Ehlanzeni District Municipality
Annual Financial Statements
for the year ended 30 June 2015

## General Information

**Mayoral committee**

| | |
|---|---|
| Executive Mayor | LN Shongwe |
| Speaker | MJ Mavuso |
| Mayoral committee | TB Mdluli |
| | MJ Mnisi |
| | BN Mdakane |
| | ET Mabuza |
| | NC Hlophe |
| | SP Monareng |
| | BK Mokoena |
| Councillors | HL Lekhuleni |
| | SP Mnisi |
| | ML Mathebula |
| | KR Mkhari |
| | TC Dibakoane |
| | MW Nkhata |
| | M Chembeni-Sahi |
| | SV Khumalo |
| | MM Nthali |
| | TP Maphanga |
| | L Sithole |
| | ST Mkhumbane |
| | RG Herbst |
| | GP Mkhombo |
| | PF Rossouw (Resigned 2014/09/18) |
| | RN Mnisi |
| | TJ Makhubedu |
| | MJ Morema |
| | LC Dlamini (Resigned 2015/01/23) |
| | TM Charles |
| | JJ Khoza |
| | HK Malomane |
| | TP Mkhatshwa Manave |
| | NB Matume |
| | ET Mkhabela |
| | CN Mnyambu |
| | SI Mokoena |
| | M Mayinga (Resigned 2015/01/23) |
| | DD Ngwenyama |
| | SR Schormann |
| | WH Shongwe |
| | TE Masilela |
| | M Zitha |
| | LA Mabuza |
| | SR Silombo |
| | GN Mogiba |
| | DA Maphanga |
| | Z Godi |
| | VX Baloyi (Deceased 2015/04/30) |
| | H Khumalo (Deceased 2014/09/25) |

# General Information

| | |
|---|---|
| | RD Makhubele<br>VN Mzimba<br>EN Khoza<br>DR Mashabane<br>LE Khosa<br>BR Ncube (Resigned 2015/03/01)<br>RS Ndlovu (Resigned 2015/04/30)<br>HP Thobakgale<br>SE Molobela<br>F Essack (Resigned 2014/07/31)<br>S Mabuza<br>EIT Shabangu<br>LN Moreko (Resigned 2015/01/23)<br>RE Khumalo<br>TS Khoza<br>LV Mashaba<br>JH Ligthelm<br>JV Mhlaba<br>J Koster<br>EM Sebashe<br>NS Nyalunga<br>PB Bongco<br>WS Segage<br>SP Mathonsi<br>NL Mathebula<br>TS Sibuyi<br>BM Ncongwane<br>CM Mashego |
| **Grading of local authority** | 5 |
| **Municipal demarcation code** | DC32 |
| **Accounting Officer** | Adv. H Mbatha |
| **Chief Financial Officer** | WJ Khumalo |
| **Registered office** | 8 Van Niekerk Street<br>Mbombela<br>Mpumalanga<br>1200 |
| **Postal address** | P O Box 3333<br>Mbombela<br>Mpumalanga<br>1200 |
| **Bankers** | Standard Bank of South Africa |
| **Auditors** | Auditor General South Africa |
| **Attorneys** | VF Mokoena Attorneys<br>Singwane & Partners Attorneys |

# Index

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

# Accounting Officer's Responsibilities and Approval

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 were 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 places 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 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements.

The annual financial statements set out on pages 5 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015.

**Adv. H Mbatha**
**Accounting Officer**

# Statement of Financial Position as at 30 June 2015

| Figures in Rand | Note(s) | 2015 | 2014 Restated |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 5 | 664 767 | 382 369 |
| Investments | 7 | 523 095 | 502 490 |
| Receivables from exchange transactions | 4 | 393 520 | 484 637 |
| VAT receivable | 6 | 1 966 503 | 2 307 761 |
| Cash and cash equivalents | 3 | 76 349 476 | 49 684 704 |
| | | **79 897 361** | **53 361 961** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 8 | 226 822 497 | 233 968 828 |
| Investments | 7 | 3 801 945 | 3 538 892 |
| Work in progress | 10 | 1 481 635 | 425 760 |
| | | **232 106 077** | **237 933 480** |
| **Total Assets** | | **312 003 438** | **291 295 441** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Short term portion of long term liabilities | 12 | 13 208 732 | 11 967 478 |
| Payables from exchange transactions | 9 | 47 924 306 | 35 106 504 |
| Unspent conditional grants | 13 | 77 732 | 10 159 029 |
| Provisions | 11 | 28 884 352 | 24 498 027 |
| | | **90 095 122** | **81 731 038** |
| **Non-Current Liabilities** | | | |
| Long-term liabilities | 12 | 161 526 805 | 174 735 925 |
| **Total Liabilities** | | **251 621 927** | **256 466 963** |
| **Net Assets** | | **60 381 511** | **34 828 478** |
| Accumulated surplus | | 60 381 511 | 34 828 478 |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2015 | 2014 Restated |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Other income | 33 | 4 564 160 | 1 659 908 |
| Rental of facilities and equipment | 33 | 147 060 | 175 818 |
| Interest received | 31 | 3 969 739 | 2 640 885 |
| Dividends received | 33 | 109 605 | 97 427 |
| **Revenue from non-exchange transactions** | | | |
| Government grants & subsidies | 14 | 212 630 721 | 194 145 116 |
| **Total revenue** | | **221 421 285** | **198 719 154** |
| **Expenditure** | | | |
| Employee related cost | 15 | (84 254 495) | (75 193 804) |
| Remuneration of councillors | 16 | (13 651 881) | (12 652 515) |
| Audit fees | 21 | (2 471 005) | (2 419 014) |
| Depreciation | 17 | (8 831 687) | (10 260 286) |
| Finance costs | 18 | (21 860 462) | (24 204 997) |
| Repairs and maintenance | | (141 081) | (99 179) |
| Contracted services | 19 | (3 321 691) | (2 410 706) |
| Grants and subsidies paid | 20 | (21 593 867) | (28 880 816) |
| General expenses | 22 | (39 400 097) | (37 019 420) |
| **Total expenditure** | | **(195 526 266)** | **(193 140 737)** |
| **Operating surplus** | | **25 895 019** | **5 578 417** |
| Profit/(loss) on disposal of assets | | 40 431 | (85 906) |
| Gain on fair value adjustment | | 263 053 | 902 633 |
| Actuarial (loss)/gain | | 28 000 | (800 000) |
| **Surplus for the year** | | **26 226 503** | **5 595 144** |

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---|---|
| Opening balance as previously reported | 27 779 934 | 27 779 934 |
| Adjustments | | |
| Prior period adjustments | 1 333 674 | 1 333 674 |
| **Balance at 01 July 2013 as restated** | **29 113 608** | **29 113 608** |
| Changes in net assets | | |
| Prior period adjustments | 119 726 | 119 726 |
| Net income (losses) recognised directly in net assets | 119 726 | 119 726 |
| Surplus for the year | 5 595 144 | 5 595 144 |
| Total recognised income and expenses for the year | 5 714 870 | 5 714 870 |
| Total changes | 5 714 870 | 5 714 870 |
| Opening balance as previously reported | 33 137 192 | 33 137 192 |
| Adjustments | | |
| Prior year adjustments - Note 33 | 1 691 284 | 1 691 284 |
| **Balance at 01 July 2014 as restated** | **34 828 476** | **34 828 476** |
| Changes in net assets | | |
| Prior period adjustments | (673 468) | (673 468) |
| Net income (losses) recognised directly in net assets | (673 468) | (673 468) |
| Surplus for the year | 26 226 503 | 26 226 503 |
| Total recognised income and expenses for the year | 25 553 035 | 25 553 035 |
| Total changes | 25 553 035 | 25 553 035 |
| **Balance at 30 June 2015** | **60 381 511** | **60 381 511** |

## Cash Flow Statement

| Figures in Rand | Note(s) | 2015 | 2014 Restated |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| SARS | | 16 272 593 | 14 147 131 |
| Grants | | 207 979 279 | 198 817 000 |
| Interest income | | 3 948 774 | 2 640 885 |
| Dividends received | | 386 424 | - |
| Other receipts | | 61 403 372 | 63 334 024 |
| | | 289 990 442 | 278 939 040 |
| **Payments** | | | |
| Employee costs | | (88 647 653) | (82 881 749) |
| Suppliers | | (78 244 646) | (73 124 113) |
| Finance costs | | (19 859 687) | (22 640 997) |
| Other payments | | (62 064 713) | (53 667 564) |
| | | (248 816 699) | (232 314 423) |
| **Net cash flows from operating activities** | 23 | **41 173 743** | **46 624 617** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 8 | (1 617 484) | (3 313 213) |
| Proceeds from sale of property, plant and equipment | | 132 254 | 80 052 |
| (Increase)/decrease in work in progress | | (1 055 875) | 5 946 266 |
| **Net cash flows from investing activities** | | **(2 541 105)** | **2 713 105** |
| **Cash flows from financing activities** | | | |
| Repayment of long-term liabilities | | (11 967 866) | (10 800 895) |
| **Net cash flows from financing activities** | | **(11 967 866)** | **(10 800 895)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **26 664 772** | **38 536 827** |
| Cash and cash equivalents at the beginning of the year | | 49 684 704 | 11 147 877 |
| **Cash and cash equivalents at the end of the year** | 3 | **76 349 476** | **49 684 704** |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Other income | 3 050 000 | (150 000) | **2 900 000** | 4 564 160 | **1 664 160** | Note 38.1 |
| Rental of facilities and equipment | 245 440 | 100 000 | **345 440** | 147 060 | **(198 380)** | |
| Interest received | 2 800 000 | 400 000 | **3 200 000** | 3 969 739 | **769 739** | Note 38.2 |
| Dividends received | - | 115 000 | **115 000** | 109 605 | **(5 395)** | |
| **Total revenue from exchange transactions** | **6 095 440** | **465 000** | **6 560 440** | **8 790 564** | **2 230 124** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Government grants & subsidies | 255 292 000 | (48 327 000) | **206 965 000** | 212 630 721 | **5 665 721** | |
| **Total revenue** | **261 387 440** | **(47 862 000)** | **213 525 440** | **221 421 285** | **7 895 845** | |
| **Expenditure** | | | | | | |
| Employee related cost | (89 280 504) | 220 516 | **(89 059 988)** | (84 254 495) | **4 805 493** | Note 38.3 |
| Remuneration of councillors | (13 643 493) | (148 622) | **(13 792 115)** | (13 651 881) | **140 234** | |
| Audit fees | (2 637 500) | 166 490 | **(2 471 010)** | (2 471 005) | **5** | |
| Depreciation | (15 000 000) | - | **(15 000 000)** | (8 831 687) | **6 168 313** | Note 38.4 |
| Finance costs | (20 193 385) | 100 000 | **(20 093 385)** | (21 860 462) | **(1 767 077)** | Note 38.5 |
| Repairs and maintenance | (489 811) | 157 745 | **(332 066)** | (141 081) | **190 985** | Note 38.6 |
| Contracted services | (2 250 000) | (1 091 692) | **(3 341 692)** | (3 321 691) | **20 001** | |
| Grants and subsidies paid | (73 782 063) | 47 308 622 | **(26 473 441)** | (21 593 867) | **4 879 574** | |
| General expenses | (47 142 824) | (2 372 059) | **(49 514 883)** | (39 400 097) | **10 114 786** | Note 38.6 |
| **Total expenditure** | **(264 419 580)** | **44 341 000** | **(220 078 580)** | **(195 526 266)** | **24 552 314** | |
| **Operating surplus** | **(3 032 140)** | **(3 521 000)** | **(6 553 140)** | **25 895 019** | **33 043 132** | |
| Fair value adjustments | - | - | **-** | 40 431 | **40 431** | Note 38.5 |
| Fair value adjustment | - | - | **-** | 263 053 | **263 053** | Note 38.5 |
| Actuarial gain | - | - | **-** | 28 000 | **28 000** | Note 38.5 |
| | **-** | **-** | **-** | **331 484** | **331 484** | |
| **Surplus/(deficit) for the year** | **(3 032 140)** | **(3 521 000)** | **(6 553 140)** | **26 226 503** | **33 374 616** | |

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 343 000 | - | **343 000** | 664 767 | **321 767** | |
| Investments | - | 523 095 | **523 095** | 523 095 | **-** | |
| Receivables from exchange transactions | 500 000 | - | **500 000** | 393 520 | **(106 480)** | |
| VAT receivable | 3 321 000 | (552 000) | **2 769 000** | 1 966 503 | **(802 497)** | |
| Cash and cash equivalents | 4 477 000 | 18 754 000 | **23 231 000** | 76 349 476 | **53 118 476** | Note 38.7 |
| | **8 641 000** | **18 725 095** | **27 366 095** | **79 897 361** | **52 531 266** | |
| **Non-Current Assets** | | | | | | |
| Property, plant and equipment | 228 727 000 | 1 620 000 | **230 347 000** | 226 822 497 | **(3 524 503)** | Note 38.4 |
| Investments | 1 581 000 | 3 176 905 | **4 757 905** | 3 801 945 | **(955 960)** | |
| Work in progress | - | - | **-** | 1 481 635 | **1 481 635** | |
| | **230 308 000** | **4 796 905** | **235 104 905** | **232 106 077** | **(2 998 828)** | |
| **Total Assets** | **238 949 000** | **23 522 000** | **262 471 000** | **312 003 438** | **49 532 438** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Long-term liabilities | 9 662 000 | 2 305 000 | **11 967 000** | 13 208 732 | **1 241 732** | |
| Payables from exchange transactions | 9 164 000 | 20 626 000 | **29 790 000** | 47 924 307 | **18 134 307** | Note 38.7 |
| Unspent conditional grants | - | - | **-** | 77 732 | **77 732** | |
| Provisions | 15 341 000 | 11 607 000 | **26 948 000** | 28 884 352 | **1 936 352** | |
| | **34 167 000** | **34 538 000** | **68 705 000** | **90 095 123** | **21 390 123** | |
| **Non-Current Liabilities** | | | | | | |
| Long-term liabilities | 175 899 000 | - | **175 899 000** | 161 526 805 | **(14 372 195)** | |
| **Total Liabilities** | **210 066 000** | **34 538 000** | **244 604 000** | **251 621 928** | **7 017 928** | |
| **Net Assets** | **28 883 000** | **(11 016 000)** | **17 867 000** | **60 381 510** | **42 514 510** | |
| **Net Assets** | | | | | | |
| **Net Assets Attributable to Owners of Controlling Entity** | | | | | | |
| **Reserves** | | | | | | |
| Accumulated surplus | 28 883 000 | (11 016 000) | **17 867 000** | 60 381 510 | **42 514 510** | Note 38.8 |

# Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Grants | 255 292 000 | (48 327 000) | **206 965 000** | 207 979 279 | **1 014 279** | |
| Interest income | 2 800 000 | 400 000 | **3 200 000** | 3 948 774 | **748 774** | |
| Dividends received | - | 115 000 | **115 000** | 386 424 | **271 424** | |
| Other receipts | 3 295 000 | 19 950 000 | **23 245 000** | 77 675 965 | **54 430 965** | Note 38.7 |
| | **261 387 000** | **(27 862 000)** | **233 525 000** | **289 990 442** | **56 465 442** | |
| **Payments** | | | | | | |
| Supplier and employee costs | (173 694 000) | (6 470 000) | **(180 164 000)** | (228 957 012) | **(48 793 012)** | Note 38.7 |
| Finance costs | (22 412 000) | 100 000 | **(22 312 000)** | (19 859 687) | **2 452 313** | Note 38.5 |
| | **(196 106 000)** | **(6 370 000)** | **(202 476 000)** | **(248 816 699)** | **(46 340 699)** | |
| **Net cash flows from operating activities** | **65 281 000** | **(34 232 000)** | **31 049 000** | **41 173 743** | **10 124 743** | |
| **Cash flows from investing activities** | | | | | | |
| Decrease/(Increase) other non-current receivables | (53 300 000) | 53 300 000 | **-** | (1 055 875) | **(1 055 875)** | |
| Purchase of property, plant and equipment | - | (1 800 000) | **(1 800 000)** | (1 485 230) | **314 770** | |
| **Net cash flows from investing activities** | **(53 300 000)** | **51 500 000** | **(1 800 000)** | **(2 541 105)** | **(741 105)** | |
| **Cash flows from financing activities** | | | | | | |
| Repayment of borrowings | (9 662 000) | (2 305 000) | **(11 967 000)** | (11 967 866) | **(866)** | |
| Net increase/(decrease) in cash and cash equivalents | 2 319 000 | 14 963 000 | **17 282 000** | 26 664 772 | **(17 282 000)** | |
| Cash and cash equivalents at the beginning of the year | 2 157 000 | 3 915 000 | **6 072 000** | 49 684 704 | **43 612 704** | |
| **Cash and cash equivalents at the end of the year** | **4 476 000** | **18 878 000** | **23 354 000** | **76 349 476** | **26 330 704** | |

# Accounting Policies

### 1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. All values have been rounded to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

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

### 1.1 Significant judgements and sources of estimation uncertainty

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

**Trade receivables /Investments and/or other financial assets**

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

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

**Impairment testing**

The recoverable service amounts of non-cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of  tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including, together with economic factors such as inflation interest.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 11 - Provisions.

**Useful lives**

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges. This estimate is based on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

**Effective interest rate**

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

# Accounting Policies

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

**Allowance for doubtful debts**

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

### 1.2 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

**Initial recognition**

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.

The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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

**Subsequent measurement - cost model**

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

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

# Accounting Policies

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

**Depreciation and impairment**

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

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

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

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

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

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

The municipality tests property, plant and equipment with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

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:

| Item | Average useful life |
|---|---|
| Buildings | 50 years |
| Plant and equipment | 5 - 10 years |
| Furniture and fixtures | 5 - 10 years |
| Motor vehicles | 5 - 20 years |
| Office equipment | 3 - 10 years |
| Bins and containers | 5 - 10 years |

### 1.3 Financial instruments

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

A financial asset is:

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

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

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

# Accounting Policies

### 1.3 Financial instruments (continued)

**Initial recognition**

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

The entity recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability other than those subsequently measured at fair value 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.

### 1.3 Financial instruments (continued)

**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**

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

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

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with the terms used in the public sector, either through established practices or legislation.

**Gains and losses**

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

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

**Impairment and uncollectibility of financial assets**

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced 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 by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

# Accounting Policies

### 1.3 Financial instruments (continued)

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**

**Financial assets**

The entity derecognises financial assets using trade date accounting.

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

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

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

**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 — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

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

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).

### 1.4 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 municipality assesses the classification of each element separately.

**Finance leases - lessor**

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

### 1.4 Leases (continued)

**Finance leases - lessee**

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

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

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

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

**Operating leases - lessor**

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

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

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

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.

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

### 1.5 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for:
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

## Accounting Policies

### 1.5 Inventories (continued)

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

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

**Initial recognition**

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

**Subsequent measurement**

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

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

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

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

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

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

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

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

**Identification**

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

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

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

# Accounting Policies

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

**Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

**Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

**Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

**Reversal of an impairment loss**

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

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

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

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

# Accounting Policies

### 1.8 Employee benefits

**Short-term employee benefits**

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

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

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

**Post-employment benefits**

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

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

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

**1.8 Employee benefits (continued)**

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

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

# Accounting Policies

### 1.8 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

### 1.8 Employee benefits (continued)

**Other post retirement obligations**

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

### 1.9 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

### 1.9 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when a municipality:

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

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

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

The municipality 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.

Contingencies are disclosed in note 26.

### 1.10 Revenue from exchange transactions

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

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

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

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, commission and volume rebates.

**Sale of goods**

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

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

### 1.10 Revenue from exchange transactions (continued)

**Interest and dividends**

Revenue arising from the use by others of municipality's assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

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

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

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

### 1.11 Revenue from non-exchange transactions

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

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

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

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

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

**Recognition**

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

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

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

**Measurement**

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

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

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

**Transfers**

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

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

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

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

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

**Services in-kind**

Services in-kind are not recognised.

### 1.12 Investment income

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

### 1.13 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 amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

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 policy on Impairment of Assets as per accounting policy number  and 1.7. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality 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.

### 1.14 Comparative figures

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

# Accounting Policies

### 1.15 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.16 Fruitless and wasteful expenditure

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

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

### 1.17 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 municipality’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.

### 1.18 Presentation of currency

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

### 1.19 Work in progress

Work in progress is recognised at cost and not depreciated. It includes all costs incurred in bringing the ultimate assets to their condition and location as intended by management.

Work in progress will be transferred to property, plant and equipment when the assets are available for use.

Work in progress relating to projects on behalf of other entities will be transferred to the specific entity when the assets are available for use.

### 1.20 Value Added Tax

The municipality accounts for VAT on the payment basis.

### 1.21 Budget information

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

The approved budget covers the fiscal period from 2014-07-01 to 2015-06-30.

The annual financial statements and the budget are not on the same basis of accounting. The actual financial statement information is therefore presented on a comparable basis to the budget information. The comparison and the reconciliation between the Statement of Financial Performance and the budget for the reporting period have been included in the Statement of Comparison of Budget and Actual Amounts.

### 1.22 Related parties

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

# Accounting Policies

### 1.22 Related parties (continued)

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

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

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

### 1.23 Going concern assumption

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

### 1.24 Capital commitments

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

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

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

## Notes to the Annual Financial Statements

**2. New standards and interpretations**

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

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

**GRAP 5 (revised 2013): Borrowing Costs**

Benchmark treatment is to recognise borrowing costs as an expense.

Alllowed alternative is to capitalise borrowing costs if it is attributable to the acquisition, construction or production of a qualifying asset. All other instances, expense borrowing costs.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

**GRAP 100 (revised 2013): Discontinued Operations**

All accounting, presentation and disclosure requirements with regards to non-current assets held for sale (or disposal groups) have been deleted. The impact of the amendments is:
- Will no longer be required to reclassify assets as held for sale. GRAP 100 now only deals with discontinued operations.
- Certain disclosure must be made if, at the reporting date, management has taken a decision to dispose of a significant asset or a group of assets and liabilities. Will fall under the Standard of GRAP on Presentation of Financial Statements.

Measurement requirements are to be applied prospectively and presentation and disclosure requirements are to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality has adopted the amendment for the first time in the 2015 annual financial statements.

The impact of the amendment is not material.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

**GRAP 20: Related Party Disclosures**

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The municipality (in this standard referred to as the reporting entity) applies this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that 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. As a minimum, the following are regarded as related parties of the reporting entity:
* A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.

* An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

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

The standard elaborates on the definitions and identification of:
- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:
- control;

## Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**
- related party transactions; and
- remuneration of management.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 105: Transfers of Functions Between Entities Under Common Control**

The objective of this Standard of GRAP is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities under common control.

A transfer of functions between municipalities under common control is a reorganisation and/or reallocation of functions between municipalities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between municipalities under common control.

The effective date of the standard is for years beginning on or after 1 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

The impact of this standard is currently being assessed.

**GRAP 106: Transfers of Functions Between Entities not Under Common Control**

The objective of this Standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between municipalities not under common control.

A transfer of functions between municipalities not under common control is a reorganisation and/or reallocation of functions between municipalities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values and should be derecognised (by the acquiree) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in surplus / (deficit).

For transfer of functions between municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between municipalities not under common control.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

The effective date of the standard is for years beginning on or after 1 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

The impact of this amendment is currently being assessed.

**GRAP 107: Mergers**

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

A merger is where a new combined municipality is started, no acquirer can be identified and the combining municipalities do not have any control over the municipality.

In the event of a merger, the assets and liabilities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by the combining municipalities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

The effective date of the standard is for years beginning on or after 1 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements.

The impact of this standard is currently being assessed.

**GRAP 32: Service Concession Arrangements: Grantor**

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 108: Statutory Receivables**

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

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

The standard has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

This interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time.

The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this interpretation need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time once it becomes effective.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

**GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

# Notes to the Annual Financial Statements

**2. New standards and interpretations (continued)**

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

**Directive 11: Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP**

The objective of this directive is to permit the municipality to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this directive allows the municipality, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the municipality elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the municipality made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this directive, the municipality will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the directive is for years beginning on or after 01 April 2015.

The municipality expects to adopt the directive for the first time in the 2016 annual financial statements.

The expected impact of this directive is currently being assessed.

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2015 | 2014 |
|---|---|---|
| Cash on hand | 4 000 | 4 000 |
| Bank balances | 76 345 476 | 49 680 704 |
| | **76 349 476** | **49 684 704** |

**The municipality had the following bank accounts**

| **Account number / description** | **Cash Book and Bank statement balances** | | |
|---|---|---|---|
| | **30 June 2015** | **30 June 2014** | **30 June 2013** |
| FNB Nelspruit Cheque account - 62 113 491 419 | 32 821 584 | 17 308 435 | 4 279 379 |
| FNB Nelspruit Cheque account - 62 113 492 938 | 233 164 | 226 848 | 219 686 |
| FNB Nelspruit Cheque account - 62 113 495 916 | 480 134 | 464 065 | 447 978 |
| FNB Nelspruit Cheque account - 62 113 496 360 | 477 191 | 461 230 | 445 250 |
| FNB Nelspruit Cheque account - 62 113 496 708 | 1 106 552 | 1 067 537 | 1 028 746 |
| FNB Nelspruit Cheque account - 62 113 468 564 | 1 533 510 | 1 478 855 | 1 424 589 |
| FNB Nelspruit Cheque account - 62 113 499 554 | 63 383 | 62 580 | 61 599 |
| Standard Bank Nelspruit Cheque account - 63395622 (Primary bank account) | 39 626 691 | 28 607 887 | 3 228 678 |
| Standard Bank Nelspruit Cheque account - 273226703 | 3 267 | 3 267 | 7 972 |
| **Total** | **76 345 476** | **49 680 704** | **11 143 877** |

### 4. Receivables from exchange transactions

| | 2015 | 2014 |
|---|---|---|
| Trade and other receivables | 393 520 | 484 637 |

**Trade and other receivables**

| **2015** | **Gross balance** | **Allowance for debt impairment** | **Total** |
|---|---|---|---|
| Other receivables | 552 177 | (158 657) | 393 520 |

| **2014** | **Gross balance** | **Allowance for debt impairment** | **Total** |
|---|---|---|---|
| Other receivables | 643 294 | (158 657) | 484 637 |

**Trade and other receivables: Ageing**

| | 2015 | 2014 |
|---|---|---|
| Current | 55 063 | 245 245 |
| 30+ days | 24 145 | - |
| 120+ days | 208 537 | - |
| 365+ days | 105 775 | 239 392 |

**Trade and other receivables impaired**

| | 2015 | 2014 |
|---|---|---|
| 365+ days | (158 657) | (158 657) |

**Reconciliation of provision for impairment of trade and other receivables**

| | 2015 | 2014 |
|---|---|---|
| Opening balance | (158 657) | (119 633 717) |
| Amounts written off as uncollectible | - | 119 475 060 |
| | **(158 657)** | **(158 657)** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 5. Inventories

| | | |
|---|---|---|
| Consumable stores | 664 767 | 382 369 |

| | | |
|---|---|---|
| Opening balance | 382 369 | 267 227 |
| Additions | 1 175 074 | 913 028 |
| Issued | (914 785) | (795 911) |
| Inventory adjustment / written off | 22 109 | (1 975) |
| **Closing balance** | **664 767** | **382 369** |

Inventories comprise of office stationery.

### 6. VAT receivable

| | | |
|---|---|---|
| SARS VAT refundable | 1 966 503 | 2 307 761 |

### 7. Investments

| | | |
|---|---|---|
| Fixed deposits | 523 095 | 502 490 |
| Listed investments | 3 801 945 | 3 538 892 |
| | **4 325 040** | **4 041 382** |

Sanlam listed investments are disclosed at current market value of shares at reporting date. The municipality's risk is that the share price of listed investments might devalue significantly during the period under review and result in a substantial loss of the investment. The share price risk is managed by only investing in reputable listed entities with a good track record.

### 8. Property, plant and equipment

| | 2015 | | | 2014 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** | **Cost / Valuation** | **Accumulated depreciation and accumulated impairment** | **Carrying value** |
| Land | 8 103 054 | - | 8 103 054 | 8 103 054 | - | 8 103 054 |
| Buildings | 233 914 677 | (28 043 262) | 205 871 415 | 233 869 677 | (22 376 268) | 211 493 409 |
| Furniture and fixtures | 9 445 314 | (4 767 073) | 4 678 241 | 9 337 646 | (3 840 910) | 5 496 736 |
| Motor vehicles | 3 635 246 | (2 367 028) | 1 268 218 | 4 129 727 | (2 790 518) | 1 339 209 |
| Office equipment | 32 912 599 | (27 256 874) | 5 655 725 | 32 236 732 | (26 156 836) | 6 079 896 |
| Plant and equipment | 2 615 490 | (1 369 975) | 1 245 515 | 2 565 648 | (1 109 563) | 1 456 085 |
| Bins and containers | 4 289 | (3 960) | 329 | 4 289 | (3 850) | 439 |
| **Total** | **290 630 669** | **(63 808 172)** | **226 822 497** | **290 246 773** | **(56 277 945)** | **233 968 828** |

**Reconciliation of property, plant and equipment - 2015**

| | **Opening balance** | **Additions** | **Disposals** | **Depreciation** | **Total** |
| --- | --- | --- | --- | --- | --- |
| Land | 8 103 054 | - | - | - | 8 103 054 |
| Buildings | 211 493 409 | 45 000 | - | (5 666 994) | 205 871 415 |
| Furniture and fixtures | 5 496 736 | 111 557 | (1 770) | (928 282) | 4 678 241 |
| Motor vehicles | 1 339 209 | 304 999 | (84 390) | (291 600) | 1 268 218 |
| Office equipment | 6 079 896 | 1 336 737 | (79 301) | (1 681 607) | 5 655 725 |
| Plant and equipment | 1 456 085 | 54 190 | (1 666) | (263 094) | 1 245 515 |
| Bins and containers | 439 | - | - | (110) | 329 |
| | **233 968 828** | **1 852 483** | **(167 127)** | **(8 831 687)** | **226 822 497** |

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

| | **Opening balance** | **Additions** | **Disposals** | **Depreciation** | **Total** |
| --- | --- | --- | --- | --- | --- |
| Land | 7 165 083 | 937 971 | - | - | 8 103 054 |
| Buildings | 215 795 589 | 1 357 029 | - | (5 659 209) | 211 493 409 |
| Furniture and fixtures | 6 398 058 | 37 495 | (14 962) | (923 855) | 5 496 736 |
| Motor vehicles | 1 793 342 | - | (56 737) | (397 396) | 1 339 209 |
| Office equipment | 8 336 760 | 800 680 | (91 290) | (2 966 254) | 6 079 896 |
| Plant and equipment | 1 592 477 | 180 038 | (2 968) | (313 462) | 1 456 085 |
| Bins and containers | 549 | - | - | (110) | 439 |
| | **241 081 858** | **3 313 213** | **(165 957)** | **(10 260 286)** | **233 968 828** |

**Pledged as security**

Carrying value of assets pledged as security:

| | 2015 | 2014 |
| --- | --- | --- |
| Land and buildings | 205 871 415 | 211 493 409 |

Refer to Appendix B for more detail on property, plant and equipment.

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 9. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 38 414 389 | 29 297 341 |
| Retentions | 9 509 917 | 5 809 163 |
| | **47 924 306** | **35 106 504** |

### 10. Work in progress

| | | |
|---|---|---|
| Construction work in progress | 694 172 | 425 760 |
| Other work in progress | 787 463 | - |
| | **1 481 635** | **425 760** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 11. Provisions

**Reconciliation of provisions - 2015**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for long service awards | 5 783 000 | 2 143 000 | (225 000) | 7 701 000 |
| Leave provision | 3 787 349 | 385 200 | (87 397) | 4 085 152 |
| Post retirement benefits | 14 670 000 | 1 829 000 | (128 000) | 16 371 000 |
| Provision for performance bonuses | 257 678 | 1 322 174 | (852 652) | 727 200 |
| | **24 498 027** | **5 679 374** | **(1 293 049)** | **28 884 352** |

**Reconciliation of provisions - 2014**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for long service awards | 5 165 000 | 791 000 | (173 000) | 5 783 000 |
| Leave provision | 3 825 900 | 386 483 | (425 034) | 3 787 349 |
| Post retirement benefits | 11 524 000 | 3 266 000 | (120 000) | 14 670 000 |
| Provision for performance bonuses | 172 799 | 650 000 | (565 121) | 257 678 |
| | **20 687 699** | **5 093 483** | **(1 283 155)** | **24 498 027** |

**Leave provision**

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave.

**Provision for performance bonuses**

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

**Post retirement benefits**

| | 2015 | 2014 |
|---|---|---|
| Opening balance of defined benefits | 14 670 000 | 11 524 000 |
| Interest cost | 1 460 000 | 1 123 000 |
| Current service cost | 1 360 000 | 1 121 000 |
| Expected employer benefit payments | (128 000) | (120 000) |
| Actuarial (gain) / loss | (991 000) | 1 022 000 |
| | **16 371 000** | **14 670 000** |

**Net expense recognised in Statement of Financial Performance**

| | 2015 | 2014 |
|---|---|---|
| Interest cost | 1 460 000 | 1 123 000 |
| Current service cost | 1 360 000 | 1 121 000 |
| Actuarial (gain) / loss | (991 000) | 1 022 000 |
| | **1 829 000** | **3 266 000** |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

**11. Provisions (continued)**

**Long service awards**

| | | |
|---|---|---|
| Transfers from accumulated surplus | 5 783 000 | 5 165 000 |
| Interest cost | 537 000 | 441 000 |
| Current service cost | 643 000 | 572 000 |
| Benefits paid | (225 000) | (173 000) |
| Actuarial (gain) / loss | 963 000 | (222 000) |
| | **7 701 000** | **5 783 000** |

**Net expense recognised in Statement of Financial Performance**

| | | |
|---|---|---|
| Interest cost | 537 000 | 441 000 |
| Current service cost | 643 000 | 572 000 |
| Actuarial (gain) / loss | 963 000 | (222 000) |
| | **2 143 000** | **791 000** |

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

**Post retirement benefit**

The municipality operates an accredited medical aid scheme. Employees who are not on a fixed contract participate in the post retirement medical assistance plan.

The post retirement assistance plan consisting of KeyHealth Medical Scheme (Keyhealth), LA Health Medical Scheme (LA Health) , Bonitas Medical Aid Fund (Bonitas), Hosmed Medical Scheme (Hosmed) and SAMWU National Medical Scheme (SAMWUMED). The members are entitled to a 60% retirement subsidy of the total contribution subject to a maximum of R 3,911.10 as from 1 July 2015.

These funds are subject to actuarial valuations. The last valuation was performed by an independent actuarial firm, Alexander Forbes, on 30 June 2015.

**Long service awards**

The municipality rewards it's employees who are in service for an unbroken period of 10 years and longer. Employees are entitled/awarded leave days equivalent to number of years served eg. 10 years of service, one gets 10 days of leave, which can either be taken as leave or to be paid out in cash.

The awards were subjected to actuarial valuation by an independent actuarial firm, Alexander Forbes, on 30 June 2015.

**Provision for performance bonuses**

Performance bonuses accrued to fixed contract employees subject to certain conditions being met.

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

### 11. Provisions (continued)

**Calculation of actuarial gains & losses**

The following key assumptions were used at reporting date:

| | | |
| --- | --- | --- |
| **Post retirement benefits** | | |
| Discount rate | 9.70% | 10.00% |
| Rand Cap Inflation | 8.10% | 8.60% |
| Health Care Cost Inflation | 9.10% | 9.60% |
| Salary Inflation | 8.10% | 8.60% |
| Expected retirement age | 65 years | 65 years |
| Continuation members | 4 | 4 |
| In-service members | 127 | 107 |
| **Long service awards** | | |
| Discount rate | 8.50% | 8.50% |
| Inflation rate | 6.30% | 6.40% |
| Salary Inflation | 7.30% | 7.40% |
| In-service members | 140 | 117 |

### 12. Long term liabilities

| | | |
| --- | --- | --- |
| **At amortised cost** | | |
| DBSA loan | 174 735 537 | 186 703 403 |

The municipality has three separate loans at DBSA with different maturity dates and interest rates. Details of the loans are as follows:

**DBSA - 61000886**
Maturity date: 31/12/2029
Interest calculated at
11.12%

**DBSA - 61000887**
Maturity date: 31/12/2020
Interest calculated at 6.75%

**DBSA - 61000885**
Maturity date: 31/12/2016
Interest calculated at
11.43%

| | | |
| --- | --- | --- |
| **Non-current liabilities** | | |
| At amortised cost | 161 526 805 | 174 735 925 |
| **Current liabilities** | | |
| At amortised cost | 13 208 732 | 11 967 478 |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 13. Unspent conditional grants

**Unspent conditional grants and receipts comprises of:**

| | | |
|---|---|---|
| **Unspent conditional grants and receipts** | | |
| Mpumalanga Provincial Government Department of Finance | 60 326 | 1 000 000 |
| Mpumalanga Provincial Government Department of Human Settlement | - | 1 854 366 |
| National Department of Water Affairs | - | 1 923 754 |
| National Treasury Finance Management Grant | 181 | 846 |
| National Department Roads & Transport | 2 043 | 625 836 |
| Municipal Systems Improvement Grant | 15 182 | 227 |
| Energy Efficiency and Demand Grant | - | 4 754 000 |
| | **77 732** | **10 159 029** |

See note 14 for reconciliation of grants and subsidies.

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 14. Government grants and subsidies

| | | |
|---|---|---|
| Government grant - Equitable Share | 199 678 000 | 188 227 000 |
| Government grant - Finance Management Grant | 1 500 665 | 1 500 113 |
| Government grant - Municipal Systems Improvement Grant | 919 045 | 954 775 |
| Government grant - Department of Water Affairs | 1 923 754 | 215 160 |
| Government grant - Barberton Mines (Pty) Ltd | - | 555 000 |
| Government grant - Department Roads & Transport | 1 615 829 | 1 447 368 |
| Government grant - Expanded Public Works Program Incentive | 2 887 000 | 1 000 000 |
| Government grant - Department of Human Settlement | 1 854 754 | - |
| Government grant - Energy Efficiency and Demand | - | 245 700 |
| Government grant - Mpumalanga Provincial Government Department of Finance | 2 251 674 | - |
| | **212 630 721** | **194 145 116** |

**Mpumalanga Provincial Government Department of Finance**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 000 000 | - |
| Current-year receipts | 1 312 000 | 1 000 000 |
| Conditions met - transferred to revenue | (2 251 674) | - |
| | **60 326** | **1 000 000** |

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

The grant was received for a data cleansing project for Thaba Chweu Local Municipality.

**Mpumalanga Provincial Government Department of Human Settlement**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 854 366 | 1 890 526 |
| Conditions met - transferred to revenue | (1 854 366) | - |
| Other | - | (36 160) |
| | **-** | **1 854 366** |

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

The purpose of the grant is to provide funding for the creation of sustainable human settlements.

**National Department of Water Affairs**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 1 923 754 | 2 138 914 |
| Conditions met - transferred to revenue | (1 923 754) | (215 160) |
| | **-** | **1 923 754** |

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

The purpose of the grant is to develop infrastructure that connects water resources to infrastructure serving extensive areas across municipal boundaries or large bulk infrastructure serving numerous communities over a large area within a municipality. In the case of sanitation, to supplement regional bulk collection as well as regional waste water treatment works.

**National Treasury Finance Management Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 846 | 959 |
| Current-year receipts | 1 500 000 | 1 500 000 |
| Conditions met - transferred to revenue | (1 500 665) | (1 500 113) |
| | **181** | **846** |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 14. Government grants and subsidies (continued)

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

The purpose of this grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

**National Department of Roads & Transport**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 625 836 | 363 205 |
| Current-year receipts | 1 843 000 | 1 710 000 |
| Conditions met - transferred to revenue | (1 615 829) | (1 447 369) |
| Capital expenditure during the year | (1 615 829) | - |
| Expenditure during the year | 764 865 | - |
| | **2 043** | **625 836** |

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

The purpose of this grant is to assist rural district municipalities to set up rural RAMS, and collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa.

**Municipal Systems Improvement Grant**

| | | |
|---|---|---|
| Balance unspent at beginning of year | 227 | 65 002 |
| Current-year receipts | 934 000 | 890 000 |
| Conditions met - transferred to revenue | (919 045) | (954 775) |
| | **15 182** | **227** |

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

The purpose of this grant is to assist municipalities to perform their functions and stabilise institutional and governance systems as required by the Municipal Systems Act and related legislation.

**Sector Education and Training Authority**

| | | |
|---|---|---|
| Current-year receipts | 196 785 | 107 276 |
| Conditions met - transferred to other income | (196 785) | (107 276) |
| | **-** | **-** |

The purpose of the funds is for skills and capacity building within the municipality.

**Expanded Public Works Program Incentive**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 2 887 000 | 1 000 000 |
| Conditions met - transferred to revenue | (2 887 000) | (1 000 000) |
| | **-** | **-** |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 14. Government grants and subsidies (continued)

The purpose of this grant is to incentivise provincial departments to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the EPWP guidelines:

- road maintenance and maintenance of buildings
- low traffic volume roads and rural roads
- other economic and social infrastructure
- tourism and cultural industries
- sustainable land based livelihoods
- waste management
- parks and beautification
- social services programs
- health services programs
- community safety programs
- basic services infrastructure

**Barberton Mines (Pty) Ltd**

| | 2015 | 2014 |
|---|---|---|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 50 000 | 555 000 |
| Conditions met - transferred to other income | (50 000) | (555 000) |
| | **-** | **-** |

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

The purpose of the funds is for Small, Medium and Macro Enterprise development.

**National Department of Minerals and Energy**

| | 2015 | 2014 |
|---|---|---|
| Balance unspent at beginning of year | 4 754 000 | - |
| Current-year receipts | - | 4 999 700 |
| Transferred to National Treasury | (4 754 000) | (245 700) |
| | **-** | **4 754 000** |

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

To provide subsidies to municipalities to implement energy efficiency and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 15. Employee related costs

| | | |
|---|---|---|
| Basic | 51 921 239 | 45 497 960 |
| Bonus | 4 438 552 | 3 699 129 |
| Medical aid - company contributions | 3 749 106 | 3 415 703 |
| UIF | 288 319 | 264 805 |
| SDL | 617 670 | 564 781 |
| Leave pay provision contribution | 385 200 | 386 482 |
| Post-employment benefits - pension - defined contribution plan | 9 709 582 | 8 899 166 |
| Travel, motor car, accommodation, subsistence and other allowances | 11 925 800 | 11 070 298 |
| Overtime payments | 467 137 | 634 003 |
| Acting allowances | 367 711 | 396 768 |
| Housing benefits and allowances | 372 958 | 354 898 |
| Industrial council levy | 11 221 | 9 811 |
| | **84 254 495** | **75 193 804** |

**Remuneration of Municipal Manager - Adv. HM Mbatha**

| | | |
|---|---|---|
| Annual Remuneration | 1 029 425 | 1 091 063 |
| Car Allowance | 360 000 | 189 479 |
| Performance Bonuses | 217 508 | 203 567 |
| Contributions to UIF, Medical and Pension Funds | 271 674 | 284 040 |
| | | - |
| | **1 878 607** | **1 768 149** |

**Remuneration of Chief Finance Officer - W Khumalo**

| | | |
|---|---|---|
| Annual Remuneration | 997 774 | 840 779 |
| Car Allowance | 300 000 | 292 435 |
| Performance Bonuses | 201 497 | 172 856 |
| Contributions to UIF, Medical and Pension Funds | 242 153 | 205 670 |
| Acting allowance | - | 7 500 |
| | **1 741 424** | **1 519 240** |

**Manager: Corporate services - MH Shabangu**

| | | |
|---|---|---|
| Annual Remuneration | 552 605 | 635 390 |
| Car Allowance | 300 000 | 208 000 |
| Performance Bonuses | 66 375 | - |
| Contributions to UIF, Medical and Pension Funds | 163 851 | 153 654 |
| Acting allowance | 87 935 | 96 821 |
| Other | 46 833 | - |
| | **1 217 599** | **1 093 865** |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 15. Employee related costs (continued)

**Manager: LED & Tourism - NP Mahlalela**

| | | |
|---|---|---|
| Annual Remuneration | 807 300 | 803 038 |
| Car Allowance | 300 000 | 226 672 |
| Performance Bonuses | 85 897 | 103 359 |
| Contributions to UIF, Medical and Pension Funds | 205 077 | 206 558 |
| Acting allowance | 12 554 | 10 281 |
| Other | 34 791 | - |
| | **1 445 619** | **1 349 908** |

**Manager: Technical services - TD Gogwane (Appointed 01/01/2015)**

| | | |
|---|---|---|
| Annual Remuneration | 265 567 | - |
| Car Allowance | 90 000 | - |
| Contributions to UIF, Medical and Pension Funds | 70 403 | - |
| Other | 63 901 | - |
| | **489 871** | **-** |

**Acting Manager: Technical services - DD Mabena (Acting until 31/12/2014)**

| | | |
|---|---|---|
| Annual Remuneration | 252 319 | 171 088 |
| Car Allowance | 72 000 | 44 160 |
| Contributions to UIF, Medical and Pension Funds | 63 015 | 35 962 |
| Acting allowance | 23 676 | 64 271 |
| | **411 010** | **315 481** |

**Manager: Municipal Health & Environment- ST Shabangu**

| | | |
|---|---|---|
| Annual Remuneration | 643 372 | 640 704 |
| Car Allowance | 300 000 | 240 000 |
| Contributions to UIF, Medical and Pension Funds | 141 463 | 139 215 |
| Acting allowance | 6 926 | 14 994 |
| Performance bonus | 70 924 | - |
| | **1 162 685** | **1 034 913** |

**Manager: Public Safety & Disaster Management - SR Mhlongo**

| | | |
|---|---|---|
| Annual Remuneration | 605 505 | 644 211 |
| Car Allowance | 300 000 | 240 000 |
| Performance Bonuses | 70 924 | 85 339 |
| Contributions to UIF, Medical and Pension Funds | 178 412 | 176 359 |
| Acting allowance | - | 25 698 |
| | **1 154 841** | **1 171 607** |

Salaries, allowances and benefits of Councillors as disclosed in note 16 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance and Traditional Affairs determination in accordance with this Act.

Remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

## 16. Remuneration of councillors

| | | |
| --- | --- | --- |
| Executive Mayor | 898 595 | 849 000 |
| Speaker | 723 548 | 683 107 |
| Councillors | 7 485 567 | 7 003 489 |
| Councillors' pension contribution | 698 804 | 670 191 |
| Chief Whip | 681 444 | 641 899 |
| Councillors other allowances | 3 163 923 | 2 804 829 |
| | **13 651 881** | **12 652 515** |

**In-kind benefits**

The Executive Mayor, Deputy 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 the use of a council owned vehicles for official duties.

The Executive Mayor has a full-time bodyguard, a full-time driver and a full-time security guard at her residence, at the cost of the council.

**Executive Mayor - Cllr LN Shongwe**

| | | |
| --- | --- | --- |
| Annual Remuneration | 653 368 | 613 748 |
| Car Allowance | 210 284 | 202 008 |
| Contributions to UIF, Medical and Pension Funds | 34 943 | 33 244 |
| | **898 595** | **849 000** |

**Speaker - Cllr MJ Mavuso**

| | | |
| --- | --- | --- |
| Annual Remuneration | 524 778 | 471 914 |
| Car Allowance | 174 770 | 157 148 |
| Contributions to UIF, Medical and Pension Funds | 24 000 | 24 000 |
| Acting allowance | - | 30 045 |
| | **723 548** | **683 107** |

**Chief Whip - Cllr ET Shabangu**

| | | |
| --- | --- | --- |
| Annual Remuneration | 480 489 | 449 832 |
| Car Allowance | 163 847 | 154 572 |
| Contributions to UIF, Medical and Pension Funds | 37 108 | 37 495 |
| | **681 444** | **641 899** |

**MMC Environmental Health - Cllr TB Mdhluli**

| | | |
| --- | --- | --- |
| Annual Remuneration | 494 473 | 466 650 |
| Car Allowance | 163 847 | 154 572 |
| Contributions to UIF, Medical and Pension Funds | 21 535 | 21 536 |
| | **679 855** | **642 758** |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 16. Remuneration of councillors (continued)

**MMC LED & Tourism - Cllr BK Mokoena**

| | | |
|---|---|---|
| Annual Remuneration | 459 583 | 88 563 |
| Car Allowance | 163 847 | 33 491 |
| Contributions to UIF, Medical and Pension Funds | 56 749 | 15 987 |
| | **680 179** | **138 041** |

**MMC Technical - Cllr MJ Mnisi**

| | | |
|---|---|---|
| Annual Remuneration | 457 124 | 422 784 |
| Car Allowance | 163 847 | 154 572 |
| Contributions to UIF, Medical and Pension Funds | 59 376 | 63 592 |
| | **680 347** | **640 948** |

**MMC Rural Development - Cllr SP Monareng**

| | | |
|---|---|---|
| Annual Remuneration | 504 008 | 476 186 |
| Car Allowance | 163 847 | 154 572 |
| Contributions to UIF, Medical and Pension Funds | 12 000 | 12 000 |
| | **679 855** | **642 758** |

**MMC Corporate Services - Cllr BN Mdakane**

| | | |
|---|---|---|
| Annual Remuneration | 472 700 | 444 878 |
| Car Allowance | 163 847 | 154 572 |
| Contributions to UIF, Medical and Pension Funds | 43 308 | 43 308 |
| | **679 855** | **642 758** |

**MMC Finance - Cllr ET Mabuza**

| | | |
|---|---|---|
| Annual Remuneration | 488 672 | 460 850 |
| Car Allowance | 163 847 | 154 572 |
| Contributions to UIF, Medical and Pension Funds | 27 336 | 27 336 |
| | **679 855** | **642 758** |

**MMC Social Services - Cllr NC Hlophe**

| | | |
|---|---|---|
| Annual Remuneration | 469 328 | 430 350 |
| Car Allowance | 163 847 | 154 572 |
| Contributions to UIF, Medical and Pension Funds | 46 680 | 58 074 |
| | **679 855** | **642 996** |

### 17. Depreciation

| | | |
|---|---|---|
| Property, plant and equipment | 8 831 687 | 10 260 286 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 18. Finance costs

| | | |
|---|---|---|
| Interest - other | 2 000 775 | 3 178 347 |
| Interest - DBSA | 19 859 687 | 21 026 650 |
| | **21 860 462** | **24 204 997** |

## 19. Contracted services

| | | |
|---|---|---|
| Security services | 1 049 408 | 958 804 |
| Facility management services | 2 272 283 | 1 451 902 |
| | **3 321 691** | **2 410 706** |

## 20. Grants and subsidies - Capital

| | | |
|---|---|---|
| Mpumalanga Provincial Government Department of Finance | 2 251 674 | - |
| National Department of Water Affairs | - | 215 160 |
| Nkomazi Local Municipality | - | 2 536 692 |
| Barberton Mines (Pty) Ltd | - | 555 000 |
| Department of Roads & Transport | 1 615 829 | 1 447 368 |
| Expanded Public Works Program Incentives | 337 125 | - |
| Sector plans - Local Municipalities | 4 693 945 | 4 253 042 |
| National Treasury Finance Management Grant | 471 190 | 265 025 |
| Municipal Systems Improvement Grant | 519 686 | 704 398 |
| Thaba Chweu Local Municipality | 11 704 418 | 10 102 545 |
| Umjindi Local Municipality | - | 1 956 303 |
| Bushbuckridge Local Municipality | - | 6 599 583 |
| Energy Efficiency and Demand | - | 245 700 |
| | **21 593 867** | **28 880 816** |

## 21. Auditors' remuneration

| | | |
|---|---|---|
| Audit fees | 2 471 005 | 2 419 014 |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 22. General expenses

| | | |
|---|---|---|
| AIDS council | 200 548 | 382 996 |
| Advertising | 995 037 | 502 180 |
| Bank charges | 47 843 | 40 287 |
| Bursaries | 113 270 | 203 684 |
| Cleaning | 1 072 898 | 418 831 |
| Community outreach | 2 928 694 | 2 644 055 |
| Conferences and seminars | 614 040 | 54 344 |
| Consulting and professional fees | 3 283 626 | 4 597 240 |
| Disaster management cost - centre | 1 799 850 | 1 922 478 |
| Disaster management operational cost | 1 740 080 | 1 711 740 |
| Electricity | 2 311 568 | 2 128 080 |
| Entertainment | 897 281 | 509 736 |
| Fuel and oil | 744 849 | 820 248 |
| GIS operational costs | 204 844 | 1 304 830 |
| IDP review | 374 558 | 341 995 |
| IT expenses | 1 855 359 | 1 320 738 |
| Insurance | 494 805 | 686 110 |
| Lease rentals | 210 685 | 209 503 |
| Marketing | 624 181 | 336 357 |
| Municipal health operational cost | 459 615 | 140 636 |
| Other expenses | 5 057 600 | 2 287 620 |
| Other programs and campaigns | 542 737 | 1 665 890 |
| Postage and courier | 5 608 | 3 998 |
| Printing and stationery | 1 338 537 | 890 353 |
| Project maintenance costs | 453 759 | 1 822 518 |
| Promotions | 674 906 | 525 415 |
| Protective clothing | 8 976 | 3 374 |
| Research and development costs | 195 006 | 216 223 |
| Rates and taxes | 1 832 746 | 1 152 576 |
| Subscriptions and membership fees | 966 374 | 745 803 |
| Telephone and fax | 941 901 | 960 512 |
| Tourism development | 305 616 | 1 662 722 |
| Training | 1 001 084 | 931 875 |
| Travel - local | 4 602 812 | 3 282 584 |
| Water | 498 804 | 591 889 |
| | **39 400 097** | **37 019 420** |

### 23. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 26 226 503 | 5 595 144 |
| **Adjustments for:** | | |
| Depreciation | 8 831 687 | 10 260 286 |
| Actuarial loss/(gain) | (28 000) | 800 000 |
| Gain on fair value adjustments | (263 053) | (902 633) |
| Profit/(loss) on disposal of assets | (40 431) | 85 906 |
| Movements in provisions | 4 386 325 | 3 810 328 |
| **Changes in working capital:** | | |
| Inventories | (282 398) | (115 142) |
| Receivables from exchange transactions | 91 117 | 32 100 |
| Payables from exchange transactions | 11 992 032 | 20 334 072 |
| VAT | 341 258 | 1 024 133 |
| Unspent conditional grants | (10 081 297) | 5 700 423 |
| | **41 173 743** | **46 624 617** |

### 24. Financial instruments disclosure

**Categories of financial instruments**

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

**2015**

**Financial assets**

| | At fair value | At amortised cost | At cost | Total |
|---|---|---|---|---|
| Trade and other receivables from exchange transactions | - | 393 520 | - | 393 520 |
| Cash and cash equivalents | - | - | 76 349 476 | 76 349 476 |
| Investments | 3 801 945 | - | 523 095 | 4 325 040 |
| | **3 801 945** | **393 520** | **76 872 571** | **81 068 036** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Long term liabilities | 174 735 537 | 174 735 537 |
| Trade and other payables from exchange transactions | 47 924 307 | 47 924 307 |
| | **222 659 844** | **222 659 844** |

**2014**

**Financial assets**

| | At fair value | At amortised cost | At cost | Total |
|---|---|---|---|---|
| Trade and other receivables from exchange transactions | - | 484 637 | - | 484 637 |
| Cash and cash equivalents | - | - | 49 684 704 | 49 684 704 |
| Investments | 3 538 892 | - | 502 490 | 4 041 382 |
| | **3 538 892** | **484 637** | **50 187 194** | **54 210 723** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Long term liabilities | 186 703 403 | 186 703 403 |
| Trade and other payables from exchange transactions | 35 106 504 | 35 106 504 |
| | **221 809 907** | **221 809 907** |

### 25. Commitments

**Authorised capital expenditure**

| | 2015 | 2014 |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 1 659 080 | 4 754 300 |

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

| | 2015 | 2014 |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | - | 141 377 |

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. No contingent rent is payable. The lease agreement has lapsed 30 June 2015.

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 26. Contingencies

**Contingent assets**

1**. Development Bank of Southern Africa**

The Municipality is suing DBSA for failure to comply with the terms of contract (breach) in that they promised to reduce interest rate in the event the municipality puts security for the loan and also that they will fund one of the community development projects that the municipality is involved in, which the failed or refused to do till date. The municipality does have a good chance of succeeding in this matter. There is no specific amount looked at, however the municipality intends to compel DBSA to do a specific performance as stated above. The DBSA must file a discovery affidavit. An application for a trial date has been made at the North Gauteng High Court.

**Contingent liabilities**

**1. South African Municipal Workers Union**

The South African Municipal Workers Union referred a matter to the Bargaining Council for three employees claiming unfair labour practice after the municipality declined to approve their travelling allowance applications. The matter is currently at the labour court where Ehlanzeni District Municipality is appealing the decision that the employees be given a travelling allowance, due to the nature of their day to day duties which does not qualify them to participate. Two of the employees have since resigned from the municipality. The estimated amount to be paid to the remaining colleague is R 400,000.

**2. Dumata Trading CC**

This matter was inherited from the disestablished Bohlabela District Municipality and the plaintiff Dumata Trading CC is suing the municipality about R360 547 at the North Gauteng High Court for services rendered to Bohlabela. Pleadings have closed and plaintiff has to set the matter down for trial.

**3. Joint Municipal Pension Fund**

The Joint Municipal Pension Fund is suing the municipality for contributions on pension fund of Mr. John Scheepers a former employee of the Municipality and was their member but left in 2007 after he volunteered to retire following the transfer of the ambulance services from the municipality to the Department of Health.

The amount claimed in this matter is estimated at R759 778.39. Besides the fact that the Plaintiff in this matter has no Locus Standi to institute these proceedings, there is a high possibility of municipality succeeding in this matter.

4**. Employee related obligations**

The South African Local Government Bargaining Council wage curve agreement signed in 2010 resulted in a contingent liability. The municipality has not yet performed job evaluations and therefore unable to implement the agreement. The extent of the contingent liability is therefore unknown and will be assessed in the next financial year.

**5. Nkosi Attorneys Incorporated**

Attorney was claiming monies for services rendered, however some of the amounts claimed could not be accounting for and was not paid by the municipality. The claim was adjusted and the matter merits were settled, only arguments for costs remain. The amount is estimated at R 60,000.

### 27. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | - | - |
| Current year | 3 771 | 12 495 |
| Condoned by Municipal Manager | (3 771) | (12 495) |
| | **-** | **-** |

The fruitless and wasteful expenditure for the current year relates to interest paid. These expenses were condoned by the Municipal Manager.

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 28. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 1 447 369 | - |
| Add: Irregular Expenditure - current year | - | 1 447 369 |
| Less: Amounts written off by Council | (1 447 369) | - |
| | **-** | **1 447 369** |

### 29. Risk management

**Financial risk management**

Exposure to interest rate, liquidity and credit risks arises in the normal course of the Municipality's operations. The municipality has established a risk management committee, which is responsible for developing and monitoring the municipality's risk management policies. The risk management policies are established to identify and analyse the risks faced by the municipality, to set up risk limits and controls and to monitor risks and adherence to limits. Risk management policies are to be reviewed regularly to reflect changes in the municipality's activities.

**Liquidity risk**

Ehlanzeni District Municipality manages its liquidity risks by effectively managing its working capital, capital expenditure and external borrowings. Standby credit facilities in the form of an R20,000,000 bank overdraft facility has been negotiated with the main banker and provisionally approved. The overdraft facility will cater for any unexpected temporary shortfall in operating funds.

| At 30 June 2015 | Less than 1 year | Between 1 and 5 years |
|---|---|---|
| Long term borrowings | 13 208 732 | 161 526 805 |
| Payables from exchange transactions | 47 924 307 | - |

| At 30 June 2014 | Less than 1 year | Between 1 and 5 years |
|---|---|---|
| Long term borrowings | 11 967 478 | 174 735 925 |
| Payables from exchange transactions | 35 106 504 | - |

**Credit risk**

Ehlanzeni District Municipality manages its credit risk in its borrowing and investing activities by dealing with the A+ rated financial institutions and by spreading its exposure over a wide range of financial institutions in accordance with the approved cash and investment policy as was approved by council.

Management evaluated credit risk relating to receivables from exchange transactions on an ongoing basis. If receivables from exchange transactions are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivables, taking into account its financial position, past experience and other factors.

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

| Financial instrument | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | 76 349 476 | 49 684 704 |
| Non current investments | 3 801 945 | 3 538 892 |
| Current investments | 523 095 | 502 490 |
| Receivables from exchange transactions | 393 520 | 484 637 |

**Market risk**

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 29. Risk management (continued)

**Interest rate risk**

Ehlanzeni District Municipality is not exposed to any interest rate risks on its financial liabilities. As at the end of the financial year, 30 June 2015, Ehlanzeni District Municipality had only three fixed interest bearing loans with the Development Bank of Southern Africa (DBSA) as reflected in APPENDIX A. It should be noted that the interest in these three loans is fixed until maturity. Similarly, with financial assets, Ehlanzeni District Municipality invests its surplus funds not immediately required in a fixed interest rate deposit with the A+ rated banks for fixed terms not exceeding one year.

### 30. Related parties

| | |
|---|---|
| **Relationships** | |
| Entity of close family member of officials | Tshepiso Trading CC |
| Members of key management | See note 16 and 17 |

**Related party transactions**

| | 2015 | 2014 |
|---|---|---|
| **Purchases from (sales to) related parties** | | |
| Tshepiso Trading CC | 215 359 | - |

### 31. Interest received

| | 2015 | 2014 |
|---|---|---|
| External investment | 3 969 739 | 2 640 885 |

### 32. Prior period errors

ABSA Bank investment of R 323,050 not disclosed in previous financial period.

The useful lives of certain assets have been adjusted to the value of R 1,368,235

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

| | 2015 | 2014 |
|---|---|---|
| **Statement of financial position** | | |
| Property, plant and equipment | - | 1 368 235 |
| Investments | - | 323 050 |
| Opening Accumulated Surplus or Deficit | - | (1 333 674) |
| **Statement of Financial Performance** | | |
| Depreciation expense | - | (357 611) |

### 33. Revenue

| | 2015 | 2014 |
|---|---|---|
| Other income | 4 564 160 | 1 659 908 |
| Rental of facilities and equipment | 147 060 | 175 818 |
| Interest received | 3 969 739 | 2 640 885 |
| Dividends received | 109 605 | 97 427 |
| Government grants & subsidies | 212 630 721 | 194 145 116 |
| | **221 421 285** | **198 719 154** |

| | 2015 | 2014 |
|---|---|---|
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Other income | 4 564 160 | 1 659 908 |
| Rental of facilities and equipment | 147 060 | 175 818 |
| Interest received | 3 969 739 | 2 640 885 |
| Dividends received | 109 605 | 97 427 |
| | **8 790 564** | **4 574 038** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

### 33. Revenue (continued)

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

| | | |
| --- | --- | --- |
| **Transfer revenue** | | |
| Government grants & subsidies | 212 630 721 | 194 145 116 |

### 34. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

| | | |
| --- | --- | --- |
| **Statement of Financial Performance** | | |
| Employee related cost | - | 2 235 088 |
| Grants and subsidies paid | - | (2 235 088) |

### 35. Events after the reporting date

No events after the reporting date were identified by management that require adjustment to the balances at reporting date or additional disclosure.

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

**Contributions to organised local government**

| | | |
| --- | --- | --- |
| Current year subscription / fee | 966 374 | 745 803 |

**PAYE and UIF**

| | | |
| --- | --- | --- |
| Amount paid - current year | 17 496 144 | 16 262 141 |

**Pension and Medical Aid Deductions**

| | | |
| --- | --- | --- |
| Amount paid - current year | 21 699 178 | 19 742 928 |

**VAT**

| | | |
| --- | --- | --- |
| VAT received - current year | 16 272 593 | 14 147 131 |

### 37. Deviations i.t.o section 36 of Supply Chain Management Policy

| Name | Reason for deviation | Amount |
|---|---|---|
| Contract Media and Communications (Pty) Ltd | Single supplier | 28 443 |
| KaNyamazane Community Radio (NPO) | Single supplier | 6 000 |
| Mash Community Radio (NPO) | Single supplier | 6 000 |
| Barberton Community Radio (NPO) | Single supplier | 5 250 |
| National Council for the Blind (NPO) | Single supplier | 14 159 |
| CTP Limited t/a Lowveld Media | Single supplier | 6 655 |
| CTP Limited t/a Lowveld Media | Single supplier | 2 594 |
| CTP Limited t/a Lowveld Media | Single supplier | 3 525 |
| CTP Limited t/a Lowveld Media | Single supplier | 23 274 |
| Buscor (Pty) Ltd | Single supplier | 25 830 |
| CTP Limited t/a Lowveld Media | Single supplier | 2 067 |
| Media 24 (Pty) Ltd | Single supplier | 26 557 |
| CTP Limited t/a Lowveld Media | Single supplier | 8 681 |
| CTP Limited t/a Lowveld Media | Single supplier | 11 729 |
| Early Worx 282 (Pty) Ltd | Single supplier | 674 |
| Deaf Federation of South Africa (NPO) | Single supplier | 4 450 |
| CTP Limited t/a Lowveld Media | Single supplier | 3 470 |
| CTP Limited t/a Lowveld Media | Single supplier | 3 470 |
| CTP Limited t/a Lowveld Media | Single supplier | 4 049 |
| CTP Limited t/a Lowveld Media | Single supplier | 4 320 |
| CTP Limited t/a Lowveld Media | Single supplier | 20 876 |
| CTP Limited t/a Lowveld Media | Single supplier | 2 679 |
| Contact Communications Nelspruit CC | Single supplier | 8 900 |
| Deaf Federation of South Africa (NPO) | Single supplier | 4 450 |
| CTP Limited t/a Lowveld Media | Single supplier | 2 980 |
| AC Braby (Pty) Ltd | Single supplier | 7 012 |
| CTP Limited t/a Lowveld Media | Single supplier | 4 487 |
| CTP Limited t/a Lowveld Media | Single supplier | 5 777 |
| SABC (Ligwalagwala FM) | Single supplier | 13 110 |
| Tswelopele Filing Africa (Pty) Ltd | Single supplier | 7 935 |
| CTP Limited t/a Lowveld Media | Single supplier | 12 350 |
| CTP Limited t/a Lowveld Media | Single supplier | 5 325 |
| Chennin Hills Trading 10 (Pty) Ltd t/a Nkomazi Fuel | Emergency | 5 176 |
| CTP Limited t/a Lowveld Media | Single supplier | 20 876 |
| Mandarina Trading 55 CC t/a Creative Solutions | Single supplier | 87 719 |
| Nelson Mandela Metropolitan University | Single supplier | 30 409 |
| Chennin Hills Trading 10 (Pty) Ltd t/a Nkomazi Fuel | Emergency | 5 730 |
| Contact Communications Nelspruit CC | Emergency | 6 851 |
| CTP Limited t/a Lowveld Media | Single supplier | 3 806 |
| Labex (Pty) Ltd | Single supplier | 22 623 |
| Aqualytic CC | Single supplier | 15 320 |
| CTP Limited t/a Lowveld Media | Single supplier | 6 804 |
| CTP Limited t/a Lowveld Media | Single supplier | 6 804 |
| Payday Software Systems | Single supplier | 23 900 |
| AC Braby (Pty) Ltd | Single supplier | 23 995 |
| CTP Limited t/a Lowveld Media | Single supplier | 6 330 |
| CTP Limited t/a Lowveld Media | Single supplier | 4 682 |
| Nkomazi FM (NPO) | Single supplier | 10 500 |
| KaNyamazane Community Radio (NPO) | Single supplier | 9 000 |
| Bushbuckridge Community Radio (NPO) | Single supplier | 7 350 |
| Barberton Community Radio (NPO) | Single supplier | 5 000 |
| Pure Grit Projects & Exhibition Management (Pty) Ltd | Single supplier | 68 866 |
| Rosina Florence Mahlangu | Single supplier | 5 000 |

| Figures in Rand | | 2015 | 2014 |
|---|---|---|---|

### 37. Deviations i.t.o section 36 of Supply Chain Management Policy (continued)

| | | | |
|---|---|---|---|
| Chennin Hills Trading 10 (Pty) Ltd t/a Nkomazi Fuel | Single supplier | 5 590 | |
| CTP Limited t/a Lowveld Media | Single supplier | 5 777 | |
| Media 24 (Pty) Ltd | Single supplier | 34 720 | |
| CTP Limited t/a Lowveld Media | Single supplier | 4 320 | |
| CTP Limited t/a Lowveld Media | Single supplier | 2 929 | |
| Rosina Florence Mahlangu | Single supplier | 5 000 | |
| CTP Limited t/a Lowveld Media | Single supplier | 6 337 | |
| CTP Limited t/a Lowveld Media | Single supplier | 24 620 | |
| CTP Limited t/a Lowveld Media | Single supplier | 4 161 | |
| CTP Limited t/a Lowveld Media | Single supplier | 7 980 | |
| CTP Limited t/a Lowveld Media | Single supplier | 8 735 | |
| Union Motors (Pty) Ltd | Single supplier | 28 854 | |
| Disaster Risk Management (Pty) Ltd | Single supplier | 78 200 | |
| Chennin Hills Trading 10 (Pty) Ltd t/a Nkomazi Fuel | Single supplier | 6 210 | |
| Rosina Florence Mahlangu | Single supplier | 10 000 | |
| CTP Limited t/a Lowveld Media | Single supplier | 8 126 | |
| CTP Limited t/a Lowveld Media | Single supplier | 2 948 | |
| CTP Limited t/a Lowveld Media | Single supplier | 3 806 | |
| Van Wettens Breakdown Service (Pty) Ltd | Emergency | 1 571 | |
| Bethilde Potgieter | Impractical | 10 000 | |
| CTP Limited t/a Lowveld Media | Single supplier | 3 806 | |
| CTP Limited t/a Lowveld Media | Single supplier | 3 806 | |
| CTP Limited t/a Lowveld Media | Single supplier | 11 387 | |
| Chennin Hills Trading 10 (Pty) Ltd t/a Nkomazi Fuel | Single supplier | 6 430 | |
| Larona Consulting (Pty) Ltd | Single supplier | 27 788 | |
| Cochraine Steel Products (Pty) Ltd | Single supplier | 125 940 | |
| CTP Limited t/a Lowveld Media | Single supplier | 2 909 | |
| Kruger Lowveld Chamber of Business and Tourism | Single supplier | 75 240 | |
| Bokoena Cooling Systems CC | Single supplier | 11 628 | |
| Swaziland International Trade Fair | Single supplier | 26 842 | |
| Elwazini Conferencing CC | Single supplier | 1 999 | |
| Up-Grade Securities Management CC | Single supplier | 10 999 | |
| SITA (Pty) Ltd | Single supplier | 24 342 | |
| SMS4INFO (Pty) Ltd t/a Be Visible | Single supplier | 3 500 | |
| Early Worx (Pty) Ltd | Single supplier | 2 556 | |
| Contact Communications Nelspruit CC | Single supplier | 6 010 | |
| University of Stellenbosh | Single supplier | 41 930 | |
| Wesno Holdings (Pty )Ltd | Single supplier | 6 980 | |
| Dira Sengwe Conferences (Pty) Ltd | Single supplier | 9 123 | |
| Dira Sengwe Conferences (Pty) Ltd | Single supplier | 4 561 | |
| Bolelela Sengwe Trading & Projects CC | Single supplier | 7 499 | |
| Merck (Pty) Ltd | Single supplier | 5 905 | |
| Tech Infra Consultants CC | Single supplier | 47 718 | |
| Alans Shop Equipment CC t/a Bonanza Shop Equipment | Single supplier | 834 | |
| Merck (Pty) Ltd | Single supplier | 5 584 | |
| Platinum Sports Consulting | Single supplier | 28 500 | |
| | | **1 427 519** | |

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

**38. Budget differences**

**Material differences between budget and actual amounts**

Variances in excess of 10% is considered significant and therefore explanations are provided below:

**38.1 Other Income**

Unspent conditional grants recognised as other income.

**38.2 Interest Received**

More interest received due to more cash on hand during the financial period.

**38.3 Employee cost**

Employee cost were budgeted at 9% and only 6.94% was implemented.

**38.4 Depreciation**

Depreciation variances due to the review of useful lives of assets as per GRAP 17 par 56.

**38.5 Finance costs**

Implementation of GRAP 25 - Actuarial valuations.

**38.6 General expenses**

Savings as a result of cost curtailment measures implemented by council during the year under review.

**38.7 Other receipts**

Receipts from local municipalities for projects done on their behalf.

**38.8 Accumulated surplus**

Surplus realised in the current year due to cost curtailment measures implemented.

# Appendix A

## Schedule of external loans as at 30 June 2015

| | Balance at 30 June 2014 Rand | Received during the period Rand | Redeemed / written off during the period Rand | Balance at 30 June 2015 Rand | Carrying Value of Property, Plant & Equip Rand | Other Costs in accordance with the MFMA Rand |
|---|---|---|---|---|---|---|
| **Development Bank of Southern Africa** | | | | | | |
| DBSA - 61000886 Maturity date: 31/12/2029 Interest calculated at 11.12% | 156 102 409 | - | 4 113 424 | 151 988 985 | 205 871 415 | - |
| DBSA - 61000887 Maturity date: 31/12/2020 Inerest calculated at 6.75% | 14 900 336 | - | 2 090 963 | 12 809 373 | - | - |
| DBSA - 61000885 Maturity date: 31/12/2016 Interest calculated at 11.43% | 15 700 658 | - | 5 763 479 | 9 937 179 | - | - |
| | **186 703 403** | **-** | **11 967 866** | **174 735 537** | **205 871 415** | **-** |
| **Total external loans** | | | | | | |
| Development Bank of Southern Africa | 186 703 403 | - | 11 967 866 | 174 735 537 | 205 871 415 | - |
| | **186 703 403** | **-** | **11 967 866** | **174 735 537** | **205 871 415** | **-** |

# Appendix B

## Analysis of property, plant and equipment as at 30 June 2015

| | Cost/Revaluation | | | | Accumulated depreciation | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Opening Balance Rand** | **Additions Rand** | **Disposals Rand** | **Closing Balance Rand** | **Opening Balance Rand** | **Disposals Rand** | **Depreciation Rand** | **Closing Balance Rand** | **Carrying value Rand** |
| **Land and buildings** | | | | | | | | | |
| Land | 8 103 054 | - | - | **8 103 054** | - | - | - | **-** | 8 103 054 |
| Buildings | 233 869 677 | 45 000 | - | **233 914 677** | (22 376 268) | - | (5 666 994) | **(28 043 262)** | 205 871 415 |
| | **241 972 731** | **45 000** | **-** | **242 017 731** | **(22 376 268)** | **-** | **(5 666 994)** | **(28 043 262)** | **213 974 469** |
| **Other assets** | | | | | | | | | |
| Plant & equipment | 2 565 648 | 54 190 | (4 347) | **2 615 491** | (1 109 563) | 2 680 | (263 093) | **(1 369 976)** | 1 245 515 |
| Furniture & Fittings | 9 337 646 | 111 557 | (3 890) | **9 445 313** | (3 840 910) | 2 121 | (928 283) | **(4 767 072)** | 4 678 241 |
| Office Equipment | 32 236 732 | 1 336 737 | (660 869) | **32 912 600** | (26 156 836) | 581 568 | (1 681 607) | **(27 256 875)** | 5 655 725 |
| Motor vehicles | 4 129 727 | 304 999 | (799 480) | **3 635 246** | (2 790 518) | 715 090 | (291 600) | **(2 367 028)** | 1 268 218 |
| Bins and Containers | 4 289 | - | - | **4 289** | (3 850) | - | (110) | **(3 960)** | 329 |
| | **48 274 042** | **1 807 483** | **(1 468 586)** | **48 612 939** | **(33 901 677)** | **1 301 459** | **(3 164 693)** | **(35 764 911)** | **12 848 028** |

# Appendix C

## Segmental analysis of property, plant and equipment as at 30 June 2015

| | Cost/Revaluation | | | | | Accumulated Depreciation | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Opening Balance Rand | Additions Rand | Disposals Rand | Transfers Rand | Closing Balance Rand | Opening Balance Rand | Disposals Rand | Transfers Rand | Depreciation Rand | Closing Balance Rand | Carrying value Rand |
| **Municipality** | | | | | | | | | | | |
| Chief Whip | 119 929 | 270 | - | 25 522 | **145 721** | (64 865) | - | (14 431) | (11 626) | **(90 922)** | 54 799 |
| Corporate Services | 250 739 456 | 628 070 | (54 086) | (44 453) | **251 268 987** | (27 792 982) | 39 001 | 21 681 | (6 329 170) | **(34 061 470)** | 217 207 517 |
| Disaster management | 22 285 328 | 295 791 | (8 975) | (2 124) | **22 570 020** | (17 767 580) | 7 541 | 12 326 | (1 085 905) | **(18 833 618)** | 3 736 402 |
| Executive Mayor | 1 789 336 | 30 376 | (12 192) | (8 783) | **1 798 737** | (961 060) | 11 480 | 8 629 | (137 124) | **(1 078 075)** | 720 662 |
| Finance and SCM | 8 175 243 | 176 239 | (1 293 759) | 204 098 | **7 261 821** | (5 756 886) | 1 171 944 | (179 479) | (572 633) | **(5 337 054)** | 1 924 767 |
| Internal Audit | 151 646 | 18 419 | - | 14 383 | **184 448** | (88 830) | - | (13 478) | (12 388) | **(114 696)** | 69 752 |
| LED and Tourism | 986 943 | 140 735 | - | (82 180) | **1 045 498** | (408 104) | - | 43 517 | (125 106) | **(489 693)** | 555 805 |
| Municipal Health | 1 603 071 | 150 353 | - | 69 155 | **1 822 579** | (976 816) | - | (63 259) | (137 330) | **(1 177 405)** | 645 174 |
| Municipal Manager | 1 897 664 | 225 372 | (76 206) | 608 592 | **2 655 422** | (935 727) | 65 765 | (429 464) | (257 197) | **(1 556 623)** | 1 098 799 |
| Planning department | 759 326 | - | - | (759 326) | **-** | (576 948) | - | 576 948 | - | **-** | - |
| Rural Development | 66 070 | 73 269 | - | 66 721 | **206 060** | (36 360) | - | (20 369) | (18 986) | **(75 715)** | 130 345 |
| Social and Transversal Issues | 480 491 | 87 171 | (23 368) | (94 174) | **450 120** | (263 543) | 5 729 | 75 218 | (45 182) | **(227 778)** | 222 342 |
| Speaker | 293 572 | 13 672 | - | (56 858) | **250 386** | (140 386) | - | 36 658 | (25 503) | **(129 231)** | 121 155 |
| Technical Services | 898 698 | 12 746 | - | 59 427 | **970 871** | (507 859) | - | (54 497) | (73 537) | **(635 893)** | 334 978 |
| | **290 246 773** | **1 852 483** | **(1 468 586)** | **-** | **290 630 670** | **(56 277 946)** | **1 301 460** | **-** | **(8 831 687)** | **(63 808 173)** | **226 822 497** |

## Appendix D

### Segmental Statement of Financial Performance for the year ended 30 June 2015

| Current Year | | | | Prior Year | | |
|---|---|---|---|---|---|---|
| **Actual Income Rand** | **Actual Expenditure Rand** | **Surplus /(Deficit) Rand** | | **Actual Income Rand** | **Actual Expenditure Rand** | **Surplus /(Deficit) Rand** |
| | | | **Municipality** | | | |
| - | 6 250 828 | (6 250 828) | Office Executive Mayor | - | 6 143 407 | (6 143 407) |
| - | 3 478 086 | (3 478 086) | Office Rural Development | - | 3 127 488 | (3 127 488) |
| - | 13 636 399 | (13 636 399) | Office of the Speaker | - | 6 388 309 | (6 388 309) |
| - | 6 311 648 | (6 311 648) | Mayoral Committee | - | 5 984 544 | (5 984 544) |
| - | 16 198 159 | (16 198 159) | Office Municipal Manager | - | 5 974 361 | (5 974 361) |
| 221 421 285 | 81 657 565 | 139 763 720 | Finance | 198 719 154 | 60 519 681 | 138 199 473 |
| - | 23 934 852 | (23 934 852) | Corporate services | - | 12 633 664 | (12 633 664) |
| - | 4 515 117 | (4 515 117) | Technical Services | - | 3 868 282 | (3 868 282) |
| - | 9 766 134 | (9 766 134) | Municipal Health and Environment | - | 9 171 828 | (9 171 828) |
| - | 892 079 | (892 079) | Office Chief Whip | - | 1 195 444 | (1 195 444) |
| - | - | - | Council General | - | 43 234 003 | (43 234 003) |
| - | 2 554 396 | (2 554 396) | Internal Audit | - | 1 584 549 | (1 584 549) |
| - | 7 591 741 | (7 591 741) | Transversal Issues | - | 7 661 035 | (7 661 035) |
| - | 8 656 823 | (8 656 823) | LED and Tourism | - | 8 135 173 | (8 135 173) |
| - | - | - | Planning and development | - | 7 985 937 | (7 985 937) |
| - | 9 750 956 | (9 750 956) | Disaster Management and Public Safety | - | 9 516 305 | (9 516 305) |
| **221 421 285** | **195 194 783** | **26 226 502** | | **198 719 154** | **193 124 010** | **5 595 144** |

## Appendix E(1)

### Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2015

| | Current year 2015 Act. Bal. Rand | Current year 2015 Adjusted budget Rand | Variance Rand | Var | Explanation of Significant Variances greater than 10% versus Budget |
|---|---|---|---|---|---|
| Revenue | | | | | |
| Other income | 4 564 160 | 2 900 000 | 1 664 160 | 57,4 | Refer to note 38 |
| Rental of facilities and equipment | 147 060 | 345 440 | (198 380) | (57,4) | |
| Interest received | 3 969 739 | 3 200 000 | 769 739 | 24,1 | Refer to note 38 |
| Dividends received | 109 605 | 115 000 | (5 395) | (4,7) | |
| Government grants & subsidies | 212 630 721 | 206 965 000 | 5 665 721 | 2,7 | Refer to note 38 |
| | 221 421 285 | 213 525 440 | 7 895 845 | 3,7 | |
| Expenses | | | | | |
| Employee related cost | (84 254 495) | (89 059 988) | 4 805 493 | (5,4) | Refer to note 38 |
| Remuneration of councillors | (13 651 880) | (13 792 115) | 140 235 | (1,0) | |
| Audit fees | (2 471 005) | (2 471 010) | 5 | - | |
| Depreciation | (8 831 687) | (15 000 000) | 6 168 313 | (41,1) | Refer to note 38 |
| Finance costs | (21 860 462) | (20 093 385) | (1 767 077) | 8,8 | |
| Repairs and maintenance | (141 081) | (332 066) | 190 985 | (57,5) | Refer to note 38 |
| Contracted services | (3 321 691) | (3 341 692) | 20 001 | (0,6) | |
| Grants and subsidies paid | (21 593 867) | (26 473 441) | 4 879 574 | (18,4) | Refer to note 38 |
| General expenses | (39 400 099) | (49 514 883) | 10 114 784 | (20,4) | Refer to note 38 |
| | (195 526 267) | (220 078 580) | 24 552 313 | (11,2) | |
| Other revenue and costs | | | | | |
| Fair value adjustments | 40 431 | - | 40 431 | - | Refer to note 38 |
| Income from equity accounted investments | 263 053 | - | 263 053 | - | Refer to note 38 |
| Gain or loss on disposal of non-current assets held for sale or disposal groups | 28 000 | - | 28 000 | - | Refer to note 38 |
| | 331 484 | - | 331 484 | - | |
| Net surplus/ (deficit) for the year | 26 226 502 | (6 553 140) | 32 779 642 | (500,2) | |

## Appendix E(2)

### Budget Analysis of Capital Expenditure as at 30 June 2015

| | Additions Rand | Revised Budget Rand | Variance Rand | Variance % | Explanation of significant variances from budget |
|---|---|---|---|---|---|
| **Municipality** | | | | | |
| Chief Whip | 270 | 10 000 | 9 730 | **97** | Review of useful lives and conditional assessment of assets resulted in fewer assets purchased |
| Corporate Services | 628 070 | 634 245 | 6 175 | **1** | |
| Disaster Management | 295 791 | 296 764 | 973 | **-** | |
| Executive Mayor | 30 376 | 30 500 | 124 | **-** | |
| Finance & SCM | 176 239 | 189 504 | 13 265 | **7** | |
| Internal Audit | 18 419 | 20 000 | 1 581 | **8** | |
| LED & Tourism | 140 735 | 159 715 | 18 980 | **12** | Review of useful lives and conditional assessment of assets resulted in fewer assets purchased |
| Municipal Health | 150 353 | 196 200 | 45 847 | **23** | Review of useful lives and conditional assessment of assets resulted in fewer assets purchased |
| Municipal Manager | 225 372 | 265 182 | 39 810 | **15** | Review of useful lives and conditional assessment of assets resulted in fewer assets purchased |
| Planning Department | - | - | - | **-** | |
| Rural Develpment | 73 269 | 74 000 | 731 | **1** | |
| Social & Transversial Issues | 87 171 | 88 725 | 1 554 | **2** | |
| Speaker | 13 672 | 14 000 | 328 | **2** | |
| Technical Services | 12 746 | 12 750 | 4 | **-** | |
| Mayoral Committee | - | - | - | **-** | |
| | - | - | - | **-** | |
| | **1 852 483** | **1 991 585** | **139 102** | **7** | |

**Appendix F**
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**

| Name of Grants | Quarterly Receipts | | | | Quarterly Expenditure | | | | Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act |
|---|---|---|---|---|---|---|---|---|---|
| | Sep | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Yes/ No |
| Equitable Share | 79 039 000 | 65 683 000 | 54 594 000 | - | 49 829 000 | 49 829 000 | 49 829 000 | 49 829 000 | Yes |
| Finance Management Grant | - | 1 500 000 | - | - | 280 460 | 327 075 | 280 755 | 612 375 | Yes |
| Municipal Systems Infrastructure Grant | - | 934 000 | - | - | - | 87 500 | 245 986 | 585 559 | Yes |
| Sector Education and Training Authority | - | 196 785 | - | - | - | - | - | 196 785 | Yes |
| Mpumalanga Provincial Government Department of Finance | - | 1 312 000 | - | - | - | - | - | 2 251 674 | Yes |
| National Department of Roads | 1 843 000 | - | - | - | - | 262 632 | - | 2 204 162 | Yes |
| Expanded Public Works Program Incentive | - | 2 021 000 | 866 000 | - | 732 003 | 755 864 | 583 485 | 815 648 | Yes |
| Barberton Mines (Pty) Pty | 50 000 | - | - | - | - | - | - | 50 000 | Yes |
| | - | - | - | - | - | - | - | - | Yes |
| | - | - | - | - | - | - | - | - | Yes |
| | - | - | - | - | - | - | - | - | Yes |
| | - | - | - | - | - | - | - | - | Yes |
| | - | - | - | - | - | - | - | - | Yes |
| | 80 932 000 | 71 646 785 | 55 460 000 | - | 50 841 463 | 51 262 071 | 50 939 226 | 56 545 203 | |