



Ekurhuleni Metropolitan Municipality  
Annual Financial Statements  
for the year ended 30 June 2014

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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<b>Legal form of entity</b>	Municipality
<b>Legislation governing the municipality's operations</b>	Municipal Finance Management Act (Act No. 56 of 2003)
<b>Mayoral committee</b>	
Executive Mayor	Clr M Gungubele
	Speaker: Clr P Khumalo
Councillors	Chief Whip: Clr R Mashego
	MMC: Finance: Clr M Makwakwa
	MMC: Health and Social Development: Clr M Maluleke
	MMC: Human Settlements: Clr Q Duba
	MMC: Environmental Management: Clr V M Mabena
	MMC: City Planning and Economic Development: Clr BM Nikani
	MMC: Corporate and Shared Services: Clr P Nkunjana
	MMC: Water and Energy: Clr A Nxumalo
	MMC: Community Safety: Clr M H Sibozza
	MMC: Sport, Heritage, Recreation, Arts and Crafts: Clr Z K Tshongweni
	MMC : Roads and Transport: Clr M I T Mahlangu
<b>Grading of local authority</b>	The municipality is a category A grade 6 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers Act, 1998.
<b>Accounting Officer</b>	K Ngema 011 999 0481 khaya.ngema@ekurhuleni.gov.za
<b>Group Chief Financial Officer (GCFO)</b>	R Ganda 011 999 6514 ramasela.ganda@ekurhuleni.gov.za
<b>Registered office</b>	Corner of Rose and Cross Streets Germiston 1400
<b>Business address</b>	Corner of Rose and Cross Streets Germiston 1400
<b>Postal address</b>	Private Bag X69 Germiston 1400
<b>Bankers</b>	ABSA Bank
<b>Auditors</b>	Auditor-General of South Africa

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

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The reports and statements set out below comprise the annual financial statements presented to the AG for audit:

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### Abbreviations

BKB	Bontle Ke Bontle
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
DWAF	Department of Water and Forestry
FMG	Finance Management Grant
GMRF	Germiston Municipal Retirement Fund
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
USDG	Urban Settlement Development Grant
LED	Local Economic Development
SDL	Skills Development Levy
MFMA	Municipal Finance Management Act (No 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
PHB	Public Housing Board
PTIS	Public Transport and Integrated System

# **Ekurhuleni Metropolitan Municipality**

Annual Financial Statements for the year ended 30 June 2014

## **Accounting Officer's Responsibilities and Approval**

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

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

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

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

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

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

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The annual financial statements set out on pages 4 to 79, which have been prepared on the going concern basis, were approved and signed by the accounting officer on 29 August 2014.

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**Accounting Officer**  
**K Ngema**

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**Group Chief Financial Officer**  
**R Ganda**

**Ekurhuleni Metropolitan Municipality**  
Annual Financial Statements for the year ended 30 June 2014

**Statement of Financial Position as at 30 June 2014**

Figures in Rand	Note(s)	2014	2013
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	12	155,324,378	128,801,347
Other investments	9	161,288,586	22,771,212
Other receivables from exchange transactions	13	558,417,753	485,996,856
Other receivables from non-exchange transactions(taxes and transfers)	14	5,909,437	17,666,135
Consumer debtors	15	4,460,073,394	3,552,483,440
Cash and cash equivalents	16	5,894,540,499	4,374,377,023
		<b>11,235,554,047</b>	<b>8,582,096,013</b>
<b>Non-Current Assets</b>			
Investment property	4	152,511,451	128,919,704
Property, plant and equipment	5	43,809,054,344	43,211,483,928
Intangible assets	6	122,698,271	107,278,004
Heritage assets	7	87,172,100	87,152,400
Investments in controlled entities	8	306	306
Other investments	9	619,043,081	804,214,431
Long-term receivables	11	2,506,232	2,386,621
		<b>44,792,985,785</b>	<b>44,341,435,394</b>
<b>Total Assets</b>		<b>56,028,539,832</b>	<b>52,923,531,407</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Long-term liabilities	18	267,666,436	629,420,732
Trade and other payables from exchange transactions	20	4,941,203,907	4,376,296,747
Deposits	21	643,208,904	620,477,496
Unspent conditional grants and receipts	17	370,602,590	232,406,959
Provisions	19	272,930,166	236,209,055
		<b>6,495,612,003</b>	<b>6,094,810,989</b>
<b>Non-Current Liabilities</b>			
Long-term liabilities	18	5,021,110,609	4,503,777,045
Retirement benefit obligation	10	1,967,931,581	1,765,074,581
Provisions	19	862,015,296	755,121,133
		<b>7,851,057,486</b>	<b>7,023,972,759</b>
<b>Total Liabilities</b>		<b>14,346,669,489</b>	<b>13,118,783,748</b>
<b>Net Assets</b>		<b>41,681,870,343</b>	<b>39,804,747,659</b>
<b>Net Assets Attributable to Owners of Controlling Entity</b>			
Accumulated surplus		41,681,870,343	39,804,747,659

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
<b>Revenue</b>			
Property rates	24	3,427,709,390	2,802,871,286
Property rates - penalties and collection charges		106,611,391	72,091,881
Service charges	25	14,861,038,367	13,500,276,496
Rental of facilities and equipment	37	55,704,908	49,599,515
Interest earned - outstanding debtors		362,065,026	257,704,798
Licences and permits		41,011,475	35,331,580
Income from agency services		235,640,655	228,211,226
Fines		167,705,348	173,028,668
Government grants & subsidies	26	5,339,960,744	4,746,558,483
Public contributions and donations		2,786,886	31,354,044
Other income	27	94,233,931	106,834,963
Interest revenue	32	370,295,275	239,543,250
<b>Total Revenue</b>		<b>25,064,763,396</b>	<b>22,243,406,190</b>
<b>Expenditure</b>			
Employee related costs	29	(4,766,617,621)	(4,299,619,422)
Remuneration of councillors	30	(94,141,267)	(87,954,568)
Depreciation and amortisation	33	(1,919,699,925)	(2,086,186,502)
Impairment of assets	34	(38,514,262)	(41,642,835)
Finance costs	35	(572,960,412)	(522,865,539)
Debt impairment	31	(1,343,750,067)	(887,674,954)
Collection costs		(153,335,126)	(114,274,792)
Repairs and maintenance		(2,001,801,054)	(1,839,955,189)
Bulk purchases	40	(9,485,710,668)	(8,852,863,936)
Contracted services	38	(685,924,857)	(685,955,162)
Grants and subsidies paid	39	(1,065,771,011)	(960,645,418)
General Expenses	28	(1,058,693,666)	(865,693,666)
<b>Total expenditure</b>		<b>(23,186,919,936)</b>	<b>(21,245,331,983)</b>
Loss on disposal of capital assets		(720,777)	(15,256,261)
<b>Surplus for the year</b>		<b>1,877,122,683</b>	<b>982,817,946</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

	Share premium	Accumulated surplus	Total attributable to owners of the economic entity / controlling entity	Minority interest	Total net assets
Figures in Rand					
Opening balance as previously reported	-	38,581,144,640	38,581,144,640	-	38,581,144,640
Adjustments					
Change in accounting policy (Note 2)	-	(94,234,489)	(94,234,489)	-	(94,234,489)
Prior period adjustments (Note 46)	-	335,019,562	335,019,562	-	335,019,562
<b>Balance at 01 July 2012 as restated</b>	<b>-</b>	<b>38,821,929,713</b>	<b>38,821,929,713</b>	<b>-</b>	<b>38,821,929,713</b>
Changes in net assets					
Surplus/(Deficit) for the year	-	982,817,946	982,817,946	-	982,817,946
Total changes	-	982,817,946	982,817,946	-	982,817,946
<b>Balance at 01 July 2013</b>	<b>-</b>	<b>39,804,747,660</b>	<b>39,804,747,660</b>	<b>-</b>	<b>39,804,747,660</b>
Changes in net assets					
Surplus for the year	-	1,877,122,683	1,877,122,683	-	1,877,122,683
Total changes	-	1,877,122,683	1,877,122,683	-	1,877,122,683
<b>Balance at 30 June 2014</b>	<b>-</b>	<b>41,681,870,343</b>	<b>41,681,870,343</b>	<b>-</b>	<b>41,681,870,343</b>

**Ekurhuleni Metropolitan Municipality**  
Annual Financial Statements for the year ended 30 June 2014

**Cash Flow Statement**

Figures in Rand	Note(s)	2014	2013
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates		3,106,101,859	2,672,006,013
Income from rendering of services		13,190,102,521	12,368,226,470
Grants-Operational		3,825,395,968	3,711,812,353
Grants-Capital		1,629,069,016	1,167,477,509
Interest income		732,360,302	497,248,048
Other receipts		620,453,883	624,359,994
		<b>23,103,483,549</b>	<b>21,041,130,387</b>
<b>Payments</b>			
Employee costs		(4,420,145,347)	(4,076,340,226)
Suppliers		(11,847,581,201)	(10,892,062,526)
Finance costs		(572,960,412)	(522,865,539)
Other payments		(2,352,390,190)	(2,015,642,738)
		<b>(19,193,077,150)</b>	<b>(17,506,911,029)</b>
<b>Net cash flows from operating activities</b>	<b>41</b>	<b>3,910,406,399</b>	<b>3,534,219,358</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment (PPE)	5	(2,557,051,910)	(2,294,623,773)
Purchase of investment property	4	(24,185,479)	(19,266,843)
Purchase of intangible assets	6	(33,830,875)	(56,546,379)
Purchases of heritage assets	7	(19,700)	-
Proceeds from sale of financial assets		46,653,976	(333,515,182)
Net movement in long term receivables		(119,611)	133,214
<b>Net cash flows from investing activities</b>		<b>(2,568,553,599)</b>	<b>(2,703,818,963)</b>
<b>Cash flows from financing activities</b>			
Long-term liabilities raised		785,000,000	800,000,000
Repayment of long term liabilities		(629,420,732)	(182,313,767)
Net movement in consumer deposits		22,731,408	87,866,306
<b>Net cash flows from financing activities</b>		<b>178,310,676</b>	<b>705,552,539</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>1,520,163,476</b>	<b>1,535,952,934</b>
Cash and cash equivalents at the beginning of the year		4,374,377,023	2,838,424,089
<b>Cash and cash equivalents at the end of the year</b>	<b>16</b>	<b>5,894,540,499</b>	<b>4,374,377,023</b>



# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

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	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
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# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2014</b>											
<b>Financial Performance</b>											
Property rates	3,540,277,000	158,184,640	3,698,461,640	-	-	3,698,461,640	3,534,320,781		(164,140,859)	96 %	100 %
Service charges	16,154,613,000	(434,622,243)	15,719,990,757	-	-	15,719,990,757	14,861,038,367		(858,952,390)	95 %	92 %
Investment revenue	201,712,000	(6,097,000)	195,615,000	-	-	195,615,000	370,295,275		174,680,275	189 %	184 %
Transfers recognised - operational	4,024,591,000	62,246,810	4,086,837,810	-	-	4,086,837,810	3,824,178,302		(262,659,508)	94 %	95 %
Other own revenue	846,449,804	(55,381,110)	791,068,694	-	-	791,068,694	956,361,343		165,292,649	121 %	113 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>24,767,642,804</b>	<b>(275,668,903)</b>	<b>24,491,973,901</b>	<b>-</b>	<b>-</b>	<b>24,491,973,901</b>	<b>23,546,194,068</b>		<b>(945,779,833)</b>	<b>96 %</b>	<b>95 %</b>
Employee costs	(5,135,322,657)	49,392,805	(5,085,929,852)	-	-	(5,085,929,852)	(4,766,617,621)		319,312,231	94 %	93 %
Remuneration of councillors	(97,285,812)	4,500,000	(92,785,812)	-	-	(92,785,812)	(94,141,267)		(1,355,455)	101 %	97 %
Debt impairment	(1,144,565,966)	-	(1,144,565,966)	-	-	(1,144,565,966)	(1,343,750,067)		(199,184,101)	117 %	117 %
Depreciation and asset impairment	(2,288,832,415)	-	(2,288,832,415)	-	-	(2,288,832,415)	(1,958,214,187)		330,618,228	86 %	86 %
Finance charges	(685,215,331)	11,460,596	(673,754,735)	-	-	(673,754,735)	(572,960,412)		100,794,323	85 %	84 %
Materials and bulk purchases	(9,686,163,283)	(7,267,848)	(9,693,431,131)	-	-	(9,693,431,131)	(9,485,710,668)		207,720,463	98 %	98 %
Transfers and grants	(1,449,823,000)	(70,631)	(1,449,893,631)	-	-	(1,449,893,631)	(1,065,771,011)		384,122,620	74 %	74 %
Other expenditure	(5,123,915,536)	219,266,995	(4,904,648,541)	-	-	(4,904,648,541)	(3,900,475,480)		1,004,173,061	80 %	76 %
<b>Total expenditure</b>	<b>(25,611,124,000)</b>	<b>277,281,917</b>	<b>(25,333,842,083)</b>	<b>-</b>	<b>-</b>	<b>(25,333,842,083)</b>	<b>(23,187,640,713)</b>		<b>2,146,201,370</b>	<b>92 %</b>	<b>91 %</b>
<b>Surplus/(Deficit)</b>	<b>(843,481,196)</b>	<b>1,613,014</b>	<b>(841,868,182)</b>	<b>-</b>	<b>-</b>	<b>(841,868,182)</b>	<b>358,553,355</b>		<b>1,200,421,537</b>	<b>(43)%</b>	<b>(43)%</b>
Transfers recognised - capital	1,691,438,196	125,458,568	1,816,896,764	-	-	1,816,896,764	1,515,782,442		(301,114,322)	83 %	90 %
Contributions recognised - capital and contributed assets	-	-	-	-	-	-	2,786,886		2,786,886	DIV/0 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>847,957,000</b>	<b>127,071,582</b>	<b>975,028,582</b>	<b>-</b>	<b>-</b>	<b>975,028,582</b>	<b>1,877,122,683</b>		<b>902,094,101</b>	<b>193 %</b>	<b>221 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>847,957,000</b>	<b>127,071,582</b>	<b>975,028,582</b>	<b>-</b>	<b>-</b>	<b>975,028,582</b>	<b>1,877,122,683</b>		<b>902,094,101</b>	<b>193 %</b>	<b>221 %</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	2,980,933,000	6,486,379	2,987,419,379	-		2,987,419,379	2,627,818,782		(359,600,597)	88 %	88 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	1,691,438,000	94,422,000	1,785,860,000	-		1,785,860,000	1,528,215,131		(257,644,869)	86 %	90 %
Borrowing	1,040,089,000	(144,146,000)	895,943,000	-		895,943,000	838,747,095		(57,195,905)	94 %	81 %
Internally generated funds	249,406,000	56,210,379	305,616,379	-		305,616,379	260,856,556		(44,759,823)	85 %	105 %
<b>Total sources of capital funds</b>	<b>2,980,933,000</b>	<b>6,486,379</b>	<b>2,987,419,379</b>	<b>-</b>		<b>2,987,419,379</b>	<b>2,627,818,782</b>		<b>(359,600,597)</b>	<b>88 %</b>	<b>88 %</b>
<b>Cash flows</b>											
Net cash from (used) operating	3,275,662,000	-	3,275,662,000	-		3,275,662,000	3,910,406,399		634,744,399	119 %	119 %
Net cash from (used) investing	(2,867,367,000)	-	(2,867,367,000)	-		(2,867,367,000)	(2,568,553,599)		298,813,401	90 %	90 %
Net cash from (used) financing	247,039,000	-	247,039,000	-		247,039,000	178,310,676		(68,728,324)	72 %	72 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>655,334,000</b>	<b>-</b>	<b>655,334,000</b>	<b>-</b>		<b>655,334,000</b>	<b>1,520,163,476</b>		<b>864,829,476</b>	<b>232 %</b>	<b>232 %</b>
Cash and cash equivalents at the beginning of the year	2,982,384,000	-	2,982,384,000	-		2,982,384,000	4,374,377,023		1,391,993,023	147 %	147 %
<b>Cash and cash equivalents at year end</b>	<b>3,637,718,000</b>	<b>-</b>	<b>3,637,718,000</b>	<b>-</b>		<b>3,637,718,000</b>	<b>5,894,540,499</b>		<b>(2,256,822,499)</b>	<b>162 %</b>	<b>162 %</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

#### Basis of Preparation

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

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

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

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the note "Changes in accounting policy."

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

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

- **Operating lease commitments – entity as lessor or lessee**

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received or paid under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

- **Pension and other post – employment benefits**

The cost of defined-benefit pension plans and other employment medical benefits is 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. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

- **Impairment of receivables**

The calculation in respect of the impairment of receivables 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. This was performed per service-identifiable categories across all debtor classes.

- **Impairment of property, plant and equipment**

The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

- **Provisions, contingent liabilities and contingent assets**

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material, using cost of capital.

- **Useful lives of property, plant and equipment and Investment property held at cost**

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

- **Traffic Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

- **Budget information**

A difference of 5% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise.

#### 1.2 Presentation currency

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

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.3 Investment property

Investment property includes property (land or a building, or part of a building) 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.

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 enterprise, and the cost or fair value of the investment property can be measured reliably.

At initial recognition, the entity 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.

#### Cost model

Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Depreciation is provided to write down the cost by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 - 60 years

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

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

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Servitudes that are acquired with the relevant infrastructure items are capitalised with the relating infrastructure asset when it is an integral part of the asset.

Work in progress represents capital expenditure incurred on projects/assets under construction not yet completed nor ready for use at period end.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

The entity maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

The entity depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets. Depreciation starts when the asset is available for use. Work in progress is not depreciated.

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

<b>Item</b>	<b>Useful life</b>
Land	Indefinite
<b>Infrastructure</b>	
• Roads and stormwater	1 – 100 years
• Pedestrian malls	10 - 60 years
• Electricity	3 – 100 years
• Water	3 – 100 years
• Sewer	3 – 100 years
• Housing	80 years
• Solid Waste	5 – 100 years
• Servitudes	Indefinite
• ICT	5-50 years
<b>Community</b>	
• Buildings	20 - 80 years
• Recreational facilities	10 – 80 years
• Security	5 – 15 years
• Landfill sites	10 - 80 years
<b>Other property, plant and equipment</b>	
• Furniture and fittings	3 - 33 years
• Water craft	15 years
• Office equipment	3 - 35 years
• Specialised plant and equipment	10 – 26 years
• Other items of plant and equipment	2 – 29 years
• Buildings	20 – 80 years
• Specialised vehicles	3 - 20 years
• Other vehicles	3 - 28 years

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

## **Accounting Policies**

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### **1.4 Property, plant and equipment (continued)**

At each reporting date all items of PPE are reviewed for any indication that it may be impaired. An impairment exists when an assets carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the assets' recoverable amount is calculated. An impairment loss is recognised in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising 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.

### **1.5 Intangible assets**

An asset is identified as an intangible asset when it is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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

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

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

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

<b>Item</b>	<b>Useful life</b>
Computer software	1 - 10 years

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Heritage assets

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

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

Heritage assets are measured at cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition. The cost of a purchased heritage asset comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Heritage assets are subsequently measured at cost, less accumulated impairment losses. 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.

Transfers to heritage assets are made only when the asset meets the definition of a heritage asset and transfers from heritage assets are made only when the asset no longer meets the definition of a heritage asset. Transfers to and from heritage assets are done at the carrying amount of the assets transferred at the date of transfer.

The entity assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the economic entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

Most heritage assets have an indefinite useful life as they are to be preserved for current and future generations and might appreciate in value over time due to their cultural, environmental, historical, natural, scientific, technological and/or artistic significance. Based on this analysis, there is no finite limit to the period over which a heritage asset is expected to be held by the entity. The useful life of the heritage asset is therefore likely to be indefinite or the annual depreciation is likely to be immaterial.

The entity derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

#### Transitional provision

The entity changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 3 of the GRAP Reporting Framework.

According to the transitional provision, the entity is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in note 5. The transitional provision expires on 30 June 2015.

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

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

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

### 1.7 Investments in controlled entities

Municipal controlled entities are those entities which the Entity owns or over whose financial and operating policies it has the power to exercise beneficial control.

In the economic entity's separate annual financial statements, investments in controlled entities are carried at cost less any accumulated impairment.



# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Financial instruments

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

- (i) the entity designates at fair value at initial recognition or
- (ii) are held for trading.

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

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

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

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

<b>Class</b>	<b>Category</b>
Other Investments	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions (taxes and transfers)	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Other Investments (unlisted shares)	Financial asset measured at cost

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

<b>Class</b>	<b>Category</b>
Long-term liabilities	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

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

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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

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

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

#### Fair value measurement considerations

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# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Financial instruments (continued)

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique.

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

##### a) Financial assets measured at amortised cost:

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

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

##### b) Financial assets measured at cost:

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

#### Derecognition

##### a) Financial assets

The entity derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

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

##### b) Financial liabilities

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

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

#### Presentation

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

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

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

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

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

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.9 Inventories

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business.

Inventories shall be 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 entity; and
- the cost of the inventories can be measured reliably.

Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus 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 entity 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.

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.

Unsold properties are valued at cost. Direct costs are accumulated for each separately identifiable development.

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 first-in-first-out method is the basis of allocating costs to inventories, except for water balance which is determined at cost at the reporting date due to it being measured at reporting date.

Redundant and slow-moving inventories are identified and written down in this way. Inventories identified for write down/write off, but for which a council resolution, to authorise the write down/write off, has not yet been obtained, is provided for as a provision for obsolete stock. 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.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.10 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Retirement funds

The entity contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

The entity does not apply "defined benefit accounting" to the defined benefit funds to which it is a member, where these funds as classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved.

To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the entity will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

#### Medical Aid: Continued Members

The entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the entity is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the entity for the remaining portion.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Provisions and contingencies

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

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

#### a) Leave provision

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end, any unused leave days are forfeited six months after the end of leave cycle.

#### b) COID provision

The provision for COID pensions and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 6.79% (2013: 7.0%) per annum over member's expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate of 10.58% (2013: 10.75%).

#### c) Landfill rehabilitation provision

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure. The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital (time value of money), which is currently 10.58% (2013: 10.75%).

The entity has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which an entity incurs as a consequence of having used the property during a particular period for landfill purposes. The entity estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

Changes in the measurement of the provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

- a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- c) if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

#### d) Workmen's compensation provision

The provision is for the unpaid periods, estimated in the latest return submitted to the compensation commissioner.

#### e) Long service awards provision

The entity offers various types of long service awards to its employees. The provision is to recognise the present value of the obligation as at the reporting date.

#### f) GMRF provision

The provision is for the entity's obligation to the Germiston Municipal Retirement Fund due to the entity failing to meet its obligation to contribute to the fund due to the required investment yield not being achieved.

#### g) Bonus provision

The provision is to provide for performance bonuses of the entity's section 57 employees and, independent contractors, where applicable.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.12 Impairment of non-cash-generating assets and non-cash-generating assets

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

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

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

#### Identification

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

The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the economic entity estimates the recoverable amount or the recoverable service amount of the asset.

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

#### Value in use

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

When estimating the value in use of a cash-generating asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows. The present value of the remaining service potential of a non-cash-generating assets is determined using the most appropriate between the following approaches:

- Depreciated replacement cost approach;
- Restoration cost approach;
- Service units approach

#### Recognition and measurement

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount or recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the 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.

#### Reversal of impairment loss

The entity assess 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 entity estimates the recoverable amount or 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 amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

After a reversal of an impairment loss is recognised, 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.

#### Redesignation

The redesignation 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 only occur when there is clear evidence that such a redesignation is appropriate.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.13 Revenue from exchange transactions

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

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

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

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

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, 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; or
- 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.

Service charges relating to electricity and water are based on consumption. Meters are read on a periodic basis and revenue is recognised when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period. There are areas within the entity where an un-metered water tariff is applied based on estimated consumption as per promulgated tariffs. Revenue for these is recognised when invoiced.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property size, and are levied monthly.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

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 gazetted tariff. This includes the issuing of licences and permits.

Income earned on agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Dividends are recognised when the entity's right to receive payment is established.

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

- The entity has transferred to the buyer the significant risks and rewards of ownership.
- The entity 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 entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

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

#### **Taxes (Property rates)**

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

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

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis. Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### **Transfers, including Grants and Receipts**

The entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

#### **Bequests**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably.

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

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

#### **Services in-kind**

Services in-kind are not recognised.



# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.15 Leases

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

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

#### Operating leases – lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policies on Impairment of Assets.

Capitalisation is suspended during extended periods in which active development is interrupted. Extended periods is periods that exceeds 3 months. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. When the economic entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.17 Value Added Tax

The Entity accounts for value-added tax (VAT) on the payment basis

### 1.18 Income tax

The Entity is exempt from tax in terms of section 10(1)(c)B(i)(ff) of the Income Tax Act.

### 1.19 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the 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 in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.21 Irregular expenditure

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

### 1.22 Internal reserves

Included in the accumulated surplus are internal reserves, no separate line items are presented, in accordance with the GRAP reporting framework, but provision is made in the budget process for funding of these reserve. The amounts set aside for these reserves are invested in accordance with the investment policy of the municipality. The following internal reserves are maintained:

#### Capital replacement reserve (CRR)

The reserve is created for the replacement of service delivery assets when they reach the end of their economic lives to ensure continue of provision of such services, and to minimise the impact of raising external funding or over reliance on grant funds.

#### Self-insurance Reserve

A Self Insurance Reserve was established for a self-insurance purpose and to minimize the external insurance costs. The reserve is based on recognised insurance industry principles to complement the external cover provided by insurance companies.

#### Sinking Funds Reserve

The reserve is created for the provision of repayments of long-term borrowing raised to funds capital projects, and to meet repayment conditions on such borrowings. .

### 1.23 Budget information

The approved budget is prepared in accordance with GRAP standards on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of this financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

### 1.24 Related parties

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

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

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

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

### 1.25 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 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).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.26 Commitments

The entity discloses each class of capital assets ( PPE, Investment properties, Intangible assets and Heritage assets) recognized in the financial statements as well as future minimum lease payments under non-cancellable operating leases for each of the following periods:

- Not later than one year,
- Later than one year and not later than five years, and
- Later than five years.

### 1.27 Going concern

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

### 1.28 Comparative figures

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are reclassified. Where 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.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following newly effective standard.

- GRAP 25 - Employee benefits
- GRAP 103 - Heritage Assets (Transitional provision period)

#### GRAP 25 - Employee benefits

The Accounting Policy has changed (see accounting policy note ). According to GRAP 25 the entity is not allowed a choice anymore between recognising the full amount of the actuarial gains or losses, or using the corridor to establish the amount that should be recognised. Accordingly, the unrecognised actuarial gains or losses have been accounted for and prior year adjustments have been made.

#### GRAP 103 - Heritage Asset

During the year an expert was appointed to perform a full valuation of the visual arts collection of the municipality. The amounts were adjusted retrospectively in the current year.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2014 is as follows:

#### Statement of Financial Position

Retirement benefit obligation	(124,134,704)	-
Property plant and equipment	-	(78,395,185)
Heritage assets	8,757,215	78,395,185
Opening accumulated surplus	94,234,489	-

#### Statement of Financial Performance

Employee related costs	21,143,000	-
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### 3. New standards and interpretations

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

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2014	Not material
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	Not material
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	Not material
• GRAP 107: Mergers	01 April 2014	Not material
• GRAP 20: Related parties	01 April 2014	Not material
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	Not material
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014	Not material
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	Not material
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014	Not material
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014	Not material
• GRAP32: Service Concession Arrangements: Grantor	01 April 2014	Not material
• GRAP108: Statutory Receivables	01 April 2014	Not material
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2014	Not material

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

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### 4. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	154,886,378	(2,374,927)	152,511,451	130,700,899	(1,781,195)	128,919,704

#### Reconciliation of investment property - 2014

Investment property	Opening balance	Additions	Depreciation	Total
	128,919,704	24,185,479	(593,732)	152,511,451

#### Reconciliation of investment property - 2013

Investment property	Opening balance	Additions	Depreciation	Total
	110,246,592	19,266,843	(593,731)	128,919,704

#### Other disclosure

Total rental income received on investment property 12,936,457 9,517,055

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

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	990,726,626	-	990,726,626	989,619,076	-	989,619,076
Infrastructure	41,966,975,904	(9,303,826,562)	32,663,149,342	41,552,456,156	(7,920,091,279)	33,632,364,877
Community	4,423,301,967	(1,119,316,042)	3,303,985,925	4,150,453,049	(931,210,823)	3,219,242,226
Other property, plant and equipment	4,073,968,766	(1,511,522,568)	2,562,446,198	3,775,638,907	(1,208,452,890)	2,567,186,017
Work-in-Progress	4,288,746,253	-	4,288,746,253	2,803,071,732	-	2,803,071,732
<b>Total</b>	<b>55,743,719,516</b>	<b>(11,934,665,172)</b>	<b>43,809,054,344</b>	<b>53,271,238,920</b>	<b>(10,059,754,992)</b>	<b>43,211,483,928</b>

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

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	989,619,076	-	-	1,107,550	-	-	990,726,626
Infrastructure	33,632,364,877	244,178,448	-	171,314,208	(1,384,262,654)	(445,537)	32,663,149,342
Community	3,219,242,226	56,547,187	-	218,221,886	(189,832,221)	(193,153)	3,303,985,925
Other property, plant and equipment	2,567,186,017	274,786,827	(720,777)	53,030,038	(331,835,907)	-	2,562,446,198
Work-in-Progress	2,803,071,732	1,981,539,451	-	(457,989,358)	-	(37,875,572)	4,288,746,253
	<b>43,211,483,928</b>	<b>2,557,051,913</b>	<b>(720,777)</b>	<b>(14,315,676)</b>	<b>(1,905,930,782)</b>	<b>(38,514,262)</b>	<b>43,809,054,344</b>

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

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	980,133,725	109,600	(7,578,926)	16,954,677	-	-	989,619,076
Infrastructure	34,655,866,736	150,539,503	(1,364,045)	440,466,227	(1,573,764,677)	(39,378,867)	33,632,364,877
Community	3,344,877,835	9,264,447	-	63,011,127	(197,911,183)	-	3,219,242,226
Other property, plant and equipment	2,570,096,286	300,452,231	(123,303)	2,720,288	(303,695,517)	(2,263,968)	2,567,186,017
Work-in-Progress	1,461,832,128	1,834,257,992	-	(493,018,388)	-	-	2,803,071,732
	<b>43,012,806,710</b>	<b>2,294,623,773</b>	<b>(9,066,274)</b>	<b>30,133,931</b>	<b>(2,075,371,377)</b>	<b>(41,642,835)</b>	<b>43,211,483,928</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

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

#### Borrowing costs capitalised

Intangible Assets	843,082	613,984
Investment property	-	679,409
Property, plant and equipment	9,383,098	34,949,677
	<b>10,226,180</b>	<b>36,243,070</b>

Capitalisation rates used during the year were 10.77% (2013 - 9.155%, 10.68%, 10.56% 10.72%), depending on the finance source or external loan facility.

#### Compensation received for losses on property, plant and equipment – included in operating profit.

Motor vehicles	440,030	-
Office equipment	113,288	529,517
Infrastructure	8,383,733	3,614,843
Other property, plant and equipment	133,770	-
Ancillary fleet equipment and security	264,935	-
	<b>9,335,756</b>	<b>4,144,360</b>

The other property plant and equipment comprises of office furniture and equipment with a cost price of R 2,132,212,158 (R1,884,946,289) with a carrying value of R1,175,762,411(R1,185,942,924),and other infrastructure for housing and other operational buildings with a cost price of R1,945,013,410 (R1,893,962,793)with a carrying value of R1,393,527,084(R1,423,543,042)

The transfer differences relate to an amount of R5,235,197 which was transferred to property, plant and equipment from intangible assets, and while capital spares were bought as part of the project capital expenditure, which were transferred to inventory R19 550 874, this relates to the net movement of capital spares for the year between the inventory account and the WIP account, refer to note 12.

#### Deemed cost

Included in the additions for the year is public contributed assets with deemed cost amounts of R3,753,073 (2013: R31,890,703). Deemed cost was determined using fair value or DRC, depending on the most appropriate measurement for the specific asset/scenario.

### 6. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software (other)	150,235,262	(27,536,991)	122,698,271	121,162,286	(13,884,282)	107,278,004

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software (other)	107,278,004	33,830,875	(5,235,197)	(13,175,411)	122,698,271

#### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software (other)	67,143,006	56,546,379	(6,189,988)	(10,221,393)	107,278,004

The transfer amount of R5,235,197 relates to transfers of assets to property, plant and equipment from intangible assets.

#### Reconciliation of work-in-progress

Included in additions is the following amounts relating to software still in development:

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>6. Intangible assets (continued)</b>		
<b>Work-in-progress</b>		
Opening balance	71,310,252	49,699,286
Software development incurred during the year	29,343,942	38,060,799
Work in progress transferred to completed assets	(5,235,199)	(16,449,833)
	<b>95,418,995</b>	<b>71,310,252</b>

### 7. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	8,776,915	-	8,776,915	8,757,215	-	8,757,215
Conservation areas	16,078,825	-	16,078,825	16,078,825	-	16,078,825
Historical buildings	10,201,178	-	10,201,178	10,201,178	-	10,201,178
Other heritage assets	52,115,182	-	52,115,182	52,115,182	-	52,115,182
<b>Total</b>	<b>87,172,100</b>	<b>-</b>	<b>87,172,100</b>	<b>87,152,400</b>	<b>-</b>	<b>87,152,400</b>

#### Reconciliation of heritage assets 2014

	Opening balance	Additions	Total
Art Collections, antiquities and exhibits	8,757,215	19,700	8,776,915
Conservation areas	16,078,825	-	16,078,825
Historical buildings	10,201,178	-	10,201,178
Other heritage assets	52,115,182	-	52,115,182
	<b>87,152,400</b>	<b>19,700</b>	<b>87,172,100</b>

#### Reconciliation of heritage assets 2013

	Opening balance	Total
Art Collections, antiquities and exhibits	8,757,215	8,757,215
Conservation areas	16,078,825	16,078,825
Historical buildings	10,201,178	10,201,178
Other heritage assets	52,115,182	52,115,182
	<b>87,152,400</b>	<b>87,152,400</b>

#### Transitional provisions

##### Heritage assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 3 of the GRAP Reporting Framework, as disclosed in note 2, certain heritage asset with a carrying value of R0.00 - (2013:R0.00 -) were recognised at provisional amounts. Quantity of heritage asset carried at provisional amounts are :

- 19 Heritage sites (2013: 38 Heritage sites)
- 1548 Other heritage assets (2013: 1548 Other heritage assets)

##### Due to initial adoption of GRAP 103

Steps taken to establish the values of heritage asset recognised at provisional amounts due to the initial adoption of GRAP 103, is as follows:

Heritage experts have been appointed whom will in future value heritage recognised at provisional amounts

The date at which full compliance with GRAP 103 is expected, is 30 June 2015.



# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013		
<b>7. Heritage assets (continued)</b>				
<b>Deemed costs</b>				
Aggregate of items valued using deemed cost	8,757,215	8,757,215		
Deemed cost was determined by experts in the field of artwork valuations.				
<b>8. Investments in controlled entities</b>				
<b>Name of company</b>	<b>% holding 2014</b>	<b>% holding 2013</b>	<b>Carrying amount 2014</b>	<b>Carrying amount 2013</b>
Brakpan Bus Company SOC Ltd	100.00 %	100.00 %	6	6
Ekurhuleni Development Company SOC Ltd	100.00 %	100.00 %	100	100
East Rand Water Care Company, NPC	97.00 %	97.00 %	-	-
Pharoe Park Housing Company SOC Ltd	93.46 %	93.46 %	100	100
Germiston Phase II Housing Company SOC Ltd	92.59 %	92.59 %	100	100
Lethabong Housing Institute, NPC	100.00 %	100.00 %	-	-
			<b>306</b>	<b>306</b>
<b>9. Other investments</b>				
<b>At cost</b>				
Unlisted shares			4,000,000	4,000,000
<b>At amortised cost</b>				
Investments			776,331,667	822,985,643
These investments have varying interest rates as well as varying maturity dates				
<b>Total other investments</b>			<b>780,331,667</b>	<b>826,985,643</b>
<b>Non-current assets</b>				
At cost			4,000,000	4,000,000
At amortised cost			615,043,081	800,214,431
			<b>619,043,081</b>	<b>804,214,431</b>
<b>Current assets</b>				
At amortised cost			161,288,586	22,771,212
			<b>780,331,667</b>	<b>826,985,643</b>

### Residual interest at cost

Fair value information has not been provided for equity instruments that do not have a quoted market price and for which a fair value cannot be measured reliably.

The carrying amount of these financial instruments is as follows:

Rand Airport (Awaiting information)	4,000,000	4,000,000
20% interest in ordinary shares		

The company's statements used is unaudited for 2013 and no information was received for 2014 yet.

The Company's Equity amounted to R 622,854,485 represented by Share Capital of R5,201,000 , reserves of R165,755,503 as well as Retained Income of R299,397,521 as at 28 February 2013.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2014 and 2013, as all the financial assets were disposed of at their redemption date.

Investments with a carrying value of R772,468,899 (2013: R819,319,820) are encumbered in respect of long term liabilities with a carrying value of R2,447,620,000 (2012: R2,847,620,000) as disclosed in the Long-term liabilities note (note 18).

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

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### 9. Other investments (continued)

#### Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

### 10. EMPLOYEE BENEFIT OBLIGATIONS

#### 1. Retirement Funds

The Municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable. The economic entity contributes to defined contribution and defined benefit funds. These funds are multi employer funds.

The council took a resolution in terms of an agreement with SALGA that the contribution rate to pension funds will be capped at 18% of salaries for new members joining pension funds after 1 July 2012 and also that the deducted contribution will only be transferred to Defined Contribution pension funds.

#### Defined Contribution Funds

Where an employee has rendered services to the economic entity during the year, the economic entity recognises the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

#### Defined Benefit Plans

The Municipality does not apply "defined benefit accounting" to the defined benefit funds to which it is a member where these funds are classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved. Information necessary to apply "defined benefit accounting" was requested from the various funds, but information received from these funds were insufficient and in some instances no information could be obtained from these funds. This issue will be addressed in future to ensure that these benefit plans could be accounted for as "defined benefit accounting". As a result, GRAP 25 is applied and such funds are accounted for as defined contribution funds. The following funds have been treated as defined contribution plans although they are defined benefit funds:

1. Joint Municipal Pension Fund
2. Municipal Employees Pension Fund
3. South African Local Authorities Pension Fund

Germiston Municipal Retirement Fund (GMRF) is a defined contribution fund for active contributing members but a defined benefit fund for certain pensioners under old rules taken up in the rules of the fund. During 2005 GMRF outsources the full administration of the pensioners component which relates to old rules of a defined benefit fund.

To the extent that a surplus or deficit is in place, based on available information, this may affect the amount of future contributions once these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the economic entity will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

#### 2. Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end. Refer to Provisions note (note 19) for leave pay provision.

#### Retirement benefit obligation (medical aid plan)

The economic entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the economic entity is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the economic entity for the remaining portion.

An actuarial valuation was performed by IAC Actuarial Consulting at 30 June 2014 (2013: 30 June 2013).

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

Present value of the defined benefit obligation-wholly unfunded	(1,967,931,581)	(1,765,074,581)
---	-----------------	-----------------

#### Movements for the year

Opening balance	(1,765,074,581)	(1,605,262,581)
Benefits paid	68,106,000	62,792,000
Net expense recognised in the statement of financial performance	(270,963,000)	(222,604,000)
	<b>(1,967,931,581)</b>	<b>(1,765,074,581)</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 10. EMPLOYEE BENEFIT OBLIGATIONS (continued)

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

Current service cost	(65,131,000)	(71,067,000)
Interest cost	(162,645,000)	(130,394,000)
Actuarial gains (losses)	(43,187,000)	(21,143,000)
	<b>(270,963,000)</b>	<b>(222,604,000)</b>

#### Key assumptions used

Assumptions used on last valuation on 30 June 2014.

Discount rates used	9.60 %	9.20 %
Health care cost inflation rate	8.60 %	7.30 %

#### Other assumptions:

#### Key Demographic Assumptions

Assumption	Value
Average retirement age	63
Continuation of membership at retirement	90%
Proportion assumed married at retirement	80%
Proportion of eligible non-member employees joining the scheme by retirement	20%
Mortality during employment	SA 85/90
Mortality post-retirement	PA90

Withdrawal from service (sample annual rates)	Age	Females	Males
	20	16%	16%
	30	10%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

#### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Medical inflation (Service cost and interest cost)	269,528,000	261,434,000
Medical inflation(Liability)	2,133,681,000	2,034,921,000
Valuation interest rate (Service cost and interest cost)	259,951,000	268,727,000
Valuation interest rate ( Liability)	1,894,067,000	2,289,884,000

### 11. Long-term receivables

#### Non current receiveables

Non current receivables	14,485,625	14,366,017
Bad debt provision	(11,979,393)	(11,979,393)
	<b>2,506,232</b>	<b>2,386,624</b>

#### The Long- term receivables comprises of:

Loans made to Sport Clubs R5,562,699 (R5,534,399 )  
 Rental Deposit made R3,718,142 (R3 698 872)  
 Housing schemes R5,204,784 (R5,132,746)

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>12. Inventories</b>		
Electrical consumables	115,521,568	86,415,786
Cleansing consumables	381,304	473,240
Consumable stores	2,110,929	3,055,992
Maintenance materials	4,739,460	7,027,575
Water consumables	4,677,986	3,480,433
Water inventory	6,679,555	6,102,860
Unsold Properties Held for Resale	12,128,900	12,128,900
Food and Beverage	10,624	8,607
Fleet and Transport consumables	4,355,582	3,841,714
Fuel (Diesel, Petrol)	4,950,276	7,373,076
	155,556,184	129,908,183
Provision for obsolete Inventories	(231,806)	(1,106,836)
	<b>155,324,378</b>	<b>128,801,347</b>

Land inventory sold during the year and recognised as an expense R0 (2013 R0).

Inventory written down due to redundancy/obsolescence values to R231,806 (2013: R1,106,836) by way of a provision for obsolete inventories.

Capital spares bought as part of capital project expenditure, were transferred to inventory during the year, as follows: Water R88,087 and Electricity R19,462,787

### 13. Other receivables from exchange transactions

Other receivables	277,039,033	181,687,360
VAT balance on outstanding Creditors	256,470,448	276,240,645
VAT debtor	74,202,488	65,844,724
Lease rental receipts asset	721,509	560,026
Provision for debt impairment	(50,015,725)	(38,335,899)
	<b>558,417,753</b>	<b>485,996,856</b>

### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

### 14. Other receivables from non-exchange transactions(taxes and transfers)

Traffic fines	5,307,100	17,345,426
Grant debtors	602,337	320,709
	<b>5,909,437</b>	<b>17,666,135</b>

### 15. Consumer debtors

#### Gross balances

Rates	2,107,241,284	1,897,604,365
Electricity	2,805,993,235	2,627,529,059
Water	3,503,866,099	2,708,520,667
Waste water	1,050,650,176	830,344,391
Refuse	1,117,355,732	861,118,160
Interest Billing Debtors	1,411,380,391	1,064,785,095
Housing rental	63,924,071	52,656,234
Other	771,152,761	552,039,344
	<b>12,831,563,749</b>	<b>10,594,597,315</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Consumer debtors (continued)</b>		
<b>Less: Allowance for impairment</b>		
Rates	(1,586,387,285)	(1,472,128,461)
Electricity	(673,839,932)	(635,928,644)
Water	(2,614,262,022)	(2,124,060,774)
Waste water	(788,620,394)	(631,638,968)
Refuse	(898,077,427)	(707,699,024)
Interest Billing Debtors	(1,117,106,476)	(1,056,639,435)
Housing rental	(61,463,698)	(50,646,006)
Other	(631,733,121)	(363,372,564)
	<b>(8,371,490,355)</b>	<b>(7,042,113,876)</b>
<b>Net balance</b>		
Rates	520,853,999	425,475,904
Electricity	2,132,153,303	1,991,600,415
Water	889,604,077	584,459,893
Waste water	262,029,782	198,705,423
Refuse	219,278,305	153,419,136
Interest Billing Debtors	294,273,915	8,145,660
Housing rental	2,460,373	2,010,228
Other	139,419,640	188,666,781
	<b>4,460,073,394</b>	<b>3,552,483,440</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	2,132,153,303	1,991,600,415
Water	889,604,077	584,459,892
Waste water	262,029,782	198,705,423
Refuse	219,278,304	153,419,136
Housing rental	2,460,373	2,010,228
Other	433,693,555	196,812,441
	<b>3,939,219,394</b>	<b>3,127,007,535</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	520,853,998	425,475,904
<b>Net balance</b>	<b>4,460,073,392</b>	<b>3,552,483,439</b>
<b>Rates</b>		
Current (0 -30 days)	270,478,433	201,589,037
31 - 60 days	75,680,281	65,564,583
61 - 90 days	59,051,853	50,293,623
91 - 120+ days	1,702,030,716	1,580,157,112
	<b>2,107,241,283</b>	<b>1,897,604,355</b>
<b>Electricity</b>		
Current (0 -30 days)	1,618,832,908	1,534,747,267
31 - 60 days	136,521,693	118,091,590
61 - 90 days	80,687,226	70,844,164
91 - 120+ days	969,951,408	903,846,039
	<b>2,805,993,235</b>	<b>2,627,529,060</b>
<b>Water</b>		
Current (0 -30 days)	425,917,623	342,449,130
31 - 60 days	142,304,991	111,918,509
61 - 90 days	125,777,155	113,652,916
91 - 120+ days	2,809,866,330	2,140,500,112
	<b>3,503,866,099</b>	<b>2,708,520,667</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Consumer debtors (continued)</b>		
<b>Waste water</b>		
Current (0 -30 days)	124,135,439	105,798,634
31 - 60 days	41,723,000	36,313,672
61 - 90 days	36,641,038	63,230,747
91 - 120+ days	848,150,699	625,001,339
	<b>1,050,650,176</b>	<b>830,344,392</b>
<b>Refuse</b>		
Current (0 -30 days)	72,820,504	62,107,591
31 - 60 days	36,186,735	34,628,689
61 - 90 days	32,330,224	30,833,290
91 - 120+ days	976,018,269	733,548,590
	<b>1,117,355,732</b>	<b>861,118,160</b>
<b>Housing rental</b>		
Current (0 -30 days)	928,696	836,029
31 - 60 days	1,422,301	1,144,998
61 - 90 days	1,351,184	1,105,945
91 - 120+ days	60,222,890	49,569,262
	<b>63,925,071</b>	<b>52,656,234</b>
<b>Interest and Other</b>		
Current (0 -30 days)	63,317,503	65,727,693
31 - 60 days	50,990,411	43,229,256
61 - 90 days	51,389,344	44,735,574
91 - 120+ days	2,016,835,894	1,463,131,917
	<b>2,182,533,152</b>	<b>1,616,824,440</b>

The total debtors for June 2014 includes a total of R872 344 872 in respect of the value of the revenue emanating from the various meter reading cut-off dates at year end. This is an annual occurrence and is adjusted at every financial year-end.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	905,678,193	851,437,753
31 - 60 days	300,737,440	264,866,972
61 - 90 days	264,040,702	271,100,210
91 - 120+ days	7,386,061,016	5,778,070,182
	<b>8,856,517,351</b>	<b>7,165,475,117</b>
Less: Allowance for impairment	(6,729,149,512)	(5,529,774,444)
	<b>2,127,367,839</b>	<b>1,635,700,673</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	1,545,027,409	1,354,310,644
31 - 60 days	159,672,655	128,028,223
61 - 90 days	102,193,454	88,641,444
91 - 120+ days	1,474,184,551	1,296,372,655
	<b>3,281,078,069</b>	<b>2,867,352,966</b>
Less: Allowance for impairment	(1,078,144,796)	(1,052,939,712)
	<b>2,202,933,273</b>	<b>1,814,413,254</b>
<b>National and provincial government</b>		
Current (0 -30 days)	57,698,592	48,299,246
31 - 60 days	17,956,237	12,599,906
61 - 90 days	14,838,428	10,523,726
91 - 120+ days	179,250,384	126,184,284
	<b>269,743,641</b>	<b>197,607,162</b>
Less: Allowance for impairment	(189,196,984)	(138,844,312)
	<b>80,546,657</b>	<b>58,762,850</b>
<b>Total</b>		
Current (0 -30 days)	2,576,430,788	2,313,255,380
31 - 60 days	484,829,662	410,891,297
61 - 90 days	387,227,710	374,696,258
91 - 120+ days	9,383,075,589	7,495,754,381
	<b>12,831,563,749</b>	<b>10,594,597,316</b>
Less: Allowance for impairment	(8,371,490,355)	(7,042,113,876)
	<b>4,460,073,394</b>	<b>3,552,483,440</b>
<b>Less: Allowance for impairment</b>		
31 - 60 days	(405,640,460)	(211,778,669)
61 - 90 days	(197,700,188)	(196,707,270)
91 - 120+ days	(241,233,868)	(210,106,110)
121 - 365 days	(7,526,915,839)	(6,423,521,826)
	<b>(8,371,490,355)</b>	<b>(7,042,113,875)</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(7,042,113,875)	(6,141,243,384)
Contributions to allowance	(1,335,385,365)	(887,674,953)
Debt impairment written off against allowance	3,415,270	14,073,218
Provision transfers to/(from) receivables from exchange transactions	2,593,615	(27,268,756)
	<b>(8,371,490,355)</b>	<b>(7,042,113,875)</b>
<b>Credit quality of consumer debtors</b>		
The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.		

**Ekurhuleni Metropolitan Municipality**  
Annual Financial Statements for the year ended 30 June 2014

**Notes to the Annual Financial Statements**

Figures in Rand 2014 2013

**15. Consumer debtors (continued)**

**Consumer debtors past due but not impaired**

At 30 June 2014, consumer debtors of R4,460,073,433 (2013:R3 157 359 365) were past due but not impaired.

30 Days	2,654,178,473	1,816,606,581
60 Days	189,603,004	196,912,543
90 Days	73,333,161	149,299,501
90+ Days	1,542,958,795	994,540,740

**Consumer debtors impaired**

As at 30 June 2014, consumer debtors of R8,173,790,167 (2013:R6 534 907 079) were impaired and provided for.

The ageing of these consumer debtors is as follows:

30 Days	405,640,460	195,401,211
60 Days	197,700,189	181,495,327
90 Days	241,233,868	193,857,995
90+ Days	7,526,915,839	5,964,152,546

**16. Cash and cash equivalents**

Cash and cash equivalents consist of:

Cash on hand	540,369	535,066
Bank balances	5,894,000,130	4,373,841,957
	<b>5,894,540,499</b>	<b>4,374,377,023</b>

The Municipality has provided bank guarantees to the amount of R 22,946,396 (2013: R22,946,396) with regard to special clauses in contracts concluded with various third parties.

**Credit quality of cash at bank and short term deposits, excluding cash on hand**

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.



# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>16. Cash and cash equivalents (continued)</b>		
<b>ABSA</b>		
ABSA - Income Alberton	3,184,083	1,668,891
ABSA - Direct banking Alberton	(40,298)	-
ABSA - Income Benoni	1,336,792	668,992
ABSA - Direct banking Benoni	(780,024)	2,312,925
MASK Account Benoni	(825,869)	17,729
ABSA - Income Boksburg	5,514,980	3,364,561
ABSA - Direct banking KL Boksburg	(2,739,847)	800
ABSA - Direct Banking Bt Boksburg	(100,501)	-
ABSA - Income Brakpan	591,345	543,001
Pre paid sales account Brakpan	171,570	929,770
ABSA - Income Germiston	2,572,262	2,980,713
ABSA - Direct banking Germiston	(1,147,112)	-
ABSA - Income account Kempton Park	976,040	798,181
ABSA - Direct banking Kempton Park	399,031	2,918,199
ABSA - Direct banking Lethabong	(1,324,283)	495,846
ABSA - Income Lethabong	1,202,347	704,890
ABSA - Income Nigel	(4,238,104)	695,924
ABSA - Income Springs	(102,307)	245,105
ABSA - Direct banking Springs	(318,842)	1,024,765
ABSA - Market account	1,134,982	1,134,982
EGSC - RSC Levies	802,650	802,650
ABSA - EFF Account (ex CLF)	568,733,537	803,185,841
ABSA - C R R Account (ex CDF)	1,005,014,890	830,329,453
ABSA - Primary bank account (ex from revenue)	662,726,449	157,647,653
ABSA - Salary account	24,119,177	84,071,608
ABSA - Treasury account	2,397,817,481	1,754,725,642
ABSA - Expenditure imprest account	527,256,797	135,582,603
ABSA - USDG Account	584,451,076	453,046,463
ABSA - Housing account	105,920,158	139,565,120
Short Term Deposits at various institutions with dates within 3 months	132,030	127,669
ABSA - Guarantee account	475,133	(7,846,867)
Petty Cash and Floats	540,369	535,066
STANDARD BANK- Mask account	11,084,505	2,098,848
	<b>5,894,540,497</b>	<b>4,374,377,023</b>

The municipality had the following bank accounts

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand				2014	2013	
<b>16. Cash and cash equivalents (continued)</b>						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
ABSA BANK - Income Alberton-111-841-0641	-	-	-	3,184,083	1,668,891	1,705,381
ABSA BANK - Direct Banking Alberton - 111-840-0646	-	-	-	(40,298)	-	-
ABSA BANK - Income Benoni - 4055327394	-	-	-	1,336,792	668,992	3,084,767
ABSA BANK - Direct Banking Benoni - 4055328015	-	-	-	(780,024)	2,312,925	1,046,811
ABSA BANK - Mask Account Benoni - 4065622380	-	-	-	(825,869)	17,729	2,195
ABSA BANK - Income Boksburg - 230000069	-	-	-	5,514,980	3,364,561	7,523,013
ABSA BANK - Direct Banking KL Boksburg - 230000220	-	-	-	(2,739,847)	800	3,288
ABSA BANK - Direct Banking BT Boksburg - 230000255	-	-	-	(100,501)	-	-
ABSA BANK - Income Brakpan - 240000024	-	-	-	591,345	543,001	673,890
ABSA BANK - Prepaid sales account Brakpan-240159392	-	-	-	171,570	929,770	293,200
ABSA BANK - Income Germiston - 2500002277	-	(10,326)	-	2,572,262	2,980,713	6,628,801
ABSA BANK - Direct banking Germiston - 250000804	-	-	-	(1,147,112)	-	-
ABSA BANK - Direct banking Kempton Park - 260181599	-	-	-	399,031	2,918,199	1,328,463
ABSA BANK - Income Kempton Park - 260000004	-	-	-	976,040	798,181	1,703,571
ABSA BANK - Income Lethabong - 4055442546	-	(13,337)	-	1,202,347	704,890	1,344,359
ABSA BANK - Direct banking Lethabong - 4055442596	-	-	-	(1,324,283)	495,846	326,287
ABSA BANK - Income Nigel - 270000010	-	-	-	(4,238,104)	695,924	302,251
ABSA BANK - Income Springs - 280000051	-	-	-	(318,842)	1,024,765	688,700
ABSA BANK - Direct Springs - 280000094	-	-	-	(102,307)	245,105	-
ABSA BANK - Fresh Produce Market - 1135470160	-	(415,285)	1,700,216	1,134,982	1,134,982	1,134,982
ABSA BANK - RSC Levies - 1018470132	-	-	-	802,650	802,650	802,650
ABSA BANK - EFF account (ex CLF) - 4053834321	568,733,537	803,185,841	564,798,036	568,733,537	803,185,841	564,798,036
ABSA BANK - C R R account (ex CDF) - 4053834779	1,005,014,890	830,329,453	677,269,628	1,005,014,890	830,329,453	677,269,690
ABSA BANK - Primary bank Acc - 4053835084	662,726,449	157,647,653	241,236,282	662,726,449	157,647,653	241,236,344
ABSA BANK - Salary account - 4055571973	26,308,350	85,503,283	54,515,276	24,119,177	84,071,608	53,002,667
ABSA BANK - Treasury account - 4055571931	2,397,817,481	1,754,725,642	537,422,215	2,397,817,481	1,754,725,642	537,422,215
ABSA BANK - Expenditure imprest acc - 4055571915	548,114,511	171,699,575	261,765,414	527,256,797	135,582,603	229,617,416
ABSA BANK - USDG account - 4055571884	584,451,076	453,046,463	360,357,843	584,451,076	453,046,463	360,357,905
ABSA BANK - Housing account - 4055571842	105,920,158	139,565,120	144,175,446	105,920,158	139,565,120	144,175,508
EMM Traffic fines 407277706	-	(5,228)	-	-	-	-
ABSA BANK - Guarantee account - FNB Mask account 62379403745	6,391,681	81,817	-	475,133	(7,846,867)	1,305,300
Petty Cash and Floats	-	-	-	540,369	535,066	523,881
Short Term Deposits at various institutions with dates within 3 months	-	-	-	132,030	127,669	122,518

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014		2013	
<b>16. Cash and cash equivalents (continued)</b>				
STANDARD BANK mask account	11,084,505	2,098,212	-	11,084,505
<b>Total</b>	<b>5,916,562,638</b>	<b>4,397,438,883</b>	<b>2,843,240,356</b>	<b>5,894,540,497</b>
<b>17. Unspent conditional grants and receipts</b>				
<b>Unspent conditional grants and receipts comprises of:</b>				
<b>Unspent conditional grants and receipts</b>				
Operating Grants-Buntle Ke Botle			1,642	53,299
Operating Grants-HIV/AIDS			-	628,216
Operating Grants - Energy			317,869	-
Operating Grants - Township Initiatives			488,707	911,139
Operating Grant - FMG			940,117	1,803,963
HSDG Accreditation Grant Opex			128,693,203	121,518,855
Capital Grants - USDG			180,598,283	69,508,680
Capital Grants - PHB			-	3,503,210
Capital Grants - INEP			-	-
Capital Grants -DWAF			582,545	582,545
Capital Grants - PTIS			50,223,748	14,761,136
Public Contribution Roodekop Capex			130,463	1,844,676
EPWP (Public Works)			-	748,969
Capital Grant - LED			569,273	1,826,754
O R Tambo Narrative Centre			-	2,350,376
Interest PHB Grants			-	12,365,141
Intergrated City Development Grant			8,056,740	-
			<b>370,602,590</b>	<b>232,406,959</b>
<b>Movement during the period</b>				
Balance at the beginning of the period			232,406,959	99,675,581
Additions during the period			5,508,698,615	4,879,318,409
Income recognition during the period			(5,339,960,742)	(4,746,558,485)
Appropriations			(31,144,578)	(28,546)
Debtors			602,336	-
			<b>370,602,590</b>	<b>232,406,959</b>
See note 26 for reconciliation of all grants.				
<b>18. Long-term liabilities</b>				
<b>At amortised cost</b>				
Bank loans			1,342,110,378	1,873,066,526
Interest rates as well as redemption periods are varying				
Development Bank of South Africa			-	45,131,251
Interest rates as well as redemption periods are varying				
Municipal bonds			3,946,666,667	3,215,000,000
Interest rates on the JSE EMM bonds vary between 9.155% and 10.72 % per annum. Final redemption dates on these bonds vary between July 2020 and May 2028.				
			<b>5,288,777,045</b>	<b>5,133,197,777</b>
<b>At amortised cost - Current portion</b>				
Bank loans			(267,666,436)	(584,289,481)
DBSA			-	(45,131,250)
			<b>(267,666,436)</b>	<b>(629,420,731)</b>
<b>Total long-term liabilities</b>			<b>5,021,110,609</b>	<b>4,503,777,046</b>
<b>Non-current liabilities</b>				
At amortised cost			5,021,110,609	4,503,777,046

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>18. Long-term liabilities (continued)</b>		
<b>Current liabilities</b>		
At amortised cost	267,666,436	629,420,732

### Encumbered investments

Investments with a carrying value of R772,468,899 (2013: R819,319,820) are encumbered in respect of long term liabilities above with a carrying value of R2,447,620,000 (2013: R2,847,620,000) as disclosed in the Other Investments note (note 9).

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 19. Provisions

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

### 19. Provisions (continued)

#### Reconciliation of provisions - 2014

	Opening Balance	Additions/Unwinc ing/Interest	Utilised during the year	Pre payment	Total
COID provision	21,387,338	4,707,380	(1,438,573)	-	24,656,145
Leave and bonus provision	236,209,055	107,035,156	(70,314,045)	-	272,930,166
Landfill rehabilitation provision	172,828,254	19,937,297	31,773,825	-	224,539,376
WCA provision	-	11,024,015	(29,603,239)	18,579,224	-
Long service awards	438,778,340	46,362,669	-	-	485,141,009
GMRF	122,127,201	5,551,565	-	-	127,678,766
	<b>991,330,188</b>	<b>194,618,082</b>	<b>(69,582,032)</b>	<b>18,579,224</b>	<b>1,134,945,462</b>

#### Reconciliation of provisions - 2013

	Opening Balance	Additions/Unwinc ing/Interest	Utilised during the year	Change in discount factor	Pre payment	Total
COID provision	18,466,824	4,358,584	(1,438,070)	-	-	21,387,338
Leave and bonus provision	226,178,954	28,048,176	(12,777,108)	(5,240,967)	-	236,209,055
Landfill rehabilitation provision	150,015,030	22,813,224	-	-	-	172,828,254
WCA provision	33,247,516	34,995,935	(75,442,862)	-	7,199,411	-
Long service awards	377,228,262	73,975,127	(12,425,049)	-	-	438,778,340
GMRF	103,489,129	18,638,072	-	-	-	122,127,201
	<b>908,625,715</b>	<b>182,829,118</b>	<b>(102,083,089)</b>	<b>(5,240,967)</b>	<b>7,199,411</b>	<b>991,330,188</b>

Non-current liabilities	862,015,296	755,121,133
Current liabilities	272,930,166	236,209,055
	<b>1,134,945,462</b>	<b>991,330,188</b>

#### GMRF provision

The provision is for the economic entity's obligation to the Germiston Municipal Retirement Fund due to the economic entity failing to meet its obligation to contribute to the fund due to the required investment yield not being achieved.

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 19. Provisions (continued)

#### COID provision

This provision is made for future expected outflows as a result of the municipality's obligation to contribute to the pension fund and medical expenses that was incurred due to past contractual arrangements with various employees in the old Benoni- and Germiston local municipalities. The discount rate used in determining the present value of the obligation was 10.58% (2013 - 10.75%) and the inflation assumption used for the increase in expenses/contributions is 6.79% (2013 -7.00%).

#### Leave and bonus provision

The liability is based on the total accrued leave days at year end. A section 57 bonus provision is also provided for.

#### Landfill rehabilitation provision

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision. (2013 - due to the decrease from 5.90% to 5.50% of the CPIX there was an decrease in the provision). The discounting rate for 2014 is 10.58% (2013 - 10.78%). The net result of the re-estimation had the following effect on the current year amounts:

Increase in the provision for Landfill site rehabilitation R19,937,296 (2013 - Increase of R6,311,571)

Increase in the cost of property, plant and equipment R19,937,296 (2013 - increase of R6,311,571)

Amount recognised in profit and loss due to re-estimation where the adjustment exceed the carrying amount of the asset R0 (2013 - R0)

#### Workman's compensation provision

The prior year provision is for the period 2013 (March 2013 to June 2013) which has been estimated in the latest return submitted to the compensation commissioner. In the current year the municipality paid in advance (2013 paid in advance).

#### Long service awards provision

An actuarial valuation for 2014 has been performed by IAC Actuarial Consulting.

Discount rate used: 9.2% (2013 - 8.6%)

CPI used: 6.7% (2013 - 5.8%)

Salary increase rate used: 7.78% (2013 - 6.8%)

### 20. Trade and other payables from exchange transactions

Accrual for interest on external loans	124,835,322	108,982,735
Civil Contracts	134,281,412	148,861,344
Lease rental payments liability	638,694	937,757
Licence fees	3,632,381	8,599,405
Maintenance guarantees	3,224,709	2,714,495
VAT balance on outstanding debtors	1,107,761,714	919,935,438
Other payables	77,443,923	64,486,071
Receipts in advance	474,650,706	450,230,270
Retentions	248,885,216	214,500,946
Stated benefits and group accident	25,383,288	20,992,676
Trade payables	2,736,426,099	2,432,549,823
Unclaimed salaries	4,040,443	3,505,787
	<b>4,941,203,907</b>	<b>4,376,296,747</b>

### 21. Deposits

Consumer deposits - Electricity and water	643,208,904	620,477,496
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Guarantees in lieu of electricity and water deposits is R73,061,937 (2013 - R73,654,622).

### 22. Financial instruments disclosure

#### Categories of financial instruments

#### 2014

**Ekurhuleni Metropolitan Municipality**  
Annual Financial Statements for the year ended 30 June 2014

**Notes to the Annual Financial Statements**

Figures in Rand 2014 2013

**Financial instruments disclosure (continued)**

**Financial assets**

	At amortised cost	At cost	Total
Other receivables	233,654,254	-	233,654,254
Consumer debtors	4,460,073,394	-	4,460,073,394
Cash and cash equivalents	5,894,540,499	-	5,894,540,499
Other investments (unlisted shares)	-	4,000,000	4,000,000
Other investments	776,331,668	-	776,331,668
Long term receivables	2,506,232	-	2,506,232
	<b>11,367,106,047</b>	<b>4,000,000</b>	<b>11,371,106,047</b>

**Financial liabilities**

	At amortised cost	Total
Trade and other payables	3,358,152,793	3,358,152,793
Unspent conditional grants and receipts	370,602,590	370,602,590
Long term liabilities	5,288,777,046	5,288,777,046
Deposits	643,208,904	643,208,904
	<b>9,660,741,333</b>	<b>9,660,741,333</b>

**2013**

**Financial assets**

	At amortised cost	At cost	Total
Other receivables	161,577,622	-	161,577,622
Consumer debtors	3,552,483,440	-	3,552,483,440
Cash and cash equivalents	4,374,377,023	-	4,374,377,023
Other investments (unlisted shares)	-	4,000,000	4,000,000
Other investments	822,985,643	-	822,985,643
Long term receivables	2,386,621	-	2,386,621
	<b>8,913,810,349</b>	<b>4,000,000</b>	<b>8,917,810,349</b>

**Financial liabilities**

	At amortised cost	Total
Trade and other payables	3,005,193,286	3,005,193,286
Unspent conditional grants and receipts	232,406,959	232,406,959
Long term liabilities	5,133,197,777	5,133,197,777
Deposits	620,477,496	620,477,496
	<b>8,991,275,518</b>	<b>8,991,275,518</b>

**Financial instruments in Statement of financial performance**

**2014**

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	732,360,301	732,360,301
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(572,960,412)	(572,960,412)
Impairment loss	(1,343,750,066)	(1,343,750,066)
	<b>(1,184,350,177)</b>	<b>(1,184,350,177)</b>

**2013**

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	497,248,048	497,248,048



**Ekurhuleni Metropolitan Municipality**  
Annual Financial Statements for the year ended 30 June 2014

**Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>Financial instruments disclosure (continued)</b>		
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(522,865,539)	(522,865,539)
Impairment loss	(887,674,954)	(887,674,954)
	<b>(913,292,445)</b>	<b>(913,292,445)</b>

**23. Revenue**

Service charges	14,861,038,367	13,500,276,496
Rental of facilities and equipment	55,704,908	49,599,515
Interest earned - outstanding debtors	362,065,026	257,704,798
Income from agency services	235,640,655	228,211,226
Licences and permits	41,011,475	35,331,580
Other income	94,233,931	106,834,963
Interest revenue	370,295,275	239,543,250
Property rates	3,427,709,390	2,802,871,286
Property rates - penalties and collection charges	106,611,391	72,091,881
Government grants & subsidies	5,339,960,744	4,746,558,483
Public contributions and donations	2,786,886	31,354,044
Fines	167,705,348	173,028,668
	<b>25,064,763,396</b>	<b>22,243,406,190</b>

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

Service charges	14,861,038,367	13,500,276,496
Rental of facilities and equipment	55,704,908	49,599,515
Interest earned - outstanding debtors	362,065,026	257,704,798
Income from agency services	235,640,655	228,211,226
Licences and permits	41,011,475	35,331,580
Other income	94,233,931	106,834,963
Interest revenue	370,295,275	239,543,250
	<b>16,019,989,637</b>	<b>14,417,501,828</b>

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

<b>Taxation revenue</b>		
Property rates	3,427,709,390	2,802,871,286
Property rates - penalties and collection charges	106,611,391	72,091,881
<b>Transfer revenue</b>		
Government grants & subsidies	5,339,960,744	4,746,558,483
Public contributions and donations	2,786,886	31,354,044
Fines	167,705,348	173,028,668
	<b>9,044,773,759</b>	<b>7,825,904,362</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>24. Property rates</b>		
<b>Rates received</b>		
Residential	2,068,338,584	1,918,134,214
Commercial	1,820,276,075	1,368,239,186
State	11,368,017	16,448,894
Municipal	10,911,946	71,144,171
Small holdings and farms	7,953,617	7,074,853
Vacant land	321,220,150	177,344,509
Other properties	68,224,320	13,188,464
Less: Income forgone	(615,776,395)	(601,393,844)
Less: Departmental rates	(264,806,924)	(167,309,161)
	<b>3,427,709,390</b>	<b>2,802,871,286</b>

### Valuations (R'000)

Residential	245,382,688	222,750,768
Commercial	112,127,797	81,468,150
Provincial and National Government	767,300	1,099,428
Municipal	732,542	5,309,049
Small holdings and farms	5,524,201	4,263,453
Sectional title	40,848,518	38,292,791
Vacant land	10,920,636	7,218,385
Other	22,966,329	11,227,411
	<b>439,270,011</b>	<b>371,629,435</b>

Valuations on land and buildings are performed every 3-5 years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis, interest is levied on rates after due date.

### 25. Service charges

Sale of electricity	10,358,668,615	9,692,978,223
Sale of water	2,585,953,970	2,158,532,779
Solid waste	962,651,746	846,321,359
Sewerage and sanitation charges	885,852,597	736,556,638
Fresh produce market	17,347,531	16,840,493
Other service charges	50,563,908	49,047,004
	<b>14,861,038,367</b>	<b>13,500,276,496</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	1,917,953,000	1,825,341,000
Fuel levy	1,406,096,000	1,363,911,000
Ambulance subsidies	129,001,000	119,220,000
FMG	1,250,000	1,250,000
Accreditation Capacity Enhancement	863,846	655,724
HIV/AIDS	11,129,415	9,644,215
Township Initiatives	3,719,051	9,071,308
Seta	3,290,903	18,680,283
Public Contributions	-	268,029
BKB	311,657	171,701
Health Subsidy	106,493,273	85,881,919
Integrated City Development	751,260	-
HSDG Accreditation	25,348,252	-
Environment Quality Management	1,107,131	-
	<b>3,607,314,788</b>	<b>3,434,095,179</b>
<b>Capital grants</b>		
Public Contributions - Rondebult	1,714,214	-
INEP	10,000,000	72,807,861
USDG (Capital and operational)	1,473,822,398	1,143,054,000
PTIS	208,080,387	40,831,213
Electricity Demand Site Management	16,267,128	11,841,777
HSDG	-	1,750,324
Community care centres	-	3,906,613
LED	1,257,481	6,988,861
OR TAMBO Narrative centre	2,350,376	17,649,624
EPWP (Capital and operational)	11,153,969	13,633,031
NDPG	8,000,000	-
	<b>1,732,645,953</b>	<b>1,312,463,304</b>
	<b>5,339,960,741</b>	<b>4,746,558,483</b>
<b>Equitable share</b>		
Current-year receipts	1,917,953,000	1,825,341,000
Conditions met - transferred to revenue	(1,917,953,000)	(1,825,341,000)
	-	-
<b>Fuel levy</b>		
Current-year receipts	1,406,096,000	1,363,911,000
Conditions met - transferred to revenue	(1,406,096,000)	(1,363,911,000)
	-	-
<b>Ambulance Subsidy</b>		
Current-year receipts	129,001,000	119,220,000
Conditions met - transferred to revenue	(129,001,000)	(119,220,000)
	-	-
<b>Finance Management Grant</b>		
Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(1,250,000)	(1,250,000)
	-	-
	-	-
<b>Accreditation Capacity Enhancement</b>		

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of period	1,803,963	2,459,687
Conditions met - transferred to revenue	(863,846)	(655,724)
	<b>940,117</b>	<b>1,803,963</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Hiv/Aids</b>		
Balance unspent at beginning of period	628,216	-
Current-year receipts	10,487,000	10,272,431
Conditions met - transferred to revenue	(11,129,415)	(9,644,215)
Debtor	14,199	-
	-	<b>628,216</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Township Initiatives</b>		
Balance unspent at beginning of period	911,140	7,207,447
Current-year receipts	3,700,000	2,775,000
Conditions met - transferred to revenue	(3,719,051)	(9,071,307)
Surrendered / Appropriated	(403,380)	-
	<b>488,709</b>	<b>911,140</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Seta</b>		
Current-year receipts	3,290,903	18,680,283
Conditions met - transferred to revenue	(3,290,903)	(18,680,283)
	-	-
<b>Public Contributions</b>		
Balance unspent at beginning of period	1,844,676	2,141,251
Conditions met - transferred to revenue	(1,714,213)	(268,029)
Other	-	(28,546)
	<b>130,463</b>	<b>1,844,676</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>BKB</b>		
Balance unspent at beginning of period	53,299	-
Current-year receipts	260,000	225,000
Conditions met - transferred to revenue	(311,657)	(171,701)
	<b>1,642</b>	<b>53,299</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Health Subsidy</b>		
Current-year receipts	106,493,273	85,881,919
Conditions met - transferred to revenue	(106,493,273)	(85,881,919)
	-	-
<b>INEP</b>		

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies (continued)</b>		
Current-year receipts	9,679,291	72,487,152
Conditions met - transferred to revenue	(10,000,000)	(72,807,861)
Debtor	320,709	320,709
	-	-
<b>Integrated City Development</b>		
Current-year receipts	8,808,000	-
Conditions met - transferred to revenue	(751,260)	-
	<b>8,056,740</b>	-
Conditions still to be met - remain liabilities (see note 17).		
<b>PTIS</b>		
Balance unspent at beginning of period	14,761,137	5,592,350
Current-year receipts	243,543,000	50,000,000
Conditions met - transferred to revenue	(208,080,387)	(40,831,213)
	<b>50,223,750</b>	<b>14,761,137</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Electricity Demand Site Management</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	15,999,700	11,841,777
Conditions met - transferred to revenue	(16,267,129)	(11,841,777)
Debtor	267,429	-
	-	-
<b>HSDG</b>		
Balance unspent at beginning of period	3,503,211	5,253,535
Conditions met - transferred to revenue	-	(1,750,324)
Surrendered / Appropriated	(3,503,211)	-
	-	<b>3,503,211</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Community Care Centres</b>		
Current-year receipts	-	3,906,613
Conditions met - transferred to revenue	-	(3,906,613)
	-	-
<b>LED</b>		
Balance unspent at beginning of period	1,826,754	8,815,615
Conditions met - transferred to revenue	(1,257,481)	(6,988,861)
	<b>569,273</b>	<b>1,826,754</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>O R Tambo Narrative Centre</b>		
Balance unspent at beginning of period	2,350,376	20,000,000
Conditions met - transferred to revenue	(2,350,376)	(17,649,624)

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Government grants and subsidies (continued)</b>		
	-	<b>2,350,376</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>USDG</b>		
Balance unspent at beginning of period	69,508,680	25,681
Current-year receipts	1,584,912,000	1,212,537,000
Conditions met - transferred to revenue	(1,473,822,398)	(1,143,054,001)
	<b>180,598,282</b>	<b>69,508,680</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>EPWP</b>		
Balance unspent at beginning of period	748,969	-
Current-year receipts	10,405,000	14,382,000
Conditions met - transferred to revenue	(11,153,969)	(13,633,031)
	-	<b>748,969</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>DWAF</b>		
Balance unspent at beginning of period	582,545	-
Current-year receipts	-	582,545
	<b>582,545</b>	<b>582,545</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>NDPG</b>		
Current-year receipts	8,000,000	-
Conditions met - transferred to revenue	(8,000,000)	-
	-	-
Conditions still to be met - remain liabilities (see note 17).		
<b>HSDG Accreditation</b>		
Balance unspent at beginning of year	121,518,855	41,562,118
Current-year receipts	42,750,995	79,956,737
Conditions met - transferred to revenue	(25,348,252)	-
Surrendered / Appropriated	(10,228,395)	-
	<b>128,693,203</b>	<b>121,518,855</b>
Conditions still to be met - remain liabilities (see note 17).		
<b>Environment Quality Management</b>		
Current-year receipts	1,425,000	-
Conditions met - transferred to revenue	(1,107,131)	-
	<b>317,869</b>	-

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>27. Other income</b>		
Accident reports	697,324	693,167
Administration fees	229,368	359,276
Cleaning of stands	960,238	643,149
Entry fees	440,111	322,928
Essential services contributions	46,555,961	43,012,450
Insurance claims	7,246,035	5,198,120
Printing and copying of documents	277,600	340,259
Productions	185,063	174,257
Recoveries	1,181,527	246,999
Sundry income	30,526,719	52,654,248
Supply of information	377,575	172,089
Tender documents	4,195,864	1,794,764
Training	1,360,546	1,223,257
	<b>94,233,931</b>	<b>106,834,963</b>
<b>28. General expenses</b>		
Advertising	14,056,817	8,445,168
Animal care	2,025,455	2,089,196
Auditors remuneration	18,921,184	19,784,055
Awareness campaigns	3,984,409	5,521,799
Bank charges	5,824,757	5,008,340
Community development and wellbeing	42,078,755	38,007,078
Consulting and professional fees	98,076,842	80,287,123
Consumables (including materials)	61,468,371	43,978,331
Corporate Gifts	432,104	258,748
Disaster management	4,120,525	6,227,831
Entertainment	1,657,525	1,715,560
Loss due to fraudulent activities	19,244,613	-
Fleet	171,057,280	138,123,472
Fuel and oil	5,982,213	4,525,806
Human resource management	13,927,106	28,964,867
IT expenses	37,427,852	39,762,983
Insurance	58,617,281	59,533,732
Land management	28,042,949	22,347,572
Magazines, books and periodicals	548,548	505,487
Marketing	117,906,034	70,644,237
Other expenses	26,480,580	14,188,323
Postage	21,620,060	19,306,149
Printing and stationery	37,882,405	35,684,583
Productions	113,738	253,068
Refreshments	7,461,761	5,649,759
Refuse	26,147,784	9,384,842
Rentals	18,552,873	20,021,914
Rodent control	6,673,680	8,773,093
Service connections	53,063,768	44,162,881
Software expenses	737,747	2,241,256
Stock adjustments and write-offs	1,507,916	920,666
Subscriptions and membership fees	12,029,458	11,105,387
Telephone and fax	44,777,226	34,652,681
Title deed search fees	731,483	916,385
Training	25,479,295	21,959,496
Travel - local	6,503,347	5,757,278
Travel - overseas	13,247,742	16,018,486
Uniforms	33,969,413	26,516,348
Venue expenses	16,312,770	12,449,686
	<b>1,058,693,666</b>	<b>865,693,666</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

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### 29. Employee related costs

Basic	3,560,014,718	3,249,344,964
Medical aid - company contributions	520,717,097	460,817,817
UIF	25,773,777	24,007,646
WCA	11,024,015	42,195,346
SDL	41,462,225	37,760,529
Other payroll levies	1,234,430	1,133,939
Leave pay provision charge	112,942,510	89,397,888
Standby Allowances	24,867,968	22,050,084
Defined contribution plans	633,170,561	596,875,736
Overtime payments	471,337,673	393,763,727
Long-service awards	46,364,469	61,568,850
Ad Hoc Travelling Allowances	925,240	900,697
Remuneration of interns	13,589,455	10,954,944
Less: Employee costs transfer to Repairs and Maintenance	2,113,846	1,905,724
Less: Employee costs capitalised to PPE	(665,518,121)	(667,909,632)
	(33,402,242)	(25,148,837)
	<b>4,766,617,621</b>	<b>4,299,619,422</b>

Senior Management Remuneration (Key Management) for period ended 30 June 2014	Basic Salary per annum	Pension, Medical & UIF per annum	Car Allowance	Performance Bonus	Other	Total
City Manager	2,211,648	94,185	156,000	148,890	48,000	2,658,723
Chief Operating Officer	1,954,556	68,025	154,528	201,928	37,500	2,416,537
Chief Financial Officer	1,533,333	1,190	-	-	24,000	1,558,523
Head of Department: Internal Audit	1,291,608	88,185	120,000	-	37,500	1,537,293
General Manager :Electricity & Energy	1,266,488	120,585	276,340	176,199	195,720	2,035,332
General Manager: Strategy & Corporate Planning	1,120,480	28,093	-	-	30,864	1,179,437
Head of Department: Health	558,890	68,244	50,000	-	16,500	693,634
Head of Department: Customer Relations Management	344,617	297	20,000	-	7,200	372,114
Head of Department: Corporate & Legal	1,410,516	131,385	120,000	152,420	37,200	1,851,521
Head of Department: Communication	572,847	744	21,250	-	14,700	609,541
Head of Department:Human Resources	1,598,736	1,785	90,000	164,706	37,200	1,892,427
Head of Department: SRAC	1,271,472	1,785	108,000	122,012	36,000	1,539,269
Head of Department : City Development	672,411	73,807	64,000	-	18,000	828,218
Head of Department : Community Safety	1,400,480	108,397	120,000	189,898	37,200	1,855,975
Head of Department : Human Settlement	1,419,204	174,585	120,000	-	37,500	1,751,289
Head of Department : Economic Development	1,446,912	1,785	180,000	120,908	37,200	1,786,805
Head of Department : ICT	2,308,536	109,784	156,000	-	37,500	2,611,820
Head of Department : Transport	1,518,876	1,785	84,000	132,064	37,100	1,773,825
Head of Department : Environment	1,488,384	1,785	-	112,616	36,000	1,638,785
Head of Department : Solid Waste	1,242,457	54,799	84,000	108,088	37,500	1,526,844
Head of Department : Enterprise Project Management	1,461,000	1,785	144,000	46,550	37,500	1,690,835
Head of Department : Real Estate and Facilities	1,347,504	109,785	96,000	-	37,500	1,590,789
Head of Department : Roads and Transport	961,508	1,190	160,000	-	24,000	1,146,698
Head of Department : Water and Sanitation	1,717,200	174,580	36,000	-	37,500	1,965,280
Head of Department :Fleet	1,000,000	1,190	-	-	24,000	1,025,190
Chief Director: RTCW	38,626	7,392	3,775	-	696	50,489
Chief Director: Water Services	25,547	1,940	2,340	-	416	30,243
Chief Risk Officer	1,269,180	1,785	-	132,753	24,500	1,428,218
Chief of Police	1,040,944	1,487	-	116,631	13,100	1,172,162
Secretary of Council	1,012,908	1,785	132,000	90,094	37,500	1,274,287



# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 29. Employee related costs (continued)

Subtotal	36,506,868	1,434,149	2,498,233	2,015,757	1,037,096	43,492,103
	<b>36,506,868</b>	<b>1,434,149</b>	<b>2,498,233</b>	<b>2,015,757</b>	<b>1,037,096</b>	<b>43,492,103</b>

Senior Management Remuneration (Key Management) for the year as at 30 June 2013	Basic Salary per annum	Pension, Medical & UIF per annum	Car Allowance	Performance Bonus	Other	Total
City Manager	2,050,704	94,185	156,000	156,167	48,000	2,505,056
Chief Operating Officer	1,165,364	34,310	107,264	-	23,318	1,330,256
Chief Financial Officer	848,357	1,338	141,300	138,436	259,050	1,388,481
Head of Department: Internal Audit	824,087	15,590	95,000	63,566	15,600	1,013,843
General Manager :Electricity & Energy	1,146,644	120,585	276,340	180,046	170,220	1,893,835
General Manager: Organisational Performance	1,220,166	30,183	-	104,552	36,000	1,390,901
Head of Department : Health	665,368	34,012	77,264	152,878	18,000	947,522
Head of Department : Corporate Legal	1,301,904	131,385	120,000	-	36,000	1,589,289
Head of Department: Communication	324,500	446	25,500	-	9,000	359,446
Head of Department : Human Resource	1,488,252	1,785	90,000	-	36,000	1,616,037
Head of Department : Sport, Recreation, Arts and Culture (SRAC)	1,181,220	1,785	108,000	-	36,000	1,327,005
Head of Department : City Development	1,291,080	75,705	240,000	-	36,000	1,642,785
Head of Department : Community Safety	1,295,552	106,873	120,000	173,554	36,000	1,731,979
Head of Department : Housing	710,537	1,487	160,000	83,102	24,000	979,126
Head of Department: Economic Development	1,340,472	1,785	180,000	-	36,000	1,558,257
Head of Department : ICT	853,688	1,338	-	68,454	-	923,480
Head of Department : Transport	1,414,008	1,785	84,000	-	36,000	1,535,793
Head of Department : Environment	1,391,004	1,785	-	-	36,000	1,428,789
Head of Department : Solid Waste	1,152,205	54,799	84,000	-	36,000	1,327,004
Head of Department : Enterprise Project Management	565,000	744	60,000	-	15,000	640,744
Chief Director : RTCW	996,537	181,596	104,184	65,955	19,200	1,367,472
Head of Department : Water Services	1,008,135	166,181	108,000	59,838	19,200	1,361,354
Chief Risk Officer	1,186,140	1,785	-	119,278	8,400	1,315,603
Chief of Police	1,373,424	1,785	-	119,629	19,200	1,514,038
Secretary of council	938,004	1,785	132,000	29,166	36,000	1,136,955
Subtotal	27,732,352	1,065,037	2,468,852	1,514,621	1,044,188	33,825,050
	<b>27,732,352</b>	<b>1,065,037</b>	<b>2,468,852</b>	<b>1,514,621</b>	<b>1,044,188</b>	<b>33,825,050</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 30. Remuneration of councillors

June 2014	Salaries	Travel allowance	Housing allowance	Pension & Medical	Cell phone allowance	Total
Executive Mayor	531,668	-	492,863	97,030	41,820	1,163,381
Speaker	452,424	178,807	180,875	85,144	41,820	939,070
Chief Whip	588,601	86,832	60,166	105,570	20,868	862,037
Members of the Mayoral Committee	4,134,130	867,977	2,020,356	758,359	208,680	7,989,502
Other councillors	44,381,922	9,325,593	18,029,109	8,424,945	3,025,708	83,187,277
<b>Total</b>	<b>50,088,745</b>	<b>10,459,209</b>	<b>20,783,369</b>	<b>9,471,048</b>	<b>3,338,896</b>	<b>94,141,267</b>

June 2013	Salaries	Travel allowance	Housing allowance	Pension & Medical	Cell phone allowance	Total
Executive Mayor	530,802	-	440,450	96,901	39,838	1,107,991
Speaker	451,691	148,605	169,482	84,745	19,874	874,397
Chief Whip	587,746	86,691	21,352	105,427	19,874	821,090
Members of the Mayoral Committee	3,618,384	711,667	1,647,295	660,047	178,866	6,816,259
Other councillors	44,751,540	8,858,313	13,884,831	8,663,364	2,176,783	78,334,831
<b>Total</b>	<b>49,940,163</b>	<b>9,805,276</b>	<b>16,163,410</b>	<b>9,610,484</b>	<b>2,435,235</b>	<b>87,954,568</b>

#### In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has full-time bodyguards.

The salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

### 31. Debt impairment

Changes in debt impairment provision	1,343,750,067	887,674,954
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### 32. Interest revenue

Interest revenue		
Bank	286,242,556	191,308,384
External investments	84,052,719	48,234,866
<b>Total</b>	<b>370,295,275</b>	<b>239,543,250</b>

### 33. Depreciation and amortisation

Property, plant and equipment	1,905,930,782	2,075,371,379
Investment property	593,732	593,731
Intangible assets	13,175,411	10,221,392
<b>Total</b>	<b>1,919,699,925</b>	<b>2,086,186,502</b>

### 34. Impairments of assets

Impairments		
Property, plant and equipment	38,514,262	41,642,835

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>35. Finance costs</b>		
External borrowings	540,542,595	475,669,432
Trade and other payables	365,615	2,339,473
Other interest paid	32,052,202	44,856,634
	<b>572,960,412</b>	<b>522,865,539</b>
<b>36. Auditors' remuneration</b>		
Fees	18,921,184	19,784,055
<b>37. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	55,686,929	49,573,822
Rental of equipment	17,979	25,693
	<b>55,704,908</b>	<b>49,599,515</b>
	<b>55,704,908</b>	<b>49,599,515</b>
Included in the above rentals are operating lease rentals at straight-lined amounts of R2,730,363 (2013:R3,320,748)		
<b>38. Contracted services</b>		
Information Technology Services	7,358,268	13,785,184
Security contracts	175,108,850	136,720,506
Meter management contracts	162,100,945	147,728,344
Environment contracts	222,202,597	235,292,040
Asset management	119,154,197	152,429,088
	<b>685,924,857</b>	<b>685,955,162</b>
<b>39. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Discretionary grant: Sport and Social support	3,363,290	9,013,903
Subsidy: SPCA	2,679,902	2,552,288
Discretionary grant: General	260,871,888	257,772,529
Free basic services	775,328,928	677,721,491
Discretionary grant: Educational	13,254,366	6,532,909
Grants: Education (External)	10,272,637	7,052,298
	<b>1,065,771,011</b>	<b>960,645,418</b>
<b>40. Bulk purchases</b>		
Electricity	7,039,344,423	6,659,751,936
Water	1,975,288,966	1,755,307,842
Sewer purification	471,077,279	437,804,158
	<b>9,485,710,668</b>	<b>8,852,863,936</b>

**Ekurhuleni Metropolitan Municipality**  
Annual Financial Statements for the year ended 30 June 2014

**Notes to the Annual Financial Statements**

Figures in Rand	2014	2013
<b>41. Cash generated from operations</b>		
Surplus	1,877,122,683	982,817,946
<b>Adjustments for:</b>		
Depreciation and amortisation	1,919,699,925	2,086,186,502
Gain on sale of fixed assets	-	-
Loss on sale of fixed assets	720,777	15,256,261
Impairment deficit	38,514,262	41,642,835
Debt impairment	1,343,750,067	887,674,954
Movements in retirement benefit assets and liabilities	346,472,274	242,516,470
Other non-cash items	19,550,875	(6,311,571)
<b>Changes in working capital:</b>		
Inventories	(26,523,030)	(7,577,761)
Consumer debtors	(2,251,340,018)	(1,432,024,753)
Trade and other payables from exchange transactions	352,378,414	763,093,632
Other receivables	152,185,248	(171,786,535)
Unspent conditional grants and receipts	137,874,922	132,731,378
	<b>3,910,406,399</b>	<b>3,534,219,358</b>

# Ekurhuleni Metropolitan Municipality

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### 42. Commitments

#### Authorised capital expenditure

##### Committed for as well as authorised

• Community	19,245,000	243,038,000
• Infrastructure	2,106,718,699	1,617,578,355
• Other assets	347,577,435	282,477,839
	<b>2,473,541,134</b>	<b>2,143,094,194</b>

##### Not committed for, but authorised

• All classes of PPE	1,143,619,720	837,838,516
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For the controlling entity, this committed expenditure relates to the property, plant and equipment for the 2014/2015 financial year (Budget) as approved/authorised. These commitments will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Commitments for not yet contracted for and authorised relate to capital projects approved by Council on the capital budget.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	12,465,768	5,321,266
- in second to fifth year inclusive	10,276,325	2,417,625
	<b>22,742,093</b>	<b>7,738,891</b>

Operating lease payments represent rentals payable by the municipality for certain of its office buildings and photocopier machines. Leases are negotiated for periods ranging from two years to five years, for office building, and the expired photocopier machine leases are incurred on a month to month basis. The rentals escalate on average at 8.45% for office buildings.

The actual lease contract amounts range between R3,776 and R375,960 (2013 - R12,950 and R361,260) per month on the office buildings.

#### Operating leases - as lessor (income)

##### Minimum lease payments due

- within one year	1,931,895	3,089,425
- in second to fifth year inclusive	3,905,050	5,505,319
- later than five years	840,406	1,290,525
	<b>6,677,351</b>	<b>9,885,269</b>

Certain of the municipality's property generates lease rental income. The majority of these leases are on a month to month basis. Lease periods range from month-to-month up to 99 years. Monthly lease payments range from R 0 (social benefit) up to R66 430 (2013 - R0 up to R143,453).

# Ekurhuleni Metropolitan Municipality

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### 43. Contingencies

#### Controlling entity

Category A: Claims exceeding R 500 000.

Category B: Claims less than R 500 000.

Category C: Other legal matters.

#### **CONTINGENT LIABILITIES AS AT 30 JUNE 2014**

##### **Category A Claims:**

Engen Petroleum Ltd/Atlas road Claim as a result of rerouting of a provincial road	14,061,088	14,061,088
WLT Advertising CC - Claim for damages as a result of conduct	31,706,247	31,706,247
Strata International Pty Ltd and The Garden estate (a)	150,000,000	150,000,000
Bondev Midrand: Claim for failure to issue section 82 certificate i.r.o. various townships	2,676,187	2,676,187
Hometalk- Possible claim for losses in respect of developments	60,000,000	60,000,000
Siyavuka projects: Claim for alleged unlawful termination of contract A/ED (MP) 20/2008	5,401,380	5,401,380
Rose Acres Development Pty Ltd (b)	17,825,000	17,825,000
Scarlet IBIS 115 9 Pty Ltd: Claim for alleged wrongfully use of plaintiff's property	5,250,000	5,250,000
Other	2,673,503	3,014,679
Ingwempisi Security Services CC (c)	123,872,435	-
Aloecap (PTY) LTD	5,301,000	-
Multi Waste Wadeville	2,407,112	-
	<b>421,173,952</b>	<b>289,934,581</b>

Category B Claims: Other Claims	1,376,747	1,394,998
Category C Claims: Other Matters	1,787,879	188,874
	<b>3,164,626</b>	<b>1,583,872</b>

#### **CONTINGENT ASSETS**

Mofokeng & Maqubela - loss incurred by Council as a result of bad	-	4,000,000
Other contingent Assets	-	879,013
Lesira-Teq - claim for supply of faulty water meters	8,224,063	8,224,063
NCP Clorchem - Dispute regarding price charged for energy supply	178,788,869	-
Combi trade Eleven (Pty) - Unpaid rate and taxes	2,832,963	-
Lucmer construction & New national Assurance - Failure to comply with contract conditions	3,174,615	-
Kgorong and other - Fail to perform work in terms of contract	776,591	-
Mkhabela Sibeko and others - Goods supplied did not comply with safety standard	1,024,290	-
	<b>194,821,391</b>	<b>13,103,076</b>

#### **NOTES**

(a) The first claim is an application by Strata International and Garden Estate for small and medium Enterprises (PTY) Ltd for the transfer of property in Selcourt ext 4. EMM is opposing the application. The second claim is a damages claim for Hundred and fifty million Rand where EMM is joined as a defendant. The claim arises out of EMM's refusal to transfer the property. This claim is also opposed.

(b) Plaintiff issued summons against EMM for the purchase of the remainder of ptn 9 of farm Driefontein no. 87 in the amount of R63,000,000 which is illegally occupied and seeks to force the EMM to pay the purchase price. Plaintiff has further instituted a claim for occupational rent in the amount of R775,000 per month and damages over a period of 23 months in the amount of R17,825,000. The matter is being defended.

(c) Plaintiff was unsuccessful in a bid for security services and now challenge the award to the successful bidder they are claiming damages of R123,872,435.28

## Notes to the Annual Financial Statements

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### 44. Related parties

Relationships  
Accounting Officer  
Controlling entity  
Controlled entities

Close family member of key management  
Members of key management

K Ngema refer to accounting officer's report  
Ekurhuleni Meropolitan Municipality  
Brakpan Bus Company SOC Ltd  
Ekurhuleni Development Company SOC Ltd  
East Rand Water Care Company NPC  
Pharoe Park Housing Company SOC Ltd  
Germiston Phase II Housing Company SOC Ltd  
Lethabong Housing Institue NPC  
Declarations are retained in a register at tender office.  
For details of Members of key management see note  
below,for remuneration refer to note 29

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

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### 44. Related parties (continued)

#### Key Management

City Manager  
Chief Operating Officer  
Chief Financial Officer  
Head of Department: Internal Audit  
General Manager : Electricity & Energy  
General Manager : Organisational Performance  
Head of Department: Health  
Head of Department: Corporate & Legal  
Head of Department: Communication  
Head of Department: Human Resources  
Head of Department: SRAC  
Head of Department: City Development  
Head of Department: Community Safety  
Head of Department: Housing  
Head of Department: Economic Development  
Head of Department: ICT  
Head of Department: Transport  
Head of Department: Environment  
Head of Department: Solid Waste  
Head of Department: Enterprise Project Management  
Head of Department: Customer Relations Management  
Head of Department: Real Estate and Facilities  
Head of Department: Roads and Transport  
Head of Department: Water and Sanitation  
Head of Department: Fleet  
Chief Director : RTCW  
Chief Director : Water Services  
Chief Risk Officer  
Chief of Police  
Secretary of Council



# Ekurhuleni Metropolitan Municipality

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### 44. Related parties (continued)

#### June 2014

##### Tenders awarded to family members

	No	Contract number	Supplier Name	Relation	Employee name	Employee designation	Amount R0.00
	1	A-RS-R 03-2013	Aveng(Africa) ltd t/a Infraset Supply	Spouse	F J Mashaba	Snr Clerk	27,000
	2	A-DEMS 09-2013	Jamoda sons Trading & Projects(Pty)Ltd	Spouse	M E L Mnyando	Superintendent	1,200,000
	3	PS-WS-39-2013	Tsekema Consulting Engineers	Spouse	D A Mostoane	Administrator	2,121,580
	4	PS-EE-51-2013	Tsekema Consulting Engineers	Spouse	D A Mostoane	Administrator	599,471
	5	PS-WS-65-2013	Tsekema Consulting Engineers	Spouse	D A Mostoane	Administrator	4,715,995
	6	A-F-01-2013	Anix Trading 787 CC	Unknown	M M Msimango	Ex Employee	5,765,000
	7	A-ERM 04-2013	General maintenance of Cemeteries	Unknown	M M Msimango	Ex Employee	193,247
	8	A-RS(R) 11-2013	Danzcomm Joint Venture	Spouse	T Dalindybo	Snr Controller	2,000,000
	9	A-RS(R) 15-2013	Seletje construction and management CC	Spouse	P M Lekgwathi	Snr Clerk	33,333,334
	10	PS-EE 44/2014	Tsekema Consulting Engineers	Spouse	D A Mostoane	Administrator	69,752,148
	11	PS-EE 27/2014	Tsekema Consulting Engineers	Spouse	D A Mostoane	Administrator	17,015,766
Subtotal		-	-	-	-	-	136,723,541
							<b>136,723,541</b>

#### June 2014

##### Deviations on tenders awarded to family members of staff

	No	Contract number	Supplier Name	Relation	Employee name	Employee designation	Amount R0.00
	1	C-RS-16-2013	Dalindybo Sons Trading CC	Husband	T Dalindybo	Snr Controller	2,541,259
			Bizzybous Trading enterprise	Husband	L P Khumalo	Snr Typist	1,994,655
			Hillah construction and General Services CC	Husband	T Mkhize	Metro Police	3,401,336
Subtotal		-	-	-	-	-	7,937,250
							<b>7,937,250</b>

#### June 2013

##### Tenders awarded to family members

	No	Contract number	Supplier Name	Relation	Employee name	Amount R0.00
	1	C-TPP-02-2013(T)	Dalindybo Sons Trading CC	Husband	T Dalindybo	261,458
	2	C-RE-17-2013	Seletje construction & management CC	Husband	P M Lekgwathi	8,425,476
	3	C-WS-01-2013(T)	Seletje construction & management CC	Husband	P M Lekgwathi	29,231,561

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 44. Related parties (continued)

Subtotal	37,918,495
	<b>37,918,495</b>

#### June 2013

##### Deviations on tenders awarded to family members of staff

No	Contract number	Supplier Name	Relation	Employee name	Employee designation	Amount R0.00
1	C-WMS 21-2012(T)	Rezoning of two add farm ptn's as part of Weltevreden Landfill site	Son	P K Viljoen	Ex Employee	50,128
2	C-E 32-2013(T)	Professional services for the electrification Palm Ridge	Daughter	D A Motsoane	Administrator	-
3	C-E 31-2013(T)	Public Lighting for a six month bperiod for Benoni and surrounding areas	Daughter	D A Motsoane	Administrator	3,270,654
4	C-F-04-2013(T)	Payments for WEMMCs for credit control services	Daughter	D A Motsoane	Administrator	1,052,038
Subtotal						4,372,820
						<b>4,372,820</b>

#### June 2014 staff

##### Quotations awarded to family members of

No	Supplier Name	Relation	Employee Name	Employee designation	Amount
1	Clutch and Brake Service CC Springs	R Beukes	G R Beukes	Snr Manager	1,489,510
2	Iponeng African Language Services	D J Moko	P Ndhlovu	Constable	353,127
3	Sebatso Caterers	E Seipati	M M Dhladhla	Security guard	1,746,653
4	Mankena Maselaelo Bus.Ent.(Pty)Ltd	A M Sibisi	S P Sibisi	Snr Clerk	116,230
5	Empower Electrical CC	T Sikhitha	HE Sikhitha	Snr Administration Officer	1,678,068
6	Mokgari Trading CC	M T Mokgari	N M Mokgari	GIS officer	394,643
7	Mzozu Electrical Enterprise CC	V J Zungu	V J Zungu	General Worker	754,880
8	Mjikijela Trading Enterprise CC	M M Mthimkulu	S R Mthimkulu	General Worker	450,133
9	Jan and Poppy Catering	M J Mpamonyane	P L Vilakazi	Executive secretary	54,400
10	Day One Trading Enterprise CC	M R Malebana	L G Malebana	Principal clerk	67,839
11	Distinctive Choice Catering & Crafts CC	H F Ferreira	L R Hattingh	Supervisor handyman	4,600
12	Imbalenhle Catering & Projects	S L Dlamini	L I Dlamini	Learnership	4,259,545
13	Dalindyebo Sons Trading CC (EPWP)	P B J Dalindyebo	M T Dalindyebo	Snr controller	415,326

**Ekurhuleni Metropolitan Municipality**  
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**44. Related parties (continued)**

14	Bamphile Trading & Projects Co-Opt Ltd	J P Makeleni	L Makeleni	Ward secretary	26,020
					<b>11,810,974</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 44. Related parties (continued)

June 2013

Quotations awarded to family members of staff

No	Supplier Name	Relation	Employee Name	Amount
1	Clutch and Brake Service CC Springs	R Beukes	G R Beukes	65,237
2	Iponeng African Language Services	D J Moko	P Ndhlovu	103,221
3	Vision Cleaning Services	K J Tshabalala	M B Tshabalala	29,070
4	Sebabatso Caterers	E S Dhlahla	M M Dhladhla	899,455
5	Mankena Maselaelo Bus.Ent.(Pty)Ltd	A M Sibisi	S P Sibisi	29,000
6	Empower Electrical CC	T Sikhitha	HE Sikhitha	905,342
7	Mokgari Trading CC	M T Mokgari	N M Mokgari	50,417
8	Mzozu Electrical Enterprise CC	V J Zungu	Z C Zungu	60,020
9	Mjikijela Trading Enterprise CC	M M Mthimkulu	S R Mthimkulu	149,326
10	NBR Training & Dev. Solutions CC	M. Smith	E J J Smith	41,175
11	Bamphile Trading & Projects Co-Opt Ltd	J P Makeleni	L Makeleni	90,170
12	Dalindyabo Sons Trading CC (EPWP)	P B J Dalindyabo	M T Dalindyabo	1,106,009
13	Aveng	J J A Mashaba	J F Mashaba	3,196
14	Enyati Projects	K R Smith	M D SMITH	45,037
15	Octavo Electrical	T L Boonzaaier	J A Boonzaaier	41,770
16	Mangoze Projects & Consulting	J N Makola	D Ngozo	57,750
17	Batsebiye Business Enterprise	S Mufamadi	N E Mufamadi	21,950
18	Amazima Trading	N I Mzima	S M Mzima	10,800
19	Manyoni Towing	G khoza	J Mosikidi	14,615
20	Triple P Trading	M P Phiri	L E Phiri	26,251
21	Muthunzi Trading Enterprise	S J Moleshiwa	P Moleshiwa	105,564
22	Mjikijela Trading Enterprise	M M Mthimkulu	S R Mthimkulu	91,480
23	Massel Property Services	B R Mashazi	M I Mashazi	6,270
24	Soul Rehab Event Man. and Projets	E Vilakazi	T G Vilakazi	11,700
25	Jan and Poppy Catering	M J Mpamonyane	P L Vilakazi	78,685
26	Zumeka Trading	V Gumbi	B N Yende	17,674
27	Kaofela Maintenance Service	B Steyn	R P G Steyn	4,104
28	C R Safety Solutions	C Rajoo	S Rajoo	15,320
29	Zimemo Trading & Projects	V Z Nkoe	N Masondo	61,150
30	Rocstar Trading & Projects	J R Nkuma	R L Nkuna	265,435
31	Imbalenhle Catering & Projects	S L Dlamini	L I Dlamini	781,960
32	Semaka Fix & Fix Projects	S M Makgoba	M J Makgoba	20,268
33	Nkunyatha General Trading	J R Nkuna	R L Nkuna	198,741
34	TTA Logistics & Consultants	C S Dlamini	M S Nirgin	151,200
35	Sinisible Trading Enterprise	M A J Hlope	L Hlope	204,840

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 44. Related parties (continued)

36	Zauba Trading	Z V Setlhoho	P Setlhoho	236,200
37	NMVL Trading & Projects	V L Mashele	N M Mashele	29,789
38	Sesike Electrical	J V Botha	M P Botha	129,716
39	Menyaka Events	E Maema	T J Maema	129,250
40	Zamokuhle Funeral Directors	J J Mokgotla	S M Dladla	19,300
41	Monique Plumbing Unit	H M Mokoka	S C Mokoka	29,869
42	Selhlo Construction & Projects	H M Mokoka	S C Mokoka	41,880
43	Nasisipho Trading & Projects	F W Mogabale	M N Mogabale	41,145
44	Tragma Trading & Projects	D G Malatji	A N Mathe	27,831
45	Red Step Investments 34 CC	N Makgoba	M J Makgoba	27,080
46	TPromo Marketing (Pty)Ltd	S R Mthimkulu	S R Mthimkulu	72,965
47	Zilwa DG	D G Zilwa	H T Mthembu	119,063
48	Green Today Projects (pty)Ltd	K Nqubezelo	G L N Nqubezelo	189,550
49	Nnuku Building Construction CC	Sister	D P Mhlahlo	53,390
				<b>6,911,230</b>

### Related party balances

#### Amounts included in Trade Receivable and Consumer Debtors regarding related parties - municipal entities

East Rand Water Care Company, NPC	6,055,799	8,760,689
Pharoe Park Housing Company SOC Ltd	3,639	1,558,583
Brakpan Bus Company SOC Ltd	8,293,854	1,823,307
Lethabong Housing Institute, NPC	-	41,348
Germiston Phase II Housing Company SOC Ltd	834,182	2,485,974

#### Amounts included in Trade Payable regarding related parties - municipal entities

East Rand Water Care Company, NPC	33,372,659	8,482,689
Pharoe Park Housing Company SOC Ltd	2,938,733	124,539
Germiston Phase II Housing Company SOC Ltd	69,705	221,902
Lethabong Housing Institute, NPC	34,393	34,393
Ekurhuleni Development Company SOC Ltd	-	5,776

### Related party transactions

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 44. Related parties (continued)

#### Sales to related parties - municipal entities

East Rand Water Care Company, NPC	59,107,798	50,412,765
Pharoe Park Housing Company SOC Ltd	1,345,662	2,558,105
Germiston Phase II Housing Company SOC Ltd	4,054,267	4,279,269
Ekurhuleni Development Company SOC Ltd	46,870	42,127
Brakpan Bus Company SOC Ltd	110,000	110,000
Lethabong Housing Institute, NPC	156,659	108,463

#### Purchases from related parties - municipal entities

East Rand Water Care Company, NPC	516,071,049	480,565,990
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#### Grants to related parties - municipal entities

Pharoe Park Housing Company SOC Ltd	1,558,704	12,252,839
Germiston Phase II Housing Company SOC Ltd	1,941,296	21,247,161
East Rand Water Care Company, NPC	50,000,000	69,846,238
Brakpan Bus Company SOC Ltd	-	1,500,000

Refer to Employee related costs note (note 29) for remuneration paid to key management.

### 45. Change in estimate

#### Property, plant and equipment

##### Controlling entity

Useful lives review had the following impact:

Depreciation expense before remaining useful lives review	R 281,923,976
Depreciation expense after remaining useful lives review	R 130,264,1255
Future reduction in depreciation due to review	R 151,659,851

##### Discount rate

The discount rate has changed from 10.75% to 10.58%.

### 46. Prior period errors

#### 2014

Property plant and equipment and Intangible assets with zero remaining useful lives were corrected during the year.

Intangible assets were classified as property plant and equipment and correctly were re-classified to intangible assets during the year.

Salaries paid to interns were previously presented as part of general expenses, but were rectified during the current period and are now presented as part of employee related costs.

#### 2013

Assets which were fully depreciated but still in use were retrospectively corrected in the current year.

VAT on outstanding consumer debtors and trade creditors were netted-off in the past against the relating balances, but were changed in the current year by showing them separately.

The correction of the errors results in adjustments as follows:

#### Statement of Financial Position

Property, plant and equipment	246,427,998	180,901,618
Consumer Debtors	-	324,167,558
Intangible assets	16,666,829	-
Other receivables from exchange transactions	-	162,694,969
Trade and other payables	-	(927,371,972)
Opening accumulated surplus	(335,019,562)	432,898,805

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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<b>46. Prior period errors (continued)</b>		
<b>Statement of Financial Performance</b>		
Depreciation and amortisation	71,924,735	(44,394,026)
Debt impairment	-	(128,896,952)
Employee related costs	1,905,724	-
General expenses	(1,905,724)	-

### 47. Comparative figures

Certain comparative figures have been reclassified to enhance presentation and/or where consequential amendments, due to other standards becoming effective, was required.

### 48. Risk management

#### Capital Risk Management

The municipality's objectives, when managing capital, are to safeguard the municipality's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consist of debt, which includes the borrowings disclosed in note 18 and cash and cash equivalent disclosed in note 16.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio 2014 and 2013 respectively are as follow:

<b>Total borrowings</b>		
Other financial liabilities	(5 288 777 045)	(5 133 197 777)
Less: Cash and cash equivalent	(5 894 540 499)	(4 374 377 023)
Net debt	(11 183 317 544)	(9 507 574 800)
Total equity	41 681 870 343	39 804 747 659
<b>Total capital</b>	<b>30 498 552 799</b>	<b>30 297 172 859</b>

#### **Financial risk management**

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Risk management is carried out by the risk management department under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

# Ekurhuleni Metropolitan Municipality

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### 48. Risk management (continued)

#### Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position 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.

#### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. municipality policy is to maintain approximately 100% of its borrowings in fixed rate instruments.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

At year end, financial instruments exposed to interest rate risk is as follows:

#### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years
Consumer debtors	11.00 %	4 460 073 394		
Long term receivables	9,00 %	835 410	835 411	835 411

#### Fair value interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years	Due after five year
Long term and other liabilities	10.78 %	267 666 436	288 074 969	834 421 621	3 900 614 019



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### 48. Risk management (continued)

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

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

The municipality is exposed to a guarantee for the loan of Brakpan Bus Company (BBC) (municipal entity). In terms of the agreement the beneficiary (Nedbank) requires that BBC furnish them a guarantee from the municipality in respect of BBC's obligations towards the beneficiary. The original capital obligation amounted to R15 000 000. Economic entity - 2014

Financial instrument	Controlling entity - 2014	Controlling entity - 2013
Other Investments	776,331,667	822,985,644
Long-term receivables	2,506,232	2,386,621
Consumer debtors	4,460,073,394	3,552,483,440
Other receivables	233,654,254	161,577,622
Cash and cash equivalents	5,894,540,499	4,374,377,023
Listed and Unlisted shares	4,000,000	4,000,000
	<b>11,371,106,046</b>	<b>8,917,810,350</b>

#### Price risk

The municipality is exposed to equity price risk because of investments held by the municipality classified on the Statement of Financial Position as available -for- sale. The municipality is not exposed to commodity price risk.

The municipality has a R4,000,000 investment in unlisted shares, which is the exposure to price risk. The price risk on this investment cannot be determined due to the fact that the shares are not listed and therefore unknown.

### 49. Going concern

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

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

### 50. Unauthorised, Fruitless, Wasteful and Irregular expenditure

#### Irregular expenditure

Opening balance	394,132,407	288,307,701
Add: Expenditure identified for the year	102,431,082	105,824,706
	<b>496,563,489</b>	<b>394,132,407</b>

#### Fruitless and Wasteful expenditure

Opening balance	149,080,535	109,967,023
Add: Expenditure identified for the year	770,556	39,113,512
	<b>149,851,091</b>	<b>149,080,535</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

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### 50. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)

June 2014

Unauthorised, Fruitless, Wasteful and Irregular Expenditure

Department	Description	Classification	Amount
City planning	Extension of contract for acquisition and supply of digital coloured 2D and 3D aerial photography in accordance with old SCM policy but not in line with MFMA section 116(3) and MFMA circular 62	Irregular	39,290
Finance	Extension of contract for reading of water and electricity meters in accordance with old SCM policy but not in line with MFMA section 116(3) and MFMA circular 62	Irregular	1,922,126
Waste Management	Ratification of contract not in line with SCM regulation 36(1)b.	Irregular	263,388
Waste Management	Ratification of contract not in line with SCM regulation 36(1)b.	Irregular	12,825,522
Finance	Non compliance with SCM regulation 44, awards issued to employees working for the state	Irregular	28,500
Finance	The procurement of goods or services was deliberately split into parts	Irregular	145,750
Human Settlement SRAC	The procurement of goods or services was deliberately split into parts	Irregular	239,091
SRAC	Supplier is not rotated as required by SCM reg.18.	Irregular	98,565
Roads	The suppliers were given work by Roads and Storm Department without written IPW's.	Irregular	55,780,679
Roads	Awards issued to employee/consultant working for the municipality	Irregular	25,432,732
SRAC	Allegations of procurement irregularities, 2012 Heritage Day celebrations	Irregular	41,525
SRAC	Allegations of unfair labour practice and procurement irregularities at the OR Tambo Narrative Centre	Irregular	86,526
SRAC	Allegations of conflict of interest by officials of SRAC	Irregular	970,895
Finance	Allegations of procurement irregularities involving duplicating of payments at CPO	Fruitless	404,941
Finance	Allegations of procurement irregularities involving cloning of payments at CPO	Irregular	625,885
Energy	Allegations of SCM violations, theft and corruption against an engineer at Alberton	Irregular	3,154,123
SRAC	Allegations of unfair labour practice and procurement irregularities at the OR Tambo Narrative Centre.	Irregular	29,868
Real Estate	Alleged irregular overtime claims and payments to Horticulturists.	Irregular	285,264
Finance	Forensic investigation into circumstances under which legal fees were incurred and paid by EDC to Attorneys.	Irregular	461,356
Various departments	Interest paid due to late payments	Fruitless	365,615

**103,201,641**

June 2013

Unauthorised, Fruitless, Wasteful and Irregular Expenditure

Department	Description	Classification	Amount
SCM	Allegations of procurement irregularities at Marketing department	Irregular	250,139
SCM	Allegation of possible fraud against employee	Fruitless & Wasteful	123,532
SCM	Alleged misconduct perpetration at Brakpan Stores	Irregular	239,525
SCM	Procurement irregularities at Community Safety	Irregular	283,012

# Ekurhuleni Metropolitan Municipality

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## Notes to the Annual Financial Statements

Figures in Rand		2014	2013
<b>50. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)</b>			
SCM	Procurement irregularities at Community Safety	Fruitless & Wasteful	59,394
SCM	Kagotso Laka Academy	Irregular	20,000
SCM	Review of suppliers	Irregular	55,169
SCM	Electrification of winnie Mandela-standing time claim	Fruitless & Wasteful	959,991
SCM	Penalty interest payments-various	Fruitless & Wasteful	2,339,470
SCM	Cancellation of contracts	Fruitless & Wasteful	1,449,232
SCM	Funeral claims duplicated	Irregular	157,550
SCM	Software never used	Fruitless & Wasteful	158,674
SCM	Inventory software not in use	Fruitless & Wasteful	1,110,766
SCM	Greening -7860 fruit trees not found	Fruitless & Wasteful	1,239,515
SCM	Air Conditioners Edenvale CCC	Fruitless & Wasteful	429,020
SCM	Valuations of properties duplicated	Fruitless & Wasteful	31,303,313
SCM	Improper application of par.36 of the SCM policy	Irregular	29,787,990
SCM	Awards to employees	Irregular	63,753,643
SCM	Reinstatement of contract not approved but payment was made	Irregular	11,218,284
Subtotal	-	-	144,938,219
			<b>144,938,219</b>

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

#### Contributions to organised local government

Current year subscription / fee	7,905,900	7,350,000
Amount paid - current year	(7,905,900)	(7,350,000)
	-	-

#### Material losses through criminal conduct and fraudulent activities

Current year subscription / fee	19,244,613	-
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#### 2014

Fraudulent payments made to:	
Kwanele-Bafazi trading and projects	R1,346,685
Rofika trading and projects	R8,258,932
Failure to development landfill site	R8,284,524
Hacking of the financial system	R1,139,072

#### 2013

There was no material losses through criminal conduct and fraudulent activities for year.

#### Audit fees

Opening balance	1,563,258	-
Current year fee	17,622,504	19,784,055
Amount paid - current year	(18,921,184)	(18,220,797)
	<b>264,578</b>	<b>1,563,258</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013	
<b>51. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>			
<b>PAYE and UIF</b>			
Current year fee	721,636,018	643,171,078	
Amount paid - current year	(721,636,018)	(643,171,078)	
	-	-	
<b>Pension and Medical Aid Deductions</b>			
Current year fee	1,370,432,333	1,279,457,054	
Amount paid - current year	(1,370,432,333)	(1,279,457,054)	
	-	-	
<b>VAT</b>			
VAT receivable	24,338,813	65,844,724	
<b>Councillors' arrear consumer accounts</b>			
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:			
<b>30 June 2014</b>	<b>Outstanding less than 90 days</b>	<b>Outstanding more than 90 days</b>	<b>Total</b>
Pienaar R	-	821	821
Dlamini G	-	14,232	14,232
	-	<b>15,053</b>	<b>15,053</b>
The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2014:			
<b>30 June 2013</b>	<b>Outstanding less than 90 days R</b>	<b>Outstanding more than 90 days R</b>	<b>Total R</b>
Mabuza	-	299	299
Shongwe NG	1,463	1,831	3,294
Letsimo ST	583	3,438	4,021
Ntombela SI	261	9,535	9,796
Leshabane SM	-	30,407	30,407
	<b>2,307</b>	<b>45,510</b>	<b>47,817</b>
During the year the following Councillors' had arrear accounts outstanding for more than 90 days.			
<b>30 June 2014</b>		<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
Dlamini G		14,232	-
Pienaar R		821	-
		<b>15,053</b>	-
<b>30 June 2013</b>		<b>Highest outstanding amount</b>	<b>Aging (in days)</b>
Leshabane SM		30,407	1,410
Ntombela SI		9,535	780
Letsimo ST		3,438	300
Shongwe NG		1,831	120
Mabuza		299	450
		<b>45,510</b>	<b>3,060</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>51. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>52. Utilisation of Long-term liabilities reconciliation</b>		
Outstanding long-term liabilities beginning of the year	5,133,197,777	4,515,511,723
Redemption of loans	(629,420,732)	(182,313,946)
New loans	785,000,000	800,000,000
	<b>5,288,777,045</b>	<b>5,133,197,777</b>
Used to finance PPE: Opening balance	(4,886,295,216)	(4,103,351,208)
Redemption of loans	629,420,732	182,313,946
Capital financed from external loans for the year	(838,747,095)	(965,257,954)
<b>Unspend long term liabilities</b>	<b>193,155,466</b>	<b>246,902,561</b>
Cash set aside for the repayment of long-term liabilities for the year	772,468,899	819,319,820

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Up to this period the capital spending funded from loans were higher than the available funds but it will be corrected when the new loans (bonds) are taken up.

### 53. Deviation from supply chain management regulations

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

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

#### The expenses incurred, as listed hereunder, have been approved/condoned

Emergencies	18,602,063	15,757,212
Sole supplier	9,902,212	31,258,890
Appointment of consultant	17,092,793	20,857,088
Upgrade electricity infrastructure	-	1,550,000
Events	18,448,146	502,635
Operational services	143,367,229	53,926,224
Training	972,000	788,800
	<b>208,384,443</b>	<b>124,640,849</b>

### 30 June 2014

#### Operational services of R143 367 229 include inter alia the following salient amounts:

- R37 963 998 cleaning and minor repair to sewer pipe lines
- R 60 000 000 for the upgrading of Tembisa metering equipment
- R 26 638 121 for electronic metering
- R 14 276 645 for ICT related matters

Extension of contracts not separately disclosed in 2014 due to it not being a requirement

### 30 June 2013

#### Operational services of R53,926,224 include inter alia the following salient amounts:

- R10,000,000 for fuel for a period of 4 months
- R20,583,333 for cut-off functions for 5 months
- R12,000,000 for vehicle tracking system for 12 months
- R10,772,835 is the balance of various other minor services

### 54. Unaccounted Electricity And Water

Electricity	2013/2014 Units	2013/2014 Value	2012/2013 Units	2012/2013 Value
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# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014		2013	
<b>54. Unaccounted Electricity And Water (continued)</b>				
Units purchased	10,667,400,921	6,968,863,814	10,754,556,104	6,596,765,317
Units sold	(9,457,852,951)	(6,178,683,043)	(9,615,241,272)	(5,900,324,098)
	<b>1,209,547,970</b>	<b>790,180,771</b>	<b>1,139,314,832</b>	<b>696,441,219</b>
Technical loss %	5.90 %	5.90 %	5.90 %	5.90 %
Non-technical loss %	5.44 %	5.44 %	4.69 %	4.69 %
<b>Total loss %</b>	<b>11.34 %</b>	<b>11.34 %</b>	<b>10.59 %</b>	<b>10.59 %</b>
<b>Water</b>	<b>2013/2014</b>	<b>2013/2014</b>	<b>20112/2013</b>	<b>2012/2013</b>
	Units	Value	Units	Value
Opening balance	1,205,000	6,102,460	1,203,000	5,478,787
Units purchased	356,640,839	1,975,288,966	346,582,721	1,755,307,842
Less: closing balance	(1,206,000)	(6,679,555)	(1,205,000)	(6,102,860)
Units sold	(235,737,059)	(1,305,651,963)	(236,470,429)	(1,197,631,541)
	<b>120,902,780</b>	<b>669,059,908</b>	<b>110,110,292</b>	<b>557,052,228</b>
Technical loss %	17.30 %	17.30 %	16.30 %	16.30 %
Non-technical loss %	16.60 %	16.60 %	15.50 %	15.50 %
	<b>33.90 %</b>	<b>33.90 %</b>	<b>31.80 %</b>	<b>31.80 %</b>

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 55. Budget differences

#### Revenue

The final total revenue for the year is 4% less than the budget revenue, The actual revenue is R23,5 Billion while the budgeted revenue of R24,5 Billion, the variance amount is R1 million.

The Positive Increase for the individual revenue items were as follows:

The investment income for the year is R370,3 Million while the budget investment income was R195, 6 Million, the variance is R174, 7 million (89% increase) of budgeted, the increase was mostly due to the improved cash on hand, and interest levied for late payment by debtors.

The other income for the year is R956,0 Million while the budget other income was R791, 1 Million, the variance is R164, 1 million (21% increase) of budgeted, mostly it relates to the increase interest levied on outstanding debtors accounts due to the decrease in the collection rate and the overall outstanding debtors balance account.

The reconnection fees increase by 60.7% (R57 million) from a budgeted income of R94m to an actual income was R151 million, the measures were imitated in a efforts to increase the amounts due to the council for services that are continued provided to the consumers who are not paying for such service.

#### The negative movements were

Service charges are the biggest income source amounting to R14.8 billion were 6% (R858,9 million) less for the budget of R15.8 billion for the 2013/14 financial year. The detailed analysis of the various services are discussed below.

Service Charges - electricity revenue

Though the electricity revenue is deviating with 7.84% (less than 10%) it is the single biggest to the fact that the budgeted income of Council was not achieved. During the course of the financial year it was reported that there is a decline in electricity demand as such less electricity sales were realised.

The other income not realised which also contributed to the negative deviation is the income budgeted from Economic Development. An amount of R7.2m was budgeted but only R930k was collected, this is a result of poor economic conditions less council commercial spaces were occupied.

Transfer recognised relates to the Government grant and subsidies income which is reflecting a deviation of 6% R262,7 million. The budget was for R4.1 billion while the actual spent amounted to R3.8 billion. This income reflects all the grants received from National or Provincial government. All grants from National government were received. The deviation is mainly as a result of the provincial grants not rolled over in the previous year included in the current budget but was received as the rollover was not approved,. An amount of R223.6m was budgeted whilst only R26.3m was recorded as received, and the other factor contributing to the underspending are delays in spending on capital projects.

#### Expenditure

The budgeted Operating Expenditure decreased by 8% from the budgeted of R25.3 billion to an actual of R23.2 Billion in 2012/13 to R23.1 billion in 2013/14, as reflected below.

Employees costs were 6% (R318 million) below the budget due to delays experiences in filling vacant positions and mostly of the newly created section 57 positions were filled towards the later part of the year. The under spending of the salary budget is the result of vacant positions that are not filled and positions which became vacant whilst provision was made for the full-year estimates. Provision was made for approximately 2 132 vacancies in the 2013/14 budget. The actual number of vacancies at the end of June 2014 is 2,304.

The actual overtime for the year is exceeding the budget with 26.2%. The increase in vacancies has an effect of additional overtime payable. A large number of the overtime relates to the lack of capacity within departments. This is mainly as a result of the delay in the implementation of the Institutional Review (on the lower levels and not necessarily on the top structure level). The approval of the final phase of the Institutional Review will address some of the overtime in departments.

The provision for dent impairment was 17% (R199,1 million) more than the budget amount due to the decrease in the collection rate in the current, despite rigorous collection process consumers have not paid their accounts. The debt impairment as budgeted was based on the estimated collection rate of 93% on billed revenue, and the actual collection rate for the 2013/14 financial year is 90.14%, which is significantly lower than the collection rate target of 93%. It therefore resulted that the outstanding debtors of Council is more than anticipated and subsequently also increase the risk of doubtful debt.

The finance charges were 15% below budget, the variance relates to the fact that repayment of short term liabilities with unfavourable interest rates and while new bonds were raised in the last quarter of the financial year. Finance cost is budgeted according to all the existing loans of Council plus the interest payable on any new loans to be obtained the particular financial year. Provision was made for the interest payable for a full year interest on the new bond of R785m, which were only obtained in May 2014.

The transfers and other grants were 16% R384, 1 billion budget, the biggest component of these expenditure related to grants allocated for indigents. The savings is entirely as a result of the fact that less indigents registered than anticipated. The budget was compiled on an

# Ekurhuleni Metropolitan Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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### 55. Budget differences (continued)

estimated 50 000 indigents, whilst the registered indigents is approximately 34 000. Also other operational expenditure funded by Grants could not be spent as a result of the grant income for such expenses was not received from Gauteng Province.

The other expenditure group were 21% R1,01 billion less than the budgeted amount of R4,9 billion, this represents reduction in non-core metro business, like general expenses which were 36% (R572 million) less than the budgeted amount of R1,6 billion, and this present saving on spending on venue hires for strategic session, and office refreshments. The actual spending of contracted services is 24.43% (R156m) less than budgeted amount of R837 million, which represent spending on consulting and other professional services. Expenditure on repairs and maintenance were 10% (R200 million) below budget of R2.2 billion, poor spending were on non-core department, while core spent an average of 93% of their repairs and maintenance budget..

### Capital Budget

The capital budget was increased by 16.8% in the current year to R3 billion from R2.5 billion in 2012/13. The actual spending on the capital budget for the year is 87.96% R2.6 billion of the adjustment budget of R3 billion representing an underspending of R360 million, it relates to late spending on capital projects. The Capital Expenditure for 2013/14 amounted to R2.6 billion, which is R248m (or 10.47%) more than the previous year. Though the percentage capital spent of 87.96% in 2013/14 is less than the previous year spending percentage of 92.2%, it still represents an increase of 10.5% in monetary value.

### The Net Position

The percentage achievement for both income and expenditure is very similar to the results in the previous year. The improvement in revenue collected and the reduction in expenditure resulted in an operating surplus of R1.9 billion.



# **Ekurhuleni Metropolitan Municipality**

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