Classification Exchange

	Residential	Industrial/ Commercial	National and Provincial Government	Other
30 JUNE 2014	R	R	R	R
Current (0 - 30 days)	2 561 114	251 355	411 906	6 368 600
31 - 60 Days	1 371 707	292 422	289 794	91 142
61 - 90 Days	1 344 988	215 864	175 926	91 041
+ 90 Days	87 699 036	3 006 417	3 377 002	5 223 692
Sub-total	92 976 846	3 766 058	4 254 628	11 774 475
Less: Provision for bad debts	(92 185 931)	(3 681 897)	(2 253 745)	(4 247 600)
Total debtors by customer classification	790 915	84 161	2 000 883	7 526 875

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables. Assessment of arrears on Rates and Service accounts in terms of MFMA Sec. 121 (3) (e) by the Accounting Officer.

16 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2015 R	2014 R
Rates	11 851 208	17 817 730
Other Receivables	24 693	211 488
Other Receivables	24 693	211 488
Total Receivables from Non-Exchange Transactions	11 875 899	18 029 218
Less: Provision for Impairment	(7 955 764)	(12 168 602)
Total Net Receivables from Non-Exchange Transactions	3 920 135	5 860 616

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

Ageing of Receivables from Non-Exchange Transactions:

	R	R
(Rates): Ageing		
Current (0 - 30 days)	118 760	155 296
31 - 60 Days	253 834	272 828
61 - 90 Days	225 130	290 938
+ 90 Days	11 253 483	17 098 669
Total	11 851 208	17 817 730

Reconciliation of Provision for Impairment

Balance at beginning of year	12 168 602	13 062 616
Contribution to provision/(Reversal of provision)	5 154 932	(894 014)
Bad Debts Written Off	(9 367 770)	-
Balance at end of year	7 955 764	12 168 602

The entire provision for bad debts relates to the outstanding rates balance.

Summary of Debtors by Customer Classification Non-Exchange

	Residential	Industrial/ Commercial	National and Provincial Government	Other
30 JUNE 2015	R	R	R	R
Current (0 - 30 days)	42 896	24 356	25 641	25 866
31 - 60 Days	105 852	95 571	30 551	21 860
61 - 90 Days	98 691	77 605	29 989	18 845
+ 90 Days	4 462 365	2 278 306	2 744 260	1 768 552
Sub-total	4 709 804	2 475 838	2 830 441	1 835 123
Less: Provision for bad debts	(4 676 451)	(2 404 663)	-	(1 730 837)
Total debtors by customer classification	33 354	71 175	2 830 441	104 286

Summary of Debtors by Customer Classification Non-Exchange

	Residential	Industrial/ Commercial	National and Provincial Government	Other
30 JUNE 2014	R	R	R	R
Current (0 - 30 days)	90 013	24 790	23 381	17 113
31 - 60 Days	131 874	76 702	39 148	25 101
61 - 90 Days	126 594	101 737	37 535	25 073
+ 90 Days	9 007 291	2 676 203	3 687 452	1 728 724
Sub-total	9 355 772	2 878 432	3 787 516	1 796 011
Less: Provision for bad debts	(8 394 619)	(2 728 653)	-	(1 045 330)
Total debtors by customer classification	961 153	149 779	3 787 516	750 681

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables. Assessment of arrears on Rates and Service accounts in terms of MFMA Sec.121 (3) (e) by the Accounting Officer.

17 OPERATING LEASE ARRANGEMENTS

17.1 The Municipality as Lessor (Asset)

	R	R
Balance on 1 July	63 222	49 807
Movement during the year	14 164	13 325
Balance on 30 June	77 416	63 222

At the Statement of Financial Position date, where the municipality acts as a Lessor under operating leases, it will receive operating lease income as follows:

Up to 1 Year	125 522	76 807
1 to 5 Years	459 896	385 363
More than 5 Years	107 876	116 555
Total Operating Lease Arrangements	693 294	578 826

The Municipality does not engage in any sub-lease arrangements.

The Municipality did not receive any contingent rent during the year.

Certain of the Municipality's properties are leased to third parties to generate rental income. Lease receipts escalate annually on average by 10%. Lease agreements are non-cancellable and have terms from 3 to 10 years.

18

CASH AND CASH EQUIVALENTS

Assets

	R	R
Call Investments Deposits	28 563 011	41 614 217
Bank Accounts	3 192 247	9 361 795
Cash Floats	21 142	17 238
Total Cash and Cash Equivalents - Assets	31 776 400	50 993 250

Cash and cash equivalents comprise of cash held and short term deposits. The carrying amount of these assets approximates their fair value.

The Municipality has the following bank accounts:

Current Accounts

	R	R
Standard Bank - Current Account - 082-665-958	470 729	5 108 340
Standard Bank - Current Account - 082-630-631	1 863 238	2 713 783
First National Bank - Current Account - 620-4898-6428	858 280	1 539 671
	3 192 247	9 361 795

All accounts is cleared daily to Primary Bank Account: current account 082-665-958.

Standard Bank - Current Account - 082-665-958

Cash book balance at beginning of year	5 108 340	5 242 232
Cash book balance at end of year	470 729	5 108 340

Bank statement balance at beginning of year	5 108 340	5 242 232
Bank statement balance at end of year	470 729	5 108 340

Standard Bank - Current Account - 082-630-631

Cash book balance at beginning of year	2 713 783	944 853
Cash book balance at end of year	1 863 238	2 713 783

Bank statement balance at beginning of year	2 713 783	944 853
Bank statement balance at end of year	1 863 238	2 713 783

First National Bank - Current Account - 620-4898-6428

Cash book balance at beginning of year	1 539 671	3 228 783
Cash book balance at end of year	858 280	1 539 671

Bank statement balance at beginning of year	1 539 671	3 228 783
Bank statement balance at end of year	858 280	1 539 671

Call Investment Deposits

PROPERTY RATES

Actual

Rateable Land and Buildings	3 719 278	3 218 438
Residential, Commercial Property, State	2 975 297	2 948 250
Agricultural	743 980	270 188
Less: Rebates	-	-
Total Assessment Rates	3 719 278	3 218 438

Valuations

Rateable Land and Buildings:

Residential	233 374 200	291 715 000
Agricultural	491 572 100	155 889 993
Government	56 766 100	82 697 500
Business & Commercial	101 116 200	101 197 500
Municipal	93 718 300	141 286 000
Exempt Properties	45 764 200	47 082 000
Total Assessment Rates	1 022 311 100	819 867 993

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2014.

19

20

GOVERNMENT GRANTS AND SUBSIDIES

Unconditional Grants

Equitable Share

R

R

92 038 000

78 749 000

92 038 000

78 749 000

Conditional Grants

Grants and subsidies

Subsidies

51 241 952

47 890 577

51 241 952

47 890 577

-

-

Total Government Grants and Subsidies

143 279 952

126 639 577

Government Grants and Subsidies - Capital

30 399 227

28 198 256

Government Grants and Subsidies - Operating

112 880 725

98 441 321

143 279 952

126 639 577

Revenue recognised per vote as required by Section 123 (c) of the MFMA

Equitable share

92 038 000

78 749 000

Budget and Treasury

2 639 883

2 540 000

Community Services

1 130 846

826 995

Electricity

11 000 000

10 996 000

IPED

96 133

2 874 020

Refuse

1 801 881

40 532

Roads Transport

34 373 209

30 613 030

143 279 952

126 639 577

The municipality does not expect any significant changes to the level of grants.

20.1

Equitable share

Opening balance

-

-

Grants received

92 038 000

78 749 000

Conditions still to be met

-

-

20.2

Local Government Financial Management Grant (FMG)

Opening balance

-

-

Grants received

1 800 000

1 650 000

Conditions still to be met

-

-

20.3

Municipal Systems Improvement Grant (MSIG)

Opening balance

-

-

Grants received

934 000

890 000

Conditions still to be met

-

-

20.4

Municipal Infrastructure Grant (MIG)

Opening balance

720 893

2 518 239

Grants received

30 970 000

27 281 000

Conditions still to be met

-

720 893

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

		2015 R	2014 R
20	GOVERNMENT GRANTS AND SUBSIDIES (CONTINUED)		
20.5	Integrated National Electrification Grant (INEP)		
	Opening balance	-	996 000
	Grants received	11 000 000	10 000 000
	Grant expenditure to be recovered	-	-
20.6	Other Grants		
	Opening balance	1 045 759	3 711 219
	Grants received	5 153 770	2 646 636
	Grants transferred	(33 771)	(35 865)
	Conditions still to be met	348 699	1 045 759
20.7	Total Grants		
	Opening balance	1 768 654	7 225 459
	Grants received	141 895 770	121 218 636
	Grants transferred	(33 771)	(35 865)
	Conditions still to be met/(Grant expenditure to be recovered)	348 701	1 766 653
21	SERVICE CHARGES		
	Electricity	8 822 735	8 077 739
	Water	-	7 047 097
	Refuse removal	2 810 797	3 013 512
	Sewerage and Sanitation Charges	-	4 140 980
	Less: Rebates	11 633 532	22 279 328
	Total Service Charges	(453 988)	(898 685)
22	INTEREST EARNED	11 179 543	21 380 644
	External Investments		
	Interest Investments	3 312 533	2 977 687
	Interest Bank Balance	37 416	26 124
	Interest Other	-	745
	Total External Investments	3 349 949	3 004 556
	Outstanding Debtors		
	Property Rates	1 290 637	1 402 349
	Sanitation	-	2 267 565
	Refuse	2 244 607	1 891 851
	Electricity	238 644	164 693
	Water	-	2 071 241
	Rent	155 713	36 479
	Total Outstanding Debtors	3 929 602	7 833 978
	Less: Transferred to Discontinued Operations - Note 50.2	-	(4 338 806)
	Total Outstanding Debtors Continued	3 929 602	3 495 172
	Total Interest Earned	7 279 550	8 489 728

23	OTHER INCOME	2015	2014
		R	R
	Administration charges	1 961 201	1 878 944
	Building plans	18 890	-
	Branding of Livestock	41 560	-
	Cemetery Fees	31 622	30 212
	Chris Hani DM (Water & Sanitation)	22 393 720	23 486 027
	Connection Fees	53 232	-
	Insurance Income	251 175	-
	LGSETA	87 080	-
	Pound Fees	12 341	40 106
	Registrations	123	-
	Housing Admin Fees	-	36 600
	Sundry Income	98 610	349 747
	Total Other Income	24 930 565	25 818 636
	Less: Transferred to Discontinued Operations - Note 50.2	(22 393 720)	(23 487 037)
	Total Other Income Continued	2 536 845	2 332 599

Sundry income represents sundry income such as cleaning of sites, private work and fees for items not included under service charges.

24	EMPLOYEE RELATED COSTS	2015	2014
		R	R
	Salaries and Wages	37 407 093	36 305 717
	Annual bonus	2 268 155	2 268 141
	Contributions for UIF, pensions and medical aids	6 214 787	5 300 820
	Housing Subsidy	91 718	142 528
	Leave Reserve Fund	1 443 856	1 834 676
	Long service awards	290 393	241 094
	Overtime	1 383 106	1 503 283
	Post Employment Health	698 798	429 760
	Performance bonus	714 879	(2 302 885)
	Skills development levy	331 735	246 368
	Travel, motor car, telephone, assistance and other allowances	1 500 260	1 134 143
	Provision for Ex-Gratia payment- CFO	15 382	13 760
	Workmen's Compensation	398 455	232 381
	Total Employee Related Costs	52 758 617	47 347 784
	Less: Transferred to Discontinued Operations - Note 50.2	(9 976 009)	(9 596 927)
	Total Employee Related Costs Continued	42 782 608	37 750 857

Municipal Manager and all other Senior Managers are appointed on fixed term contracts.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of the Municipal Manager (MM Dr VS Vatale)

Annual Remuneration	1 340 719	1 210 000
Performance Bonuses	185 900	-
Leave encashment	42 592	-
Telephone, assistance and other allowances	26 138	34 200
Contributions to UIF, SDL, Bargaining council	15 886	11 494
Total	1 611 235	1 255 694

Remuneration of the Director Technical Services (M Mkuyana - only 4 months 2014)

Annual Remuneration	-	302 644
Ex-gratia remuneration	1 134 916	-
Leave encashment	-	172 855
Telephone, assistance and other allowances	-	6 200
Contributions to UIF, SDL, Bargaining council	-	4 421
Total	1 134 916	486 121

Remuneration of the Manager Corporate Services (Manager Corporate Services - P Sohe)

Annual Remuneration	999 364	907 933
Performance Bonuses	127 111	11 700
Leave encashment	31 959	-
Acting Allowance	15 699	-
Telephone, assistance and other allowances	22 506	20 460
Contributions to UIF, SDL, Bargaining council	12 071	8 191
Total	1 208 709	948 284

Remuneration of the Chief Financial Officer (GP de Jager)

Annual Remuneration	1 050 282	947 733
Performance Bonuses	173 648	8 000
Leave encashment	33 360	-
Telephone, assistance and other allowances	18 600	18 600
Contributions to UIF, SDL, Bargaining council	13 118	7 834
Total	1 289 008	982 167

Remuneration of the Director Community Services (NP Mnyengeza for 9 months 2014)

Annual Remuneration	-	680 950
Ex-gratia	1 134 916	-
Leave encashment	-	172 855
Telephone, assistance and other allowances	-	13 950
Contributions to UIF, SDL, Bargaining council	-	7 416
Total	1 134 916	875 170

Remuneration of the Manager IPED Services (N Mntuydwa)

	2015	2014
Annual Remuneration	1 004 446	907 933
Performance Bonuses	83 555	86 816
Telephone, assistance and other allowances	18 600	18 600
Contributions to UIF, SDL, Bargaining council	11 235	8 372
Total	1 097 837	1 021 721

Remuneration of the Director Strategic Services (AM Stemela 9 months 2014)

	2015	2014
Leave encashment	-	208 866
Telephone, assistance and other allowances	-	10 850
Contributions to UIF, SDL, Bargaining council	-	7 851
Total	1 134 916	908 517

Remuneration of the Director Infrastructure and Human Settlements (D Njilo)

	2015	2014
Annual Remuneration	998 726	226 983
Performance Bonuses	18 159	-
Telephone, assistance and other allowances	18 600	38 850
Contributions to UIF, SDL, Bargaining council	11 069	1 881
Total	1 046 554	267 715

Remuneration of the Acting Infrastructure and Human Settlements Director (M Gcili - 5 months 2014)

	2015	2014
Acting Allowance	-	79 239
Telephone, assistance and other allowances	-	6 200
Contributions to UIF, SDL, Bargaining council	-	1 932
Total	-	87 372

Remuneration of the Director Community Services (N Nyezi)

	2015	2014
Annual Remuneration	998 726	151 322
Performance Bonuses	13 619	-
Telephone, assistance and other allowances	30 000	25 900
Contributions to UIF, SDL, Bargaining council	10 604	1 254
Total	1 052 949	178 476

Acting Allowance for acting as Director Corporate Services Manager

	2015	2014
Acting Allowance (1 month acting as Director Community Service - Y Nkwentsha)	-	20 119
Acting Allowance (1 month acting as Director Community Service - ZB Mzileni)	-	15 256
Total	-	35 375

REMUNERATION OF COUNCILLORS

	R	R
Mayor	739 363	719 646
Speaker	588 264	563 129
Executive Committee Members	2 356 602	2 417 423
Councillors	6 418 529	6 111 447
Total Councillors' Remuneration	10 103 758	9 811 645

In-kind Benefits

The Mayor and Speaker are full-time. The Mayor and Speaker are provided with offices and secretarial support at the cost of the Council. The Mayor has use of a Council owned vehicle and a driver for official duties.

COUNCILLORS

No.	Name	Position	ANC	Ward	2015	2014
1	Nyukwana, N.	Executive Mayor	ANC	Mayor Ward 8	739 363	719 646
2	Lali, N.	Speaker	ANC	Speaker Ward 13	588 264	563 129
3	Lwani, S.	Chief Whip	ANC	Executive Committee Ward 6	559 740	529 238
4	Kalolo, D.S.	Executive Committee	ANC	Executive Committee Ward 7	572 812	529 238
5	Phendu, N.	Executive Committee	ANC	Proportional Deceased 30 June	-	529 238
6	Kulashe, T.	Executive Committee	ANC	Executive Committee Ward 11	559 740	529 238
7	Twala, B.P.	Executive Committee	ANC	Executive Committee Ward 10	471 500	300 471
8	Nkasele, K.	Executive Committee part time	ANC	Executive Committee Ward 2	287 833	281 831
9	Mool, L.	Chairperson of Section 79 Committee	ANC	Ward Councillor 2	297 488	224 216
10	Koni, N.F.	Councillor	ANC	Ward Councillor 1	354 070	224 216
11	Ziduli, N.	Councillor	ANC	Ward Councillor 3	236 416	224 216
12	Bobotyana, H.C.	Councillor	ANC	Ward Councillor 4	236 416	224 216
13	Mapeto, P.	Councillor	ANC	Ward Councillor 5	236 416	224 216
14	Qashani, N.	Councillor	ANC	Ward Councillor 6	236 416	224 216
15	Peter, N.	Councillor	ANC	Ward Councillor 7	236 416	224 216
16	Nobaza, P.	Councillor	ANC	Ward Councillor 8	236 416	224 216
17	Dudumashu, T.R.	Councillor	ANC	Ward Councillor 9	236 416	224 216
18	Gwegwana, L.	Councillor	ANC	Ward Councillor 10	236 416	224 216
19	Teka, Z.H.	Councillor	ANC	Ward Councillor 11	236 416	224 216
20	Dyonase, Z.	Councillor	ANC	Ward Councillor 12	236 416	224 216
21	Kraga, N.	Councillor	ANC	Ward Councillor 13	236 416	224 216
22	Godia, M.	Councillor	ANC	Ward Councillor 14	236 416	224 216
23	Mnyuko, S.	Councillor	ANC	Ward Councillor 15	236 416	224 216
24	Komani, B.	Councillor	ANC	Ward Councillor 16	236 416	224 216
25	Papiso, Z.	Councillor	ANC	Proportional Ward 17	236 416	224 216
26	Jordaan, V.	Councillor	ANC	Proportional Ward 4	236 416	224 216
27	Dikilili, N.	Councillor	ANC	Proportional Ward 14	236 416	224 216
28	Holana, N.	Councillor	ANC	Proportional Ward 17	236 416	224 216
29	Ndilela, T.R.	Councillor	ANC	Proportional Ward 12	236 416	224 216
30	Mani, M.	Councillor	ANC	Proportional Deceased mid March 2015	161 693	224 216
31	Mjezu, K.	Councillor	UDM	Proportional Ward 10	236 416	224 216
32	Greyling, P.	Councillor	DA	Proportional Ward 14	236 416	224 216
33	Mketsu, Z.	Councillor	COPE	Proportional Ward 5	236 416	224 216
34	Kwatshana, T.	Councillor	PAM	Proportional Ward 16	236 416	224 216
35	Sixshe, TD.	Councillor	ANC	Proportional Ward 3	177 312	-
36	Boklani, SN	Councillor	ANC	Proportional Ward 10	19 701	-
Gazette amounts					10 103 758	9 811 645

Certification by the Accounting Officer

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Signed: Accounting Officer

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

26	DEBT IMPAIRMENT	2015	2014
	Trade Receivables from exchange transactions - Note 15	8 412 111	20 494 714
	Trade Receivables from non-exchange transactions - Note 16	5 154 932	(1 250 088)
	Total Contribution to Debt Impairment	13 567 042	19 244 626
	Less: Transferred to Discontinued Operations - Note 50.2	-	(18 348 997)
	Total Contribution to Debt Impairment Continued	13 567 042	895 628
27	DEPRECIATION AND AMORTISATION		
	Property Plant and Equipment	21 041 514	19 999 873
	Capitalised Restoration Cost	951 638	271 934
	Investment Property	10 658	16 165
	Intangible Assets	62 706	74 538
	Total Depreciation and Amortisation	22 066 516	20 362 510
	Less: Transferred to Discontinued Operations - Note 50.2	-	(2 684)
	Total Depreciation and Amortisation Continued	22 066 516	20 359 826
28	FINANCE CHARGES		
	Landfill site	144 894	123 555
	Long service awards	104 381	78 853
	Long-term Liabilities	57 785	137 297
	Post Employment Health	479 769	350 081
	Total finance charges	786 929	689 786
29	REPAIR AND MAINTENANCE		
	Roads, Pavements & Bridges	1 245 268	939 809
	Storm water	324 142	250 343
	Electricity Transmission & Reticulation	337 847	225 672
	Street Lighting	14 000	830 333
	Water Reticulation	2 589 282	2 701 653
	Sanitation Reticulation	61 650	31 817
	Parks & gardens	234 894	13 101
	Sportsfields & stadia	2 879	-
	Cemeteries	477 536	97 358
	General vehicles	799 877	775 232
	Plant & equipment	2 642 510	2 496 711
	Furniture and other office equipment	65 476	95 048
	Civic Land and Buildings	1 549 331	271 685
	Total repair and maintenance	10 344 692	8 728 762
	Less: Transferred to Discontinued Operations - Note 50.2	(5 261 393)	(5 225 788)
	Total repair and maintenance Continued	5 083 299	3 502 964
30	BULK PURCHASES		
	Electricity	14 809 208	12 850 609
	Total Bulk Purchases	14 809 208	12 850 609
31	OTHER OPERATING GRANT EXPENDITURE		
	Operating grant expenditure per vote		
	Budget and Treasury	3 715 617	3 939 225
	Corporate Services	4 577	-
	Electricity	9 767 754	9 649 298
	IPED	2 239 490	3 356 896
	Refuse	1 696 416	40 532
	Roads Transport	5 636 601	2 344 658
	Water and Sanitation	-	141 208
	Total Operating grant expenditure	23 060 456	19 471 817
	Less: Transferred to Discontinued Operations - Note 50.2	-	(141 208)
	Total Operating grant expenditure Continued	23 060 456	19 330 609

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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GENERAL EXPENSES	R	R
Advertisements	357 931	494 021
Auditors Remuneration	2 989 417	3 248 159
Bank Charges	190 773	222 666
Chris Hani DM (Capital Items)	1 678 589	2 304 005
Cleaning	110 884	271 974
Conferences and Seminars	1 172 522	555 119
Consulting and Professional fees	1 267 583	489 261
Contribution: Restoration cost landfill sites	-	12 216
Fuel and oil	2 780 505	2 979 405
Insurance	1 108 081	803 262
Lease rentals on operating lease	390 207	281 482
Leaser ship	-	-
Marketing	137 821	342 882
Medical Exams	220	-
New Connections	205	149 257
Pauper Burials	2 650	-
Plant Hire	69 757	179 406
Policies	261 001	-
Printing and stationery	1 616 925	1 365 063
Projects	2 580 921	1 748 279
Protective Clothing	302 059	431 398
Public participation	639 363	482 219
Relocation Cost	33 000	-
Revenue Enhancement Strategy	222 111	-
Revenue Enhancement	105 883	-
Security	1 599 754	1 194 522
Software expenses	-	123 470
Special Community Projects; example Youth day	1 529 878	754 895
Subscription and Membership fees	658 450	608 885
Subsistence and Travel	2 252 483	1 578 806
Telephone and fax	1 490 499	1 140 142
Training	665 040	583 610
Transport and freight	555 264	368 835
Travel - local	5 217 194	4 078 357
Ward Committee cost	463 342	200 700
Water samples	344 169	281 979
Mayor Cup	466 125	411 988
Library Assets	174 921	-
License Fees	484 262	368 706
Traditional Leaders Expenditure	70 490	68 100
Valuation Roll	8 080	835 147
Wellness Day	389 901	387 449
Disaster Expenditure	879 924	434 890
Refuse Bags	229 622	226 302
Water Purification	818 809	695 611
Material Stores	1 337 564	787 677
Water Blue Drop	86 044	72 760
Administration charges	21 562	18 300
Sanitation Green Drop	29 250	73 220
Health and Safety Training	-	10 005
Fleet Management	59 271	31 908
Books, Magazines & Publication	15 113	4 884
Congress Fee	3 600	4 249
Consumables	33 764	38 857
Postage	9 598	18 441
Cleaning Materials	17 318	8 654
PMS & IDP Compliance	387 234	338 842
Electricity Service Charges	349 294	-
Field Band Project	482 736	579 882
Data Cleansing	9 529	96 826
Study Assistance	226 576	128 862
Network Infrastructure Improvement	501 800	39 474
FMS Expenditure and Licences	750 135	-
Staff Tools Of Trade	8 772	-
General Expenses	40 645 774	32 953 306
Less: Transferred to Discontinued Operations - Note 50.2	(7 156 318)	(7 991 549)
General Expenses Continued	33 489 456	24 961 757

33	CORRECTION OF ERROR IN TERMS OF GRAP 3	2014	2013
33.01	CURRENT EMPLOYEE BENEFITS		
	Balance previously reported	6 118 278	-
	Correction of Provision for Staff Leave	7 187	-
	Correction of Bonus Accrued Provision	3 588	-
		<u>6 129 053</u>	<u>-</u>
33.02	PAYABLES FROM EXCHANGE TRANSACTIONS		
	Balance previously reported	14 893 407	-
	Corrections of trade payables - Refer to note 7	155 327	-
	Corrections of Sec 57 Ex Gratia payments - Refer to note 7	28 680	-
		<u>15 077 414</u>	<u>-</u>
	Reclassification of payables; clearing and correction of trade payables.		
33.03	OPERATING LEASE ASSET		
	Balance previously reported	79 225	71 794
	First time recognition of Operating Lease Asset prior to 1 July 2013	(21 897)	(21 897)
	Correction of movement 2014	5 894	-
		<u>63 222</u>	<u>49 897</u>
33.04	PROPERTY, PLANT AND EQUIPMENT		
	Balance previously reported	421 797 594	-
	Furniture & Equipment incorrectly disposed prior year - Depreciation	(1 879)	(940)
	Furniture & Equipment incorrectly disposed prior year	8 142	8 142
	Computer Hardware incorrectly disposed prior year - Depreciation	(24 051)	(12 870)
	Computer Hardware incorrectly disposed prior year	70 848	70 848
	Plant & Equipment incorrectly disposed prior year - Depreciation	(1 573)	(1 311)
	Plant & Equipment incorrectly disposed prior year	3 670	3 670
	Deeds search - additions Land & Buildings	401 800	401 800
	Deeds search - additions buildings & Prior year error correction Depreciation	(12 352)	(10 293)
		<u>422 240 399</u>	<u>457 037</u>
33.05	RECEIVABLES FROM EXCHANGE TRANSACTIONS		
	Balance previously reported	10 686 536	10 359 504
	Electricity wrongly levied for the 2012/2013 Financial year. Refer to note 15	(36 606)	(36 606)
	Refuse wrongly levied for the 2012/2013 Financial year. Refer to note 15	(6 794)	(6 794)
	Rental wrongly levied for the 2012/2013 Financial year. Refer to note 15	(185 239)	(185 239)
	Other Services wrongly levied for the 2012/2013 Financial year. Refer to note 15	(55 064)	(55 064)
		<u>10 402 833</u>	<u>10 075 802</u>
	Mainly represented by the reclassification of Chris Hani District Municipality debt as receivables from exchange transactions.		
33.06	RECEIVABLES FROM NON EXCHANGE TRANSACTIONS		
	Balance previously reported	17 883 709	15 369 067
	Correction of Property Rates wrongly levied. Refer note 16	(45 979)	(45 979)
		<u>17 817 730</u>	<u>15 323 087</u>
33.07	NON CURRENT EMPLOYEE BENEFITS		
	Balance previously reported	6 674 008	4 841 328
	Correction of Ex- Gratia payment provision i.r.o 2013/2014	142 150	128 400
		<u>6 816 158</u>	<u>4 969 728</u>
33.08	STATEMENT OF FINANCIAL PERFORMANCE	2014	2013
		R	R
	REVENUE PREVIOUSLY REPORTED	190 503 608	-
	Rental of facilities and equipment		
	Relates to the operating lease register entries	5 894	(185 239)
		<u>190 509 503</u>	<u>(185 239)</u>
	EXPENDITURE PREVIOUSLY REPORTED	195 832 558	-
	Employee related costs		
	Correction of Bonus and Leave provision i.r.o 2013/2014	10 775	-
	The figure was adjusted to the reconciliation of payables.	28 680	-
	Correction of Ex- Gratia payment provision i.r.o 2013/2014	13 760	-
	Depreciation and amortisation charges		
	Depreciation charges were corrected due to wrong disposals.	14 232	-
	Contracted Services		
	The figure was adjusted to the reconciliation of payables.	35 520	-
	Repairs and maintenance		
	The figure was adjusted to the reconciliation of payables.	18 367	-
	Other operating grant expenditure		
	The figure was adjusted to the reconciliation of payables.	9 656	-
	General expenses		
	The figure was adjusted to the reconciliation of payables.	93 785	-
		<u>196 055 331</u>	<u>-</u>

33 CORRECTION OF ERROR IN TERMS OF GRAP 3 (Continued)

33.09 STATEMENT OF CHANGES IN NET ASSETS

	2014 R	2013 R
Balance previously reported	469 783 147	475 112 098
Cash and cash equivalents	-	-
Operating Lease Asset	(18 003)	(21 897)
Payables from exchange transactions	(184 007)	-
Current employee benefits	(10 775)	-
Employee Benefits	(142 160)	(128 400)
Property, plant and equipment	442 805	457 037
Receivables from exchange transactions	(283 703)	(283 703)
Receivables from non exchange transactions	(45 979)	(45 979)
	<u>469 843 328</u>	<u>475 089 184</u>

34 RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS

	2015 R	2014 R
Surplus/(Deficit) for the year	(11 156 838)	(5 545 828)
Adjustments for:		
Depreciation/Amortisation	22 066 517	20 362 510
Loss on disposal of property, plant and equipment	1 142 817	8 418 708
Contributed Assets	(346 075)	-
Impairment Loss	9 247 688	11 354 726
Impairment (Reversals)	(10 341)	(3 547)
Contribution from/to provisions - Non-Current	1 733 718	1 237 103
Contribution from/to provisions - Non-Current - Expenditure incurred	(115 773)	(58 401)
Contribution from/to provisions - Non-Current - Actuarial losses	-	791 293
Contribution from/to provisions - Non-Current - Actuarial gains	(926 454)	-
Contribution to provisions - current	4 825 345	4 333 197
Contribution to provisions - current - Expenditure incurred	(3 043 206)	(6 314 239)
Debt Impairment	13 587 042	895 628
Discontinued Operations - Assets and Liabilities Transferred	-	(2 833 350)
Operating lease income / (expenses) accrued	(14 194)	(13 325)
Operating Surplus/(Deficit) before changes in working capital	<u>36 970 046</u>	<u>32 624 476</u>
Changes in working capital	(18 616 987)	(61 872)
Increase/(Decrease) in Payables from exchange transactions	725 665	10 561 026
Increase/(Decrease) in Unspent Conditional Government Grants and Receipts	(1 452 636)	(5 424 120)
Increase/(Decrease) in Unpaid Conditional Government Grants and Receipts	34 684	(34 684)
Increase/(Decrease) in Taxes	444 625	(347 380)
(Increase)/Decrease in Inventory	618 685	(218 796)
(Increase)/Decrease in Receivables from exchange and non-exchange transactions	(19 188 190)	(4 597 918)
Cash generated/(absorbed) by operations	<u>18 153 659</u>	<u>32 662 664</u>

35 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following:

Call Investments Deposits - Note 18	28 563 011	41 614 217
Cash Floats - Note 18	21 142	17 238
Bank - Note 18	3 192 247	9 361 705
Total cash and cash equivalents	<u>31 776 400</u>	<u>50 993 250</u>

36 RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES

Cash and Cash Equivalents - Note 35	31 776 400	50 993 250
Less:	31 776 400	50 993 250
Unspent Committed Conditional Grants - Note 7	348 701	1 801 337
Resources available for working capital requirements	<u>31 427 699</u>	<u>49 191 913</u>
Allocated to:		
Employee Benefits Reserve	14 899 953	12 586 700
Non-Current Provisions Reserve	0	2 119 287
Resources available for working capital requirements	<u>16 527 746</u>	<u>34 485 925</u>

37 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term Liabilities - Note 2	810 383	546 033
Used to finance property, plant and equipment - at cost	(810 383)	(546 033)
Cash set aside for the repayment of long-term liabilities	-	-
Cash invested for repayment of long-term liabilities	-	-

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

38	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED	R	R
38.1	Unauthorised expenditure		
	Reconciliation of unauthorised expenditure:		
	Opening balance	-	10 172 020
	Unauthorised expenditure for the year - capital	-	964
	Unauthorised expenditure for the year - operating	9 981 835	12 747 658
	Written off by council	(9 981 835)	(22 920 641)
	Unauthorised expenditure awaiting authorisation	-	-

Unauthorised expenditure on operating votes is mainly due to depreciation and debt impairment charges

Incident	Disciplinary steps/criminal proceedings
Over expenditure on approved operational and capital budget.	None, report have been presented to Council

	2015 R (Actual)	2015 R (Budget)	2015 R (Variance)	2015 R (Unauthorised)
Unauthorised expenditure current year - operating				
Executive and Council	25 998 636	28 362 323	(2 363 687)	-
Budget and Treasury Office	26 277 223	24 413 953	1 863 269	1 863 269
Corporate Services	18 940 711	18 919 465	21 246	21 246
Community and Social Services	30 395 425	22 298 106	8 097 319	8 097 319
IPED	8 226 299	11 550 025	(3 323 726)	-
Technical Services	94 346 676	97 423 329	(3 076 653)	-
	204 184 970	202 967 201	1 217 769	9 981 835
Unauthorised expenditure current year - capital				
	2015 R (Actual)	2015 R (Budget)	2015 R (Variance)	2015 R (Unauthorised)
Budget and Treasury	1 511 718	1 512 000	(282)	-
Community and Social Services	24 030 825	25 614 656	(1 583 831)	-
Corporate Services	457 623	458 000	(377)	-
Executive and Council	4 277 127	4 325 000	(47 873)	-
IPED	712 735	860 000	(147 265)	-
Technical Services	7 185 450	8 301 137	(1 115 687)	-
	38 175 478	41 070 793	(2 895 315)	-

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

38

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (Continued)

2015

2014

R

R

38.2

Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure:

Opening balance

17 146 721

16 880 460

Fruitless and wasteful expenditure the year

68 041

266 261

Written off by council

(17 146 721)

-

Recovered Fruitless and wasteful expenditure the year

-

-

Fruitless and wasteful expenditure awaiting further action

68 041

17 146 721

Incident

Disciplinary steps/criminal proceedings

Interest was paid to Eskom and Telkom

None

-

2 192

Interest and penalties were paid on VAT late submissions

None

-

16 783

Interest was paid to Eskom and Telkom prior year

None

7

-

VAT wrongly claimed without supplier vat number on invoice

None

-

247 286

W.Mkuyana-salary paid incorrectly

To be investigated

68 033

-

68 041

266 261

38.3

Irregular expenditure

Reconciliation of irregular expenditure:

Opening balance

132 804 408

74 071 518

Irregular expenditure for the year

20 259 703

53 239 242

Irregular expenditure for the prior year

-

5 493 647

Irregular expenditure awaiting further action

153 064 111

132 804 408

R53 239 242 was written off by Council after the reporting date. (see also note 43)

Incident

Disciplinary steps/criminal proceedings

SCM procedures not followed current year

None

17 785 496

53 239 242

Litaba Basadi investment

None

1 604 746

-

Mzieng/Umkhwa Construction JV

None

869 461

-

SCM procedures not followed prior year

Investigated

53 239 242

5 493 647

73 498 945

58 732 890

38.4

Material Losses

Electricity distribution losses

Units purchased (Kwh)

14 531 976

13 157 117

Units sold (Kwh)

8 926 336

7 048 529

Units lost during distribution (Kwh)

5 605 640

6 108 588

Percentage lost during distribution

38.57%

46.43%

Loss in Rand Value

5 493 527

5 986 416

39

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

39.1

Contributions to organised local government - (MFMA 125 (1)(b)) - SALGA CONTRIBUTIONS

Opening balance

-

68 268

Council subscriptions

506 000

487 346

Amount paid - current year

(506 000)

(487 346)

Amount paid - previous years

-

(68 268)

Balance unpaid (included in creditors)

-

-

39.2

Audit fees - (MFMA 125 (1)(c))

Opening balance

-

-

Current year audit fee

2 989 417

3 248 159

External Audit - Auditor-General

2 989 417

3 248 159

Amount paid - current year

(2 989 417)

(3 248 159)

Balance unpaid (included in creditors)

-

-

39.3

VAT - (MFMA 125 (1)(c))

Opening balance

1 070 930

1 831 357

Amounts received - current year

5 223 304

9 371 045

Amounts received - previous years

1 702 885

(223 015)

Amounts claimed - current year

(10 090 747)

(9 908 458)

Closing balance - (Receivable) / Payable

(2 093 628)

1 070 930

VAT is payable/receivable on the cash basis. VAT is only paid over to SARS once cash is received from debtors and only claimed from SARS once payment is made to creditors.

39.4

PAYE, SDL and UIF - (MFMA 125 (1)(c))

Opening balance

-

-

Current year payroll deductions and Council Contributions

9 606 870

6 651 670

Amount paid - current year

(8 657 039)

(6 651 670)

Balance unpaid (included in creditors)

949 831

-

39.5

Pension and Medical Aid Deductions - (MFMA 125 (1)(c))

Opening balance

-

-

Current year payroll deductions and Council Contributions

11 296 347

9 087 067

Amount paid - current year

(11 296 347)

(9 087 067)

Balance unpaid (included in creditors)

-

-

39 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (CONTINUED)

39.6 Councillor's arrear consumer accounts - (MFMA 124 (1)(b))

The following Councillors had arrear accounts for more than 90 days as at 30 June:

	2015 R Outstanding more than 90 days	2014 R Outstanding more than 90 days
Godla, M.	-	2 506
Komani, B.	25 214	112 678
Total Councillor Arrear Consumer Accounts	25 214	115 184

39.7 Other non-compliance - (MFMA 125(2)(g))

Terms of Section 65(2)(e) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA).
Some Creditors were not paid within 30 days.

Terms of Section 71(1) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) (MFMA).
Some Reports were not submitted within 10 working days.

39.8 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

In terms of section 38 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

Deviations (Contracts) approved by Municipal Manager
Deviations (Sole Suppliers) approved by Municipal Manager
CAPITAL COMMITMENTS

Total Suppliers	Amount
12	15 724 418
186	2 297 836
R	R

Commitments in respect of capital expenditure:

Approved and contracted for:
Infrastructure

17 555 426	24 366 570
17 555 426	24 366 570

Approved but not yet contracted for

- 4 519 153

Total

17 555 426	28 885 723
-------------------	-------------------

This expenditure will be financed from:

External Loans
Capital Replacement Reserve
Government Grants

-	-
-	384 513
17 555 426	28 501 210

Total

17 555 426	28 885 723
-------------------	-------------------

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

(a) Foreign Exchange Currency Risk

The municipality did not engage in any foreign currency transaction.

(b) Price risk

The municipality is not exposed to price risk.

(c) Interest Rate Risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:

1% (2012 - 0.5%) Increase in interest rates
 0.5% (2012 - 0.5%) Decrease in interest rates

2015	2014
R	R
309 449	504 300
(154 724)	(252 150)

(d) Credit Risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

The credit quality of receivables are assessed on individual debtors basis. The accounts are then impaired on a individual basis based on the risk profile/credit quality associated with that individual account.

All rates and services are payable within 30 days from invoice date. Refer to note 15 and 16 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 15 for balances included in receivables that were re-negotiated for the period under review.

FINANCIAL RISK MANAGEMENT (CONTINUED)

Balances past due not impaired:

	%	R	%	R
Non-Exchange Receivables				
Rates and other receivables	100.00%	3 820 135	100.00%	5 860 616
Exchange Receivables				
Electricity	15.10%	2 712 676	18.98%	1 974 260
Water	0.00%	-	-12.16%	(1 265 174)
Refuse	-29.24%	(5 253 485)	-1.11%	(115 650)
Sewerage	0.00%	-	-13.87%	(1 442 497)
Other	114.14%	20 505 271	108.16%	11 251 894
	100.00%	17 964 462	100.00%	10 402 833

No receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 15 and 16 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The provision for bad debts could be allocated between the different classes of debtors as follows:

	%	R	%	R
Non-Exchange Receivables				
Rates and other receivables	100.00%	7 855 764	100.00%	12 168 602
Exchange Receivables				
Electricity	1.75%	700 411	0.41%	418 500
Water	0.00%	-	33.29%	34 081 401
Refuse	85.43%	34 224 239	29.39%	30 090 638
Sewerage	0.00%	-	36.68%	37 526 421
Other	12.82%	5 135 637	0.25%	252 213
	100.00%	40 060 287	100%	102 369 174

An amount of R8 511 583 debt was written of - (see also note 16)

The entity only deposits cash with major banks with high quality credit standing. An amount of R100 000 is pledge as security on call deposits with Standard Bank. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity has no non-current investment transactions.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE. The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectations of counter party default.

All receivables are individually evaluated annually at Statement of Financial Position date for impairment.

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

	2015 R	2014 R
Receivables from exchange transactions	17 964 462	10 402 833
Receivables from non-exchange transactions	3 820 135	5 860 616
Cash and Cash Equivalents	31 776 400	50 993 250
Unpaid conditional grants and subsidies	-	34 684
	53 660 997	67 291 384

FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

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

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
2015				
Long Term liabilities - Finance Lease Liability	292 251	561 795	-	-
Capital repayments	190 510	473 661	-	-
Interest	101 742	87 934	-	-
Long Term liabilities - Hire purchase Lease Liability	83 445	76 491	-	-
Capital repayments	72 950	73 063	-	-
Interest	10 495	3 429	-	-
Trade and Other Payables	15 713 500	-	-	-
Unspent conditional government grants and receipts	348 701	-	-	-
	16 437 897	638 286	-	-
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
2014				
Long Term liabilities - Finance Lease Liability	232 895	-	-	-
Capital repayments	203 916	-	-	-
Interest	28 979	-	-	-
Long Term liabilities - Hire purchase Lease Liability	133 825	256 499	-	-
Capital repayments	107 383	234 735	-	-
Interest	26 442	21 764	-	-
Trade and Other Payables	11 391 065	-	-	-
Unspent conditional government grants and receipts	1 801 337	-	-	-
	13 559 122	256 499	-	-

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

42	FINANCIAL INSTRUMENTS		R	R
		In accordance with GRAP 104 the financial instruments of the municipality are classified as follows:		
		The fair value of financial instruments approximates the amortised costs as reflected below.		
42.1	Financial Assets	Classification		
	Investments			
	Fixed Deposits	Financial instruments at amortised cost	-	-
	Receivables			
	Receivables from exchange transactions	Financial instruments at amortised cost	17 964 462	10 402 833
	Receivables from non-exchange transactions	Financial instruments at amortised cost	3 920 135	5 860 616
	Other Receivables			
	Government Subsidies and Grants	Financial instruments at amortised cost	-	34 684
	Short-term Investment Deposits			
	Call Deposits	Financial instruments at amortised cost	28 563 011	41 614 217
	Bank Balances and Cash			
	Bank Balances	Financial instruments at amortised cost	3 192 247	9 361 795
	Cash Floats and Advances	Financial instruments at amortised cost	21 142	17 238
			<u>53 660 997</u>	<u>67 291 384</u>
	SUMMARY OF FINANCIAL ASSETS			
	Financial instruments at amortised cost		<u>53 660 997</u>	<u>67 291 384</u>
	At amortised cost		<u>53 660 997</u>	<u>67 291 384</u>
42.2	Financial Liability	Classification		
	Long-term Liabilities			
	Annuity Loans	Financial instruments at amortised cost	-	-
	Capitalised Lease Liability	Financial instruments at amortised cost	473 861	(0)
	Hire Purchase	Financial instruments at amortised cost	73 063	234 735
	Payables from exchange transactions			
	Trade Payables	Financial instruments at amortised cost	9 207 542	9 311 156
	Third party payables (Payroll)	Financial instruments at amortised cost	1 035 923	114 188
	Payments received in advance	Financial instruments at amortised cost	89 579	120 273
	Sundry Deposits	Financial instruments at amortised cost	11 900	36 873
	Sundry Creditors	Financial instruments at amortised cost	1 250 941	105 812
	Other Payables			
	Government Subsidies and Grants	Financial instruments at amortised cost	348 701	1 801 337
	Current Portion of Long-term Liabilities			
	Capitalised Lease Liability	Financial instruments at amortised cost	190 510	203 916
	Hire Purchase	Financial instruments at amortised cost	72 950	107 383
			<u>16 962 163</u>	<u>14 020 036</u>
	SUMMARY OF FINANCIAL LIABILITY			
	Financial instruments at amortised cost		<u>16 962 163</u>	<u>14 020 036</u>
43	EVENTS AFTER THE REPORTING DATE			
	The municipality has events after reporting date during the financial year ended 2015/2016.			
	Irregular expenditure in respect of 2013/14 financial year amounting to R 53 289 242, as per note 38.3, was written off by council subsequent to year end.			
	The Water and Sanitation function will be transferred to Chris Hani District Municipality on 1 July 2015.			
44	IN-KIND DONATIONS AND ASSISTANCE			
	None			
45	PRIVATE PUBLIC PARTNERSHIPS			
	Council has not entered into any private public partnerships during the financial year.			

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

46	CONTINGENT LIABILITY	2015	2014
	The municipality is being sued by Mgumane for damages whereby the claimant allegedly suffered constitutional damages.	15 000	15 000
	The Municipality is being sued by B L Patu for damages suffered due to negligence by the municipality in failing to maintain and monitor the structure of the dam wall and dam outlet of Hogsett Dam.	120 000	120 000
	The Municipality is being sued by D S O'Reilly for damages suffered due to negligence by the municipality in failing to maintain and monitor the structure of the dam wall and dam outlet of Hogsett Dam.	100 000	100 000
	The municipality has been sued by Mhlangenkululeko Construction cc. It alleged it entered into an oral agreement with the Municipality in terms of which it was required to erect a 4km fence for the amount of R107, 895.72. This entity claimed that they have since been paid an amount of R28, 500.00, leaving the balance of R84, 365.72 unpaid.	-	84 366
	Ex Gratia Gratuities are payable regarding contracts for Sec. 56 Managers on termination of contract.	1 155 311	1 576 791
	Claims against Council	<u>1 390 311</u>	<u>1 696 156</u>

In all the above cases a possible obligation to pay for the events remain at 30 June 2015, but uncertainty prevails of the actual time of the outflow of funds.

47	CONTINGENT ASSETS		
	Ikamva Construction (An instruction was given to recover an amount for defective performance and erroneous payments.)		358 821
	The municipality has instructed to institute action against the said Komani for arrear municipal rates so as to enable us to attend to transfer of property between ECDC and Bootman Komani Family		20 000
	A fraud case occurred after AFS was submitted to the amount of R332 186.94.	322 187	39 000
	Claims by Council	<u>322 187</u>	<u>417 821</u>

In all the above cases, possible recovery of funds remain at 30 June 2015, but uncertainty prevails of the actual time of the inflow of funds.

48	RELATED PARTIES			
	Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.			
	The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.			
48.1	Related Party Loans			
	None			
48.2	Compensation of key management personnel			
	The compensation of key management personnel is set out in note 24 to the Annual Financial Statements.			
48.3	Other related party transactions			
	The following entity exist during the year where Councillors or staff have an interest:			
	<u>Councillor/Staff Member</u>	<u>Entity</u>	<u>Amount of Transactions</u>	<u>Payments made</u>
	P Greyling	UNIVERSAL GARAGE	<u>R 335 242.70</u>	<u>R 323 063.16</u>
				<u>R 12 179.54</u>

49	FINANCIAL SUSTAINABILITY	
	The indicators or conditions that may, individually or collectively, cast significant doubt about the going concern assumption are as follows:	
	Financial Indicators	
	The current ratio decreased from 2.94:1 to 1.59:1 in the period of reporting.	
	The average debtors' payment days decreased from 49 days to 98 days. The debtors' impairment ratio decreased to 69 % from the previous years 88%.	
	No bank overdraft was utilised; the net cash situation as at 30 June 2015 is R31 776 400 positive.	
	Other indicators	
	Possible outflow of resources due the contingent liability disclosed in note 46	

50 DISCONTINUED OPERATIONS

The Municipality acted as Water Service Provider (WSP) for the provision of water and sanitation services on behalf of the Water Service Authority, Chris Hani District Municipality. The Water Service Authority resolved to resume full accountability for the Revenue functions as from 1 July 2014.

The effect of Discontinued Operations on the Statement of Financial Position is as follows:

50.1 Liabilities associated with Discontinued Operations	2015	2014
Employee Benefits		
Post Retirement Benefits - Refer to Note 3.1	1 147 585	
Long Service Awards - Refer to Note 3.2	237 027	
Total Non-current Employee Benefit Liabilities	1 384 612	
Post Retirement Benefits		
Balance 1 July	1 003 746	
Contribution for the year	123 413	
Interest Cost	92 246	
Expenditure for the year	-	
Actuarial Loss/(Gain)	(71 820)	
Total post retirement benefits 30 June	1 147 585	
Less: Transfer of Current Portion - Note 3.1	-	
Balance 30 June	1 147 585	
Long Service Awards		
Balance 1 July	264 040	
Contribution for the year	49 738	
Interest Cost	19 295	
Expenditure for the year	-	
Actuarial Loss/(Gain)	(24 079)	
Total long service 30 June	308 994	
Less: Transfer of Current Portion - Note 3.2	(71 967)	
Balance 30 June	237 027	
TOTAL NON-CURRENT EMPLOYEE BENEFITS		
Balance 1 July	1 267 786	
Contribution for the year	173 151	
Interest cost	111 541	
Expenditure for the year	-	
Actuarial Loss/(Gain)	(95 899)	
Total employee benefits 30 June	1 456 579	
Less: Transfer of Current Portion - Note 3.1	(71 967)	
Balance 30 June	1 384 612	
CURRENT EMPLOYEE BENEFITS		
Current Portion of Post Retirement Benefits - Note 5	-	
Current Portion of Long-Service Provisions - Note 5	71 967	
Provision for Staff Leave Note 5	672 181	
Staff Bonuses accrued Note 5	137 104	
Total Current Employee Benefits	881 252	
The movement in current employee benefits is reconciled as follows: Note 5		
Provision for Staff Leave		
Balance at beginning of year	587 888	
Contribution to current portion	84 293	
Expenditure incurred	-	
Balance at end of year	672 181	
Staff Bonuses accrued		
Balance at beginning of year	107 372	
Contribution to current portion	29 732	
Expenditure incurred	-	
Balance at end of year	137 104	
Total Liabilities associated with Discontinued Operations	2 265 864	
Assets associated with Discontinued Operations		
Trade Receivables from exchange transactions		
Water	32 816 228	
Sewerage	36 083 924	
Total: Trade receivables from exchange transactions (before provision) - Note 15	68 900 152	
Less: Provision for Impairments - Note 15	(68 900 152)	
Water	(32 816 228)	
Sewerage	(36 083 924)	
VAT	-	
Total: Trade receivables from exchange transactions (after provision) - Note 15	-	
Total: Assets associated with Discontinued Operations	-	

EMALAHLENI MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

50.2	The effect of Discontinued Operations on the Statement of Financial Performance is as follows:		2015	2014
	Revenue from Exchange Transactions		-	11 188 077
	Service Charges		-	(550 108)
	Less: Rebates		-	10 637 971
	Total Service Charges - Note 21		-	-
	Interest Earned - Outstanding Debtors	Note 22	-	4 338 806
	Actuarial Gains		-	-
	Other Income	Note 23	22 393 720	23 497 037
	Total Revenue		22 393 720	38 473 814
	EXPENDITURE			
	Employee related costs	Note 24	9 976 009	9 596 927
	Debt Impairment	Note 26	-	18 348 997
	Depreciation and Amortisation	Note 27	-	2 684
	Repairs and Maintenance	Note 29	5 261 393	5 225 798
	Other Operating Grant Expenditure	Note 31	-	141 208
	General Expenses	Note 32	7 156 318	7 991 549
	Total Expenditure		22 393 720	41 307 163
	NET SURPLUS / (DEFECIT) FOR THE YEAR		-	(2 833 350)

APPENDIX A
EMALAHLENI MUNICIPALITY
SCHEDULE OF LONG-TERM LIABILITIES AS AT 30 JUNE 2015

LONG-TERM LIABILITIES	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2014	Correction	Balance at 1 JULY 2014 Restated	Received during the period	Adjustments	Interest portion payable at period end	Redeemed or written off during the period	Balance at 30 JUNE 2015
HIRE PURCHASE											
Standard Bank	9.00%	43454526/0005	2017/05/15	129 535	-	129 535	-	-	2 864	129 535	-
Standard Bank	9.00%	43454526/0007	2017/06/01	212 583	-	212 583	-	-	16 826	66 571	146 012
Total Hire Purchase				342 118	-	342 118	-	-	19 690	196 105	146 012
LEASE LIABILITY											
NRG Office Solutions (Pty) Ltd	32.04%		2015/03/20	203 916	-	203 916	-	-	28 979	203 916	-
Aloe Office & Business Solutions	17.39%		2018/05/26	-	-	-	386 834	-	6 430	9 747	377 086
Aloe Office & Business Solutions	17.72%		2018/06/11	-	-	-	291 240	-	2 686	3 956	287 284
Total Lease Liabilities				203 916	-	203 916	678 074	-	38 095	217 619	664 370
TOTAL LONG-TERM LIABILITIES				546 033	-	546 033	678 074	-	57 785	413 725	810 383

APPENDIX B
EMALAHLENI MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2015
MUNICIPAL VOTES CLASSIFICATION

2014 Actual Income R	2014 Actual Expenditure R	2014 Surplus/ (Deficit) R		2015 Actual Income R	2015 Actual Expenditure R	2015 Surplus/ (Deficit) R
85 761 894	(29 530 544)	56 231 350	Budget and Treasury	100 333 507	(26 277 223)	74 056 284
1 655 074	(19 637 972)	(17 982 899)	Community Services	2 054 992	(13 109 580)	(11 054 589)
395	(13 726 622)	(13 726 227)	Corporate Services	68 161	(18 940 711)	(18 872 550)
5 376 216	(16 234 646)	(10 858 431)	Council	6 545 075	(18 666 940)	(12 121 866)
19 285 316	(24 745 698)	(5 460 382)	Electricity	20 114 962	(38 020 342)	(17 905 380)
115 439	(8 176 833)	(8 061 394)	Executive	107 300	(7 331 696)	(7 224 396)
36 600	(1 201 121)	(1 164 521)	Housing Services	-	(882 840)	(882 840)
2 884 194	(8 080 821)	(5 196 627)	IPED	157 622	(7 343 459)	(7 185 837)
4 630 355	(5 755 187)	(1 124 832)	Refuse	6 413 638	(17 285 845)	(10 872 206)
32 289 899	(27 658 723)	4 631 176	Roads Transport	34 839 155	(33 932 614)	906 541
38 474 121	(41 307 163)	(2 833 042)	Water and Sanitation	22 393 720	(22 393 720)	-
190 509 503	(196 055 331)	(5 545 828)	Sub Total	193 028 131	(204 184 970)	(11 156 838)
-	-	-		-	-	-
190 509 503	(196 055 331)	(5 545 828)	Total	193 028 131	(204 184 970)	(11 156 838)