



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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## General Information

---

<b>Legal form of entity</b>	District Municipality
<b>Nature of business and principal activities</b>	Providing municipal services
<b>Mayoral committee</b>	
Executive Mayor	Hon. T.B Matibe
Councillors	Cllr M.C Fungheni (Speaker) Cllr T.S Dali (Chief Whip) Cllr F.T Chauke Cllr S.E Makhomisane Cllr M.L Manyuha Cllr H.F Mathavha Cllr M.D Mboyi Cllr C Mphaphuli Cllr L.J Muditambi Cllr R.L Mulaudzi Cllr M.P Temba
<b>Grading of district authority</b>	4 (medium capacity)
<b>Acting Accounting Officer</b>	Ms S.E Magwaza
<b>Acting Chief Financial Officer</b>	Ms T.G Moufhe
<b>Registered office</b>	Old Paliament Building Thohoyandou 0950
<b>Postal adress</b>	Private Bag X5006 Thohoyandou 0950
<b>Website</b>	<a href="http://www.vhembe.gov.za">www.vhembe.gov.za</a>
<b>Telephone</b>	(015) 960-2000
<b>Fax</b>	(015) 962-1017
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General of South Africa

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Index

---

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

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 13
Accounting Policies	14 - 37
Notes to the Annual Financial Statements	38 - 62
Appendixes:	
Appendix B: Analysis of Property, Plant and Equipment	63
Appendix C: Segmental analysis of Property, Plant and Equipment	69
Appendix D: Segmental Statement of Financial Performance	70
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	71
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	72
Appendix G(1): Budgeted Financial Performance (revenue and expenditure by standard classification)	73
Appendix G(3): Budgeted Financial Performance (revenue and expenditure)	75

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Index

---

### Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Financial Management Grant
RBIG	Regional Bulk Infrastructure Grant
EPWP	Extended Public Work Programme

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## 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.

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 56, in terms of Section 126(1) of the Municipal Finance Management and which I have signed on behalf of the Municipality. 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 she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, she 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 June 30, 2016 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is substantially dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

The annual financial statements set out on pages 5 to 62, and appendixes as set out on page 64 to 77 which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2015 and were signed on its behalf by:

---

**S.E Magwaza**  
**Acting Municipal Manager**

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Officer's Report

---

The accounting officer submits her report for the year ended June 30, 2015.

### 1. Review of activities

#### Main business and operations

Net surplus of the municipality was R 264,296,947 (2014: surplus R 318,675,518).

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements.

### 2. Going concern

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

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

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

The accounting officer has no interests in contracts awarded.

### 5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Generally Recognised Accounting Practices issued by the Accounting Standards Board and the prescribed framework by National Treasury.

### 6. Corporate governance

#### The Council

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

#### Audit Committee

Mr K.P Ravhudzulo was the chairperson of the audit committee for the year under review.

In terms of Section 166 of the Municipal Finance Management Act, municipality, must appoint members of the Audit Committee. National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipality onto the audit committee.

### 7. Bankers

The municipality has its primary bank account with First National Bank.

### 8. Auditors

The municipality is audited by the Auditor General of South Africa.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Financial Position as at June 30, 2015

Figures in Rand	Notes	2015	2014
<b>Assets</b>			
Current Assets			
Inventories	3	45,946,778	32,324,492
Receivables from exchange transactions	4	59,945,759	31,343,221
Receivables from non-exchange transactions	5	253,914,460	201,663,729
VAT receivable	6	37,449,502	45,625,627
Cash and cash equivalents	7	85,883,698	71,689,738
		<b>483,140,197</b>	<b>382,646,807</b>
Non-Current Assets			
Investment property	8	13,689,369	13,920,616
Property, plant and equipment	9	3,439,796,676	3,141,409,495
Intangible assets	10	3,331,507	3,607,686
		<b>3,456,817,552</b>	<b>3,158,937,797</b>
<b>Total Assets</b>		<b>3,939,957,749</b>	<b>3,541,584,604</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	11	424,631,394	351,510,476
Consumer deposits	12	4,386,974	4,322,923
Unspent conditional grants and receipts	13	174,699,561	115,003,997
Provisions	14	70,910,541	66,380,826
Finance lease obligation	15	1,637,087	3,334,051
		<b>676,265,557</b>	<b>540,552,273</b>
Non-Current Liabilities			
Finance lease obligation	15	903,780	2,540,867
<b>Total Liabilities</b>		<b>677,169,337</b>	<b>543,093,140</b>
<b>Net Assets</b>		<b>3,262,788,412</b>	<b>2,998,491,464</b>
Accumulated surplus		3,262,788,412	2,998,491,464

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Financial Performance

Figures in Rand	Notes	2015	2014
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of water	16	87,208,471	86,929,093
Rendering of services		437,149	707,752
Rental of facilities and equipment		38,174	82,018
Interest received - trading		14,296,415	9,387,221
Certificate of acceptance		274,952	262,050
Fire services		168,938	201,216
Sale of tender documents		597,339	926,211
Other income	17	4,154,880	1,205,505
Interest received - investment		11,664,473	11,244,034
<b>Total revenue from exchange transactions</b>		<b>118,840,791</b>	<b>110,945,100</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	18	1,057,013,292	1,025,464,031
Sundry income		1,872,890	793,879
Public contributions and donations		-	789,246
Gains on creditors write off		14,026,853	20,903,121
<b>Total revenue from non-exchange transactions</b>		<b>1,072,913,035</b>	<b>1,047,950,277</b>
<b>Total revenue</b>	19	<b>1,191,753,826</b>	<b>1,158,895,377</b>
<b>Expenditure</b>			
Personnel	20	(395,226,942)	(397,195,808)
Remuneration of councillors	21	(12,398,686)	(11,307,111)
Administration	22	(4,809,652)	(218,522)
Depreciation and amortisation	23	(75,999,900)	(77,464,854)
Impairment loss/ Reversal of impairments	24	(1,043,700)	(6,410,520)
Finance costs	25	(1,068,296)	(1,712,639)
Debt impairment	26	(17,531,373)	(53,816,108)
Collection costs		(1,033,716)	(1,511,906)
Repairs and maintenance		(160,028,713)	(67,723,611)
General Expenses	27	(255,809,656)	(220,588,958)
Auditors remuneration	28	(2,506,245)	(2,269,822)
<b>Total expenditure</b>		<b>(927,456,879)</b>	<b>(840,219,859)</b>
<b>Operating surplus</b>		<b>264,296,947</b>	<b>318,675,518</b>
<b>Surplus for the year</b>		<b>264,296,947</b>	<b>318,675,518</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	3,106,150,207	3,106,150,207
Adjustments		
Correction of errors	(426,334,261)	(426,334,261)
<b>Balance at July 1, 2013 as restated*</b>	<b>2,679,815,946</b>	<b>2,679,815,946</b>
Changes in net assets		
Surplus for the year	318,675,518	318,675,518
Total changes	318,675,518	318,675,518
<b>Balance at July 1, 2014</b>	<b>2,998,491,465</b>	<b>2,998,491,465</b>
Changes in net assets		
Surplus for the year	264,296,947	264,296,947
Total changes	264,296,947	264,296,947
<b>Balance at June 30, 2015</b>	<b>3,262,788,412</b>	<b>3,262,788,412</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		45,942,452	51,223,566
Grants		1,116,708,856	1,026,253,277
Interest income		25,960,887	11,244,034
Other receipts		(10,015,048)	3,389,258
		<u>1,178,597,147</u>	<u>1,092,110,135</u>
<b>Payments</b>			
Employee costs		(425,092,945)	(408,502,919)
Suppliers		(359,984,536)	(372,566,097)
Finance costs		(1,068,296)	(1,712,639)
		<u>(786,145,777)</u>	<u>(782,781,655)</u>
<b>Net cash flows from operating activities</b>	29	<b><u>392,451,370</u></b>	<b><u>309,328,480</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(374,923,353)	(321,703,307)
Purchase of intangible assets	10	-	(2,640,397)
<b>Net cash flows from investing activities</b>		<b><u>(374,923,353)</u></b>	<b><u>(324,343,704)</u></b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(3,334,057)	(4,533,693)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>14,193,960</b>	<b>(19,548,917)</b>
Cash and cash equivalents at the beginning of the year		71,689,738	91,238,655
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>85,883,698</u></b>	<b><u>71,689,738</u></b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Sale of goods	117,068,939	-	<b>117,068,939</b>	87,208,471	<b>(29,860,468)</b>	Appendix E1
Rendering of services	3,500,000	(2,912,112)	<b>587,888</b>	437,149	<b>(150,739)</b>	Appendix E1
Rental of facilities and equipment	631,121	617,127	<b>1,248,248</b>	38,174	<b>(1,210,074)</b>	Appendix E1
Interest received (trading)	-	3,797,295	<b>3,797,295</b>	14,296,415	<b>10,499,120</b>	Appendix E1
Carnival festival	-	170,247	<b>170,247</b>	-	<b>(170,247)</b>	Appendix E1
Sale of manure	-	1,035	<b>1,035</b>	-	<b>(1,035)</b>	Appendix E1
Certificate of acceptance	180,000	9,679	<b>189,679</b>	274,952	<b>85,273</b>	Appendix E1
Fire services	150,000	(82,750)	<b>67,250</b>	168,938	<b>101,688</b>	Appendix E1
Sale of tender documents	557,568	145,925	<b>703,493</b>	597,339	<b>(106,154)</b>	Appendix E1
Other income	-	-	-	4,154,880	<b>4,154,880</b>	Appendix E1
Interest received - investment	9,692,584	3,608,283	<b>13,300,867</b>	11,664,473	<b>(1,636,394)</b>	Appendix E1
<b>Total revenue from exchange transactions</b>	<b>131,780,212</b>	<b>5,354,729</b>	<b>137,134,941</b>	<b>118,840,791</b>	<b>(18,294,150)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Indirect taxes (VAT, customs duty)	73,640,736	3,174,844	<b>76,815,580</b>	-	<b>(76,815,580)</b>	Appendix E1
Sundry income	1,200,000	1,845,030	<b>3,045,030</b>	-	<b>(3,045,030)</b>	Appendix E1
Government grants & subsidies	1,219,122,002	30,923,389	<b>1,250,045,391</b>	1,057,013,292	<b>(193,032,099)</b>	Appendix E1
<b>Transfer revenue</b>						
Sundry income	1,200,000	1,845,030	<b>3,045,030</b>	1,872,890	<b>(1,172,140)</b>	Appendix E1
Gainson creditors write off	-	-	-	14,026,853	<b>14,026,853</b>	Appendix E1
<b>Total revenue from non-exchange transactions</b>	<b>1,295,162,738</b>	<b>37,788,293</b>	<b>1,332,951,031</b>	<b>1,072,913,035</b>	<b>(260,037,996)</b>	
<b>Total revenue</b>	<b>1,426,942,950</b>	<b>43,143,022</b>	<b>1,470,085,972</b>	<b>1,191,753,826</b>	<b>(278,332,146)</b>	
<b>Expenditure</b>						
Personnel	(433,722,164)	7,520,516	<b>(426,201,648)</b>	(395,226,942)	<b>30,974,706</b>	Appendix E1
Remuneration of councillors	(12,228,907)	-	<b>(12,228,907)</b>	(12,398,686)	<b>(169,779)</b>	Appendix E1
Administration	-	(4,809,652)	<b>(4,809,652)</b>	(4,809,652)	-	Appendix E1
Depreciation and amortisation	-	-	-	(75,999,900)	<b>(75,999,900)</b>	Appendix E1
Impairment loss/ Reversal of impairments	-	-	-	(1,043,700)	<b>(1,043,700)</b>	Appendix E1
Finance costs	(468,683)	-	<b>(468,683)</b>	(1,068,296)	<b>(599,613)</b>	Appendix E1
Debt impairment	-	-	-	(17,531,373)	<b>(17,531,373)</b>	Appendix E1
Collection costs	-	(1,033,716)	<b>(1,033,716)</b>	(1,033,716)	-	Appendix E1
Repairs and maintenance	(44,500,000)	(6,000,000)	<b>(50,500,000)</b>	(160,028,713)	<b>(109,528,713)</b>	Appendix E1
Bulk purchases	(6,000,000)	(5,971,231)	<b>(11,971,231)</b>	(2,506,245)	<b>9,464,986</b>	Appendix E1
General Expenses	(207,200,000)	13,178,858	<b>(194,021,142)</b>	(255,809,656)	<b>(61,788,514)</b>	Appendix E1
<b>Total expenditure</b>	<b>(704,119,754)</b>	<b>2,884,775</b>	<b>(701,234,979)</b>	<b>(927,456,879)</b>	<b>(226,221,900)</b>	
<b>Surplus before taxation</b>	<b>722,823,196</b>	<b>46,027,797</b>	<b>768,850,993</b>	<b>264,296,947</b>	<b>(504,554,046)</b>	

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>722,823,196</b>	<b>46,027,797</b>	<b>768,850,993</b>	<b>264,296,947</b>	<b>(504,554,046)</b>	
<b>Reconciliation</b>						

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	45,946,779	-	<b>45,946,779</b>	45,946,779	-	Final budget
Receivables from exchange transactions	59,945,759	-	<b>59,945,759</b>	59,945,759	-	Final budget
Receivables from non-exchange transactions	253,914,460	-	<b>253,914,460</b>	253,914,460	-	Final budget
VAT receivable	37,449,502	-	<b>37,449,502</b>	37,449,502	-	Final budget
Cash and cash equivalents	85,883,698	-	<b>85,883,698</b>	85,883,698	-	Final budget
	<b>483,140,198</b>	-	<b>483,140,198</b>	<b>483,140,198</b>	-	
<b>Non-Current Assets</b>						
Investment property	13,689,369	-	<b>13,689,369</b>	13,689,369	-	Final budget
Property, plant and equipment	3,439,796,676	-	<b>3,439,796,676</b>	3,439,796,676	-	Final budget
Intangible assets	3,331,507	-	<b>3,331,507</b>	3,331,507	-	Final budget
	<b>3,456,817,552</b>	-	<b>3,456,817,552</b>	<b>3,456,817,552</b>	-	
<b>Total Assets</b>	<b>3,939,957,750</b>	-	<b>3,939,957,750</b>	<b>3,939,957,750</b>	-	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	1,637,087	-	<b>1,637,087</b>	1,637,087	-	Final budget
Payables from exchange transactions	424,631,394	-	<b>424,631,394</b>	424,631,394	-	Final budget
Consumer deposits	4,386,974	-	<b>4,386,974</b>	4,386,974	-	Final budget
Unspent conditional grants and receipts	174,699,561	-	<b>174,699,561</b>	174,699,561	-	Final budget
Provisions	70,910,541	-	<b>70,910,541</b>	70,910,541	-	Final budget
	<b>676,265,557</b>	-	<b>676,265,557</b>	<b>676,265,557</b>	-	
<b>Non-Current Liabilities</b>						
Finance lease obligation	903,780	-	<b>903,780</b>	903,780	-	Final budget
<b>Total Liabilities</b>	<b>677,169,337</b>	-	<b>677,169,337</b>	<b>677,169,337</b>	-	
<b>Net Assets</b>	<b>3,262,788,413</b>	-	<b>3,262,788,413</b>	<b>3,262,788,413</b>	-	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	3,262,788,413	-	<b>3,262,788,413</b>	3,262,788,413	-	Final budget

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	45,942,452	-	<b>45,942,452</b>	45,942,452	-	Final budget
Grants	1,116,708,856	-	<b>1,116,708,856</b>	1,116,708,856	-	Final budget
Interest income	25,960,887	-	<b>25,960,887</b>	25,960,887	-	Final budget
Other receipts	(10,015,048)	-	<b>(10,015,048)</b>	(10,015,048)	-	Final budget
	<b>1,178,597,147</b>	-	<b>1,178,597,147</b>	<b>1,178,597,147</b>	-	
<b>Payments</b>						
Employee costs	(425,092,945)	-	<b>(425,092,945)</b>	(425,092,945)	-	Final budget
Suppliers	(359,984,536)	-	<b>(359,984,536)</b>	(359,984,536)	-	Final budget
Finance costs	(1,068,296)	-	<b>(1,068,296)</b>	(1,068,296)	-	Final budget
	<b>(786,145,777)</b>	-	<b>(786,145,777)</b>	<b>(786,145,777)</b>	-	
<b>Net cash flows from operating activities</b>	<b>392,451,370</b>	-	<b>392,451,370</b>	<b>392,451,370</b>	-	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(374,923,353)	-	<b>(374,923,353)</b>	(374,923,353)	-	Final budget
<b>Cash flows from financing activities</b>						
Finance lease payments	(3,334,057)	-	<b>(3,334,057)</b>	(3,334,057)	-	Final budget
Net increase/(decrease) in cash and cash equivalents	14,193,960	-	<b>14,193,960</b>	14,193,960	-	Final budget
Cash and cash equivalents at the beginning of the year	71,689,738	-	<b>71,689,738</b>	71,689,738	-	Final budget
<b>Cash and cash equivalents at the end of the year</b>	<b>85,883,698</b>	-	<b>85,883,698</b>	<b>85,883,698</b>	-	
<b>Reconciliation</b>						

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## 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), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

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

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

##### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality 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 is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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

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

##### Impairment testing

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

##### Value in use of cash generating 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, together with economic factors such as inflation and interest.

##### Value in use of non-cash generating 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. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

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

#### Provisions

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

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

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

#### Effective interest rate

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

#### 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 debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition. The recoverability percentage on receivables is calculated annual per receivables category.

### 1.3 Investment property

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

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

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

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

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

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

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

#### Cost model

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

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

Item	Useful life
Property - buildings	30 - 65 years

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus included in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit when the asset is derecognised.

The revaluation surplus included in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

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

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

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	6 years
Furniture and fixtures	7 - 10 years
Motor vehicles	5 years
Office equipment	3 - 7 years
IT equipment	3 years
Infrastructure	
• Roads and paving	30 years
• water	12 - 20 years
• Sewerage	12 - 20 years
Community	
• Building	20 years
• Recreational facilities	20 - 30 years
Other property, plant and equipment	
• Other items of property, plant and equipment	2 - 5 years
• Specialised plant and equipment	10 - 15 years
Specialised vehicles	10 years
•	

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

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

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

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

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

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

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

### 1.5 Intangible assets

An asset is identifiable if it either:

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.5 Intangible assets (continued)

An intangible asset is recognised when:

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

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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

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

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

<b>Item</b>	<b>Useful life</b>
Computer software	3 - 10 years

### 1.6 Financial instruments

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

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

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.6 Financial instruments (continued)

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

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

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

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

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

A financial asset is:

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

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.6 Financial instruments (continued)

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

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

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

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

### Classification

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

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Other financial liability <sup>2</sup>	Financial liability measured at fair value

### 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.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.6 Financial instruments (continued)

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

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.6 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.

#### Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.6 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

##### Financial liabilities

The 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.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another 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).

### 1.7 Leases

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

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

#### Finance leases - lessee

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

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

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

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

### 1.8 Inventories

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

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

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

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

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

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

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

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

#### Identification

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

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

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

#### Value in use

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

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

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

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

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

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

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

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

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

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

Useful life is either:

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

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

#### Identification

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

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

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

#### 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 oversized or overcapacity asset. Oversized 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.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

### 1.11 Employee benefits

#### Short-term employee benefits

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.11 Employee benefits (continued)

#### Defined contribution plans

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

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

#### Defined benefit plans

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

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

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

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

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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

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

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

### 1.12 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.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.12 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

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

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.12 Provisions and contingencies (continued)

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

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

### 1.13 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### 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.

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.13 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

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

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

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.

### 1.14 Revenue from non-exchange transactions

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

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.

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

#### Measurement

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

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbusement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

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

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.15 Comparative figures

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

### 1.16 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.

### 1.17 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

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.

### 1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Accounting Policies

---

### 1.18 Irregular expenditure (continued)

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

### 1.19 Use of estimates

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

### 1.20 Research and development expenditure

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

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

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

### 1.21 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2014 to 6/30/2015.

### 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 national sphere of government are considered to be related parties.

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

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

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

### 1.23 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

# **Vhembe District Municipality**

Annual Financial Statements for the year ended June 30, 2015

## **Accounting Policies**

---

### **1.23 Events after reporting date (continued)**

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

### **1.24 Value-added tax**

Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand 2015 2014

### 2. New standards and interpretations

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

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 105: Transfers of functions between entities under common control	April 1, 2014	Low
• GRAP 106: Transfers of functions between entities not under common control	April 1, 2014	Low
• GRAP 107: Mergers	April 1, 2014	Low
• GRAP 20: Related parties	April 1, 2014	Low
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	April 1, 2014	Low

#### 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 July 1, 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	April 1, 2016	Low
• GRAP32: Service Concession Arrangements: Grantor	April 1, 2015	Low
• GRAP108: Statutory Receivables	April 1, 2015	Low
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 1, 2015	Low

### 3. Inventories

Water	2,140,699	1,200,302
Consumable stores	5,756,820	1,969,779
Maintenance material	38,049,259	29,154,411
	<b>45,946,778</b>	<b>32,324,492</b>

### 4. Receivables from exchange transactions

Consumer debtors - Thulamela	163,154,352	139,692,491
Consumer debtors - Makhado	68,807,969	51,140,865
Consumer debtors - Musina	13,346,587	13,299,615
Consumer debtors - Mutale	19,249,847	14,305,808
Rental debtors	392,245	378,310
Provision for debt impairment	(205,005,241)	(187,473,868)
	<b>59,945,759</b>	<b>31,343,221</b>

#### Housing rental

121 - 365 days	392,245	378,310
----------------	---------	---------

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>4. Receivables from exchange transactions (continued)</b>		
<b>Water</b>		
Current (0 - 30 days)	3,997,740	8,589,102
31 - 60 days	5,585,075	5,451,311
61 - 90 days	5,048,290	5,182,786
91 - 120 days	4,856,933	5,509,736
> 120 days	245,070,717	193,705,844
Provision for debt impairment	(205,005,241)	(187,473,868)
	<b>59,553,514</b>	<b>30,964,911</b>
<b>Summary of debtors by customer classification</b>		
<b>Government</b>		
Current (0 - 30 days)	363,404	1,315,373
31 - 60 days	369,703	266,736
61-90 days	401,176	607,415
91 - 120 days	276,789	934,098
> 120 days	9,459,369	7,161,977
	<b>10,870,441</b>	<b>10,285,599</b>
<b>Businesses</b>		
Current (0 - 30 days)	409,217	926,942
31 - 60 days	307,614	242,460
61 - 90 days	414,919	291,983
91 - 120 days	464,955	346,454
> 120 days	8,132,165	7,551,485
	<b>9,728,870</b>	<b>9,359,324</b>
<b>Household</b>		
Current (0 - 30 days)	3,184,307	6,346,787
31 - 60 days	4,915,260	4,942,116
61 - 90 days	4,232,728	4,283,387
91 - 120 days	4,116,588	4,198,059
> 120 days	227,510,837	178,992,422
	<b>243,959,720</b>	<b>198,762,771</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at the beginning of the year	(187,473,868)	(133,657,760)
Debt impairment whittened off against allowance	(17,531,373)	(53,816,108)
	<b>(205,005,241)</b>	<b>(187,473,868)</b>
<b>5. Receivables from non-exchange transactions</b>		
Sundry debtors	16,797,164	6,343,306
Staff debtors	(1,360,941)	(1,360,941)
Debtors - Mutale	1,324,295	1,285,086
Debtors - Musina	237,153,942	195,396,278
	<b>253,914,460</b>	<b>201,663,729</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>6. VAT receivable</b>		
VAT	37,449,502	45,625,627
VAT is payable on payment basis and claimed from SARS when a payment is made.		
Opening at beginning of year	45,625,626	94,697,846
Plus: Net refunds as per VAT receivables	83,786,375	82,298,825
Less: Adjustment	(13,973,492)	-
Less: VAT payments by SARS - Current year	(41,830,654)	(75,700,190)
Less: VAT payments by SARS - Prior year	(36,158,353)	(55,670,855)
	<b>37,449,502</b>	<b>45,625,626</b>

## 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,000	2,000
Bank balances	85,573,374	71,315,340
Short-term deposits	308,324	372,398
	<b>85,883,698</b>	<b>71,689,738</b>

Cash and cash equivalent comprises of cash on hand and cash with banks. Cash equivalents are short term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2015	June 30, 2014	June 30, 2013
First National Bank - Current Account - 6202 1931 458	112,937,483	137,172,047	35,582,970	71,391,482	70,440,433	31,566,479
First National Bank - Call Account - 6203 6334 803	308,323	372,398	42,879,317	308,324	372,398	42,881,664
First National Bank - Thulamela	7,459,376	369,759	14,751,162	7,549,375	369,759	14,751,162
First National Bank - Makhado	6,210,915	310,748	2,025,949	6,210,914	310,748	2,025,949
First National Bank - Mutale	421,601	194,400	62,299	421,603	194,400	7,351
Cash on hand	-	-	-	2,000	2,000	6,050
<b>Total</b>	<b>127,337,698</b>	<b>138,419,352</b>	<b>95,301,697</b>	<b>85,883,698</b>	<b>71,689,738</b>	<b>91,238,655</b>

## 8. Investment property

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	14,800,000	(1,110,631)	13,689,369	14,800,000	(879,384)	13,920,616

### Reconciliation of investment property - 2015

Investment property	Opening balance	Depreciation	Total
	13,920,616	(231,247)	13,689,369

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand 2015 2014

### 8. Investment property (continued)

#### Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	14,151,866	(231,250)	13,920,616

#### Pledged as security

No assets were pledged as security.

The municipality has buildings and reservoirs on land it does not have ownership of. The process of obtaining ownership or permission is underway.

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

### 9. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	74,035,864	(17,413,230)	56,622,634	73,118,575	(14,975,944)	58,142,631
Plant and machinery	6,604,107	(1,403,802)	5,200,305	6,604,107	(1,036,682)	5,567,425
Furniture and fixtures	8,663,936	(3,400,860)	5,263,076	8,569,344	(2,750,051)	5,819,293
Motor vehicles	47,680,566	(11,346,905)	36,333,661	41,165,930	(8,944,074)	32,221,856
Office equipment	1,153,695	(474,547)	679,148	1,135,145	(406,486)	728,659
IT equipment	1,783,162	(1,473,401)	309,761	1,783,162	(1,346,255)	436,907
Infrastructure	2,699,365,972	(362,511,904)	2,336,854,068	2,646,350,309	(296,668,462)	2,349,681,847
Community	1,680,686	(242,155)	1,438,531	1,680,686	(186,132)	1,494,554
Other property, plant and equipment	23,432,433	(9,516,705)	13,915,728	23,432,433	(7,714,210)	15,718,223
Leased Assets	8,297,629	(6,154,235)	2,143,394	8,297,629	(3,373,275)	4,924,354
Capital Work In Progress	981,036,370	-	981,036,370	666,673,746	-	666,673,746
<b>Total</b>	<b>3,853,734,420</b>	<b>(413,937,744)</b>	<b>3,439,796,676</b>	<b>3,478,811,066</b>	<b>(337,401,571)</b>	<b>3,141,409,495</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Transfers	Depreciation	Impairment loss	Total
Buildings	58,142,631	917,288	-	(2,437,285)	-	56,622,634
Plant and machinery	5,567,425	-	-	(367,120)	-	5,200,305
Furniture and fixtures	5,819,293	94,592	-	(650,809)	-	5,263,076
Motor vehicles	32,221,856	6,514,636	-	(2,402,831)	-	36,333,661
Office equipment	728,659	18,550	-	(68,061)	-	679,148
IT equipment	436,907	-	-	(127,146)	-	309,761
Infrastructure	2,349,681,847	-	53,015,663	(64,799,742)	(1,043,700)	2,336,854,068
Community	1,494,554	-	-	(56,023)	-	1,438,531
Other property, plant and equipment	15,718,223	-	-	(1,802,495)	-	13,915,728
Leased Assets	4,924,354	-	-	(2,780,960)	-	2,143,394
Capital Work In Progress	666,673,746	367,378,287	(53,015,663)	-	-	981,036,370
	<b>3,141,409,495</b>	<b>374,923,353</b>	<b>-</b>	<b>(75,492,472)</b>	<b>(1,043,700)</b>	<b>3,439,796,676</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Take on assets	Classified as held for sale	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Buildings	132,569,570	3,837,945	-	-	(75,836,566)	-	(2,428,318)	-	58,142,631
Plant and machinery	5,415,779	21,171	-	-	(10,556)	507,368	(366,337)	-	5,567,425
Furniture and fixtures	4,690,517	456,996	56,425	-	-	1,080,000	(464,645)	-	5,819,293
Motor vehicles	15,814,207	3,134,247	2,579,687	-	(143,316)	12,862,843	(2,025,812)	-	32,221,856
Office equipment	465,510	133,044	-	-	-	189,717	(59,612)	-	728,659
IT equipment	227,669	124,010	-	-	(104,544)	315,356	(125,584)	-	436,907
Infrastructure	2,111,626,325	311,359,782	-	-	-	-	(66,893,740)	(6,410,520)	2,349,681,847
Community	1,550,577	-	-	-	-	-	(56,023)	-	1,494,554
Other property, plant and equipment	14,350,034	-	-	-	1,110,622	1,559,369	(1,301,802)	-	15,718,223
Leased Assets	9,298,449	-	-	-	104,544	(1,242,562)	(3,236,077)	-	4,924,354
Capital Work In Progress	850,574,231	-	-	(259,737,051)	75,836,566	-	-	-	666,673,746
	<b>3,146,582,868</b>	<b>319,067,195</b>	<b>2,636,112</b>	<b>(259,737,051)</b>	<b>956,750</b>	<b>15,272,091</b>	<b>(76,957,950)</b>	<b>(6,410,520)</b>	<b>3,141,409,495</b>

#### Ownership

Vhembe District Municipality has buildings structures such as Mtiti, Makuya MPCC, Musina fire station, Disaster Muledane and Water reservoirs on the land it does not have ownership of. The process of obtaining the ownership and rights of the land is currently underway.

The municipality performed the residual value movement on vehicles and assessment of other movable assets. It was considered that the assets with zero book value will be sold in the following financial year, hence the assessment was not effected as those amounts are not significant.

No property, plant and equipment were pledged as security for liabilities.

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

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand

2015

2014

### 10. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4,707,277	(1,375,770)	3,331,507	4,707,276	(1,099,590)	3,607,686

#### Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer software	3,607,687	(276,180)	3,331,507

#### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Additions through entity combinations	Amortisation	Total
Computer software	1,474,937	1,062,314	1,578,083	(507,647)	3,607,687

### 11. Payables from exchange transactions

Trade payables	32,666,817	34,684,651
Other accrued expenses	48,449,014	12,413,256
Accrued bonus	8,356,590	7,452,668
Deposits received	657,876	-
Retention	93,797,003	82,507,277
Creditors - Musina	237,365,138	197,331,483
Creditors - Mutale	1,082,640	1,043,432
Creditors - Makhado	-	14,026,853
Sundry deposits	2,256,316	2,050,856
	<b>424,631,394</b>	<b>351,510,476</b>

### 12. Consumer deposits

Deposit - Makhado	1,080	1,080
Deposit - Musina	3,469,207	3,405,156
Deposit - Mutale	361,540	361,540
Deposit - Thulamela	555,147	555,147
	<b>4,386,974</b>	<b>4,322,923</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>13. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Disaster relief grant	-	18,342,275
Water and operation subsidy	35,000,000	7,511,256
Expanded Public Work Programme	-	1,176,342
Municipal Infrastructure Grant	139,005,565	86,451,120
Rural sanitation development	-	1,523,004
Financial municipal grant	286,887	-
Municipal Systems Improvement Grant	407,109	-
	<b>174,699,561</b>	<b>115,003,997</b>

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

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

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

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

### 14. Provisions

#### Reconciliation of provisions - 2015

	Opening Balance	Movement	Total
Leave provision	37,964,628	980,031	38,944,659
Performance bonus	668,198	(250,316)	417,882
Long service award	27,748,000	3,800,000	31,548,000
	<b>66,380,826</b>	<b>4,529,715</b>	<b>70,910,541</b>

#### Reconciliation of provisions - 2014

	Opening Balance	Movement	Total
Leave provision	30,280,144	7,684,484	37,964,628
Performance bonus	884,182	(215,984)	668,198
Long service award	7,734,929	20,013,071	27,748,000
	<b>38,899,255</b>	<b>27,481,571</b>	<b>66,380,826</b>

#### Performance Bonus provision

Performance bonuses accrue to senior managers on an annual basis subject to certain conditions. The provision is an estimate of the amount due at the reporting date.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>15. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	1,637,087	2,540,867
- in second to fifth year inclusive	903,780	3,334,051
<b>Present value of minimum lease payments</b>	<b>2,540,867</b>	<b>5,874,918</b>
Non-current liabilities	903,780	2,540,867
Current liabilities	1,637,087	3,334,051
	<b>2,540,867</b>	<b>5,874,918</b>

The average lease term is 3 years and the average effective borrowing rate is 4.5%. Interest rate is fixed at the contract date. All leases have fixed repayment terms and there are no escalations. No arrangements have been entered into for contingent rent. Obligations under finance leases are not secured by the lessor's title to the leased asset.

### 16. Sale of water

Musina	36,004,251	44,767,074
Thulamela	24,778,956	22,450,183
Makhado	21,957,702	16,708,152
Mutale	4,467,562	3,003,684
	<b>87,208,471</b>	<b>86,929,093</b>

### 17. Other income

Water connections	3,981,775	-
Hiring of halls	2,332	-
Carnival Festival	170,773	-
SETA subsidy	-	1,205,505
	<b>4,154,880</b>	<b>1,205,505</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>18. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	570,687,275	524,104,000
Transport grant	1,948,000	1,667,000
Expanded public works programme grant	4,872,342	3,285,396
Financial Management Grant	963,113	1,250,000
MISA grant	3,422,583	2,527,250
Municipal System Improvement grant	526,891	890,000
Water Operation Subsidy Grant	7,511,256	62,976,248
Awelani Eco Lodge	-	2,000,000
Vhembe biosphere reserve grant	-	140,000
	<u>589,931,460</u>	<u>598,839,894</u>
<b>Capital grants</b>		
Municipal Infrastructure grant	453,955,555	338,826,700
Regional Bulk Infrastructure grant	11,603,273	26,739,758
Rural Sanitation Development grant	1,523,004	2,476,996
Municipal Water Infrastructure grant	-	37,903,000
Accelerated community infrastructure programme grant	-	1,375,244
Municipal Disaster Relief grant	-	19,302,439
	<u>467,081,832</u>	<u>426,624,137</u>
	<b><u>1,057,013,292</u></b>	<b><u>1,025,464,031</u></b>

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	486,326,017	501,360,031
Unconditional grants received	570,687,275	524,104,000
	<u>1,057,013,292</u>	<u>1,025,464,031</u>

### Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

### Disaster relief grant

Balance unspent at beginning of year	18,342,275	37,644,714
Conditions met - transferred to revenue	(18,342,275)	(19,302,439)
	<u>-</u>	<u>18,342,275</u>

This grant is intended to provide for immediate release of funds for disaster response.

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

### Water and operation subsidy

Balance unspent at beginning of year	7,511,256	15,662,392
Current-year receipts	35,000,000	55,218,000
Conditions met - transferred to revenue	(7,511,256)	(63,369,136)
	<u>35,000,000</u>	<u>7,511,256</u>

To subsidise the staff related costs, direct operating and maintenance costs, refurbishment of water services schemes transfers to water boards, and will facilitate the transfer of schemes.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>18. Government grants and subsidies (continued)</b>		
Conditions still to be met - remain liabilities (see note 13).		
<b>Expanded Public Works Programme</b>		
Balance unspent at beginning of year	1,176,342	519,559
Current-year receipts	3,696,000	4,655,000
Conditions met - transferred to revenue	(4,872,342)	(3,998,217)
	<b>-</b>	<b>1,176,342</b>
This grant is intended to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in different areas in compliance with the EPWP guidelines.		
Conditions still to be met - remain liabilities (see note 13).		
<b>Municipal infrastructure grant</b>		
Balance unspent at beginning of year	86,451,120	-
Current-year receipts	506,510,000	424,565,000
Conditions met - transferred to revenue	(453,955,555)	(338,113,880)
	<b>139,005,565</b>	<b>86,451,120</b>
The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure.		
Conditions still to be met - remain liabilities (see note 13).		
<b>Rural sanitation development</b>		
Balance unspent at beginning of year	1,523,004	-
Current-year receipts	-	4,000,000
Conditions met - transferred to revenue	(1,523,004)	(2,476,996)
	<b>-</b>	<b>1,523,004</b>
Conditions still to be met - remain liabilities (see note 13).		
<b>Accelerated community infrastructure programme</b>		
Balance unspent at beginning of year	-	1,375,244
Conditions met - transferred to revenue	-	(1,375,244)
	<b>-</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 13).		
<b>Municipal water infrastructure grant</b>		
Current-year receipts	-	37,903,000
Conditions met - transferred to revenue	-	(37,903,000)
	<b>-</b>	<b>-</b>
<b>Transport grant</b>		
Current-year receipts	1,948,000	1,667,000
Conditions met - transferred to revenue	(1,948,000)	(1,667,000)
	<b>-</b>	<b>-</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand 2015 2014

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

The grant is intended to provide physical integration of public transport infrastructure, including non-motorised transport infrastructure, fare collection infrastructure, unified branding and information and unified institutional management of network infrastructure.

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

#### Financial municipal grant

Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(963,113)	(1,250,000)
	<b>286,887</b>	<b>-</b>

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

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

#### Municipal Systems Improvement Grant

Current-year receipts	934,000	890,000
Conditions met - transferred to revenue	(526,891)	(890,000)
	<b>407,109</b>	<b>-</b>

This grant is intended to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act and related legislation and policies.

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

#### Regional Bulk Infrastructure grant

Current-year receipts	11,031,460	26,739,758
Conditions met - transferred to revenue	(11,603,273)	(26,739,758)
DWAF	571,813	-
	<b>-</b>	<b>-</b>

The grant is intended to fund the social component of regional bulk water and waste water projects approved by the Department of Water Affairs.

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

#### MISA grant

Current-year receipts	1,814,083	2,527,250
Conditions met - transferred to revenue	(3,422,583)	(2,527,250)
DWAF	1,608,500	-
	<b>-</b>	<b>-</b>

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

#### Awelani Eco lodge

Current-year receipts	-	2,000,000
Conditions met - transferred to revenue	-	(2,000,000)
	<b>-</b>	<b>-</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>19. Revenue</b>		
Service charges - Water	87,208,471	86,929,093
Rendering of services	437,149	707,752
Rental of facilities and equipment	38,174	82,018
Interest received (trading)	14,296,415	9,387,221
Certificate of acceptance	274,952	262,050
Fire services	168,938	201,216
Sale of tender documents	597,339	926,211
Water connections	4,154,880	1,205,505
Interest received - investment	11,664,473	11,244,034
Government grants & subsidies	1,057,013,292	1,025,464,031
Public contributions and donations	-	789,246
Sundry income	1,872,890	793,879
Gains on creditors write off	14,026,853	20,903,121
	<b>1,191,753,826</b>	<b>1,158,895,377</b>

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

Service charges - Water	87,208,471	86,929,093
Rendering of services	437,149	707,752
Rental of facilities and equipment	38,174	82,018
Interest received (trading)	14,296,415	9,387,221
Certificate of acceptance	274,952	262,050
Fire services	168,938	201,216
Sale of tender documents	597,339	926,211
Water connection	4,154,880	1,205,505
Interest received - trading	11,664,473	11,244,034
	<b>118,840,791</b>	<b>110,945,100</b>

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

**Transfer revenue**

Government grants & subsidies	1,057,013,292	1,025,464,031
Public contributions and donations	-	789,246
Sundry income	1,872,890	793,879
Gains on creditors write off	14,026,853	20,903,121
	<b>1,072,913,035</b>	<b>1,047,950,277</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>20. Employee related costs</b>		
Basic	263,648,480	265,856,346
Bonus	19,611,744	19,561,124
Medical aid - company contributions	9,449,303	8,642,939
UIF	590,904	595,225
SDL	3,195,090	3,196,270
Leave pay provision charge	958,535	9,856,873
Other short term costs	24,700	30,019
Defined contribution plans	39,822,211	37,409,894
Travel, motor car, accommodation, subsistence and other allowances	19,311,880	19,550,654
Overtime payments	19,802,576	15,827,122
Long-service awards	3,800,000	556,373
Housing benefits and allowances	15,011,519	16,112,969
	<b>395,226,942</b>	<b>397,195,808</b>
<b>Remuneration of municipal manager</b>		
Annual remuneration	142,390	836,668
Car allowance	-	224,625
Performance bonuses	-	90,718
Contributions to UIF, Medical and Pension Funds	-	70,418
Reimbursive allowance	71,411	10,591
Back pay	-	15,410
Other	-	30,320
	<b>213,801</b>	<b>1,278,750</b>
<b>Remuneration of chief finance officer</b>		
Annual remuneration	545,077	303,571
Car allowance	150,964	79,973
Housing allowance	144,663	-
Performance bonuses	46,498	22,000
Cell phone allowance	22,000	-
Contributions to UIF, Medical and Pension Funds	22,543	11,023
Reimbursive allowance	119,327	23,956
Backpay	32,702	7,465
Other	5,639	91,419
Acting Allowance	-	23,956
	<b>1,089,413</b>	<b>563,363</b>
<b>Remuneration of technical manager</b>		
Annual remuneration	413,580	449,000
Car allowance	85,432	90,000
Backpay	13,580	667
Contributions to UIF, Medical and Pension Funds	40,000	150,474
Housing allowance	62,650	65,887
Reimbursive allowance	57,283	-
Acting Allowance	-	5,039
Cell Phone Allowance	16,000	18,000
other	3,677	-
Leave pay	-	47,492
	<b>692,202</b>	<b>826,559</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>20. Employee related costs (continued)</b>		
<b>Remuneration of general manager - Community services</b>		
Annual Remuneration	-	88,789
Car Allowance	-	39,339
Contributions to UIF, Medical and Pension Funds	-	21,692
Leave Pay	-	102,282
Reimbursive Allowance	-	6,497
Back Pay	-	15,475
Acting Allowance	-	15,475
	-	<b>289,549</b>
<b>Remuneration of general manager: Planning</b>		
Annual remuneration	555,803	526,481
Housing allowance	98,405	91,238
Cell phone allowance	24,000	24,000
Contributions to UIF, Medical and Pension Funds	-	123,360
Reimbursive allowance	89,107	54,132
Performance bonus	47,320	44,311
Car allowance	107,913	100,053
Acting allowance	-	26,826
Backpay	12,035	-
Other	7,308	880
	<b>941,891</b>	<b>991,281</b>
<b>Remuneration of general manager: Office of the Mayor</b>		
Annual remuneration	-	88,789
Car allowance	-	32,800
Contributions to UIF, Medical and Pension Funds	-	6,561
Reimbursive allowance	-	18,628
Backpay	-	35,885
Leave pay	-	102,282
Acting allowance	-	17,942
	-	<b>302,887</b>
<b>Remuneration of general manager: Corporate services</b>		
Annual remuneration	595,802	427,500
Car allowance	128,148	87,034
Performance bonuses	50,725	23,750
Housing allowance	226,933	141,444
Cell phone allowance	25,000	18,000
Reimbursive allowance	59,114	8,569
Acting allowance	-	22,918
Backpay	13,401	-
Other	3,472	27,861
	<b>1,102,595</b>	<b>757,076</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>21. Remuneration of councillors</b>		
Executive Mayor	795,167	856,689
Chief Whip	733,285	686,811
Mayoral Committee Members	4,067,484	3,608,911
Speaker	436,050	492,599
Councillors	6,366,700	5,662,101
	<b>12,398,686</b>	<b>11,307,111</b>
<b>22. Administrative expenditure</b>		
Project Management	4,809,652	218,522
<b>23. Depreciation and amortisation</b>		
Property, plant and equipment	75,999,900	77,464,853
<b>24. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	1,043,700	6,410,520
<b>25. Finance costs</b>		
Finance leases	561,579	572,029
Interest on late payments	506,717	1,140,610
	<b>1,068,296</b>	<b>1,712,639</b>
<b>26. Bad debt</b>		
Debt impairment	17,531,373	25,570,398
Cotribution to debt impairment provision	-	28,245,710
	<b>17,531,373</b>	<b>53,816,108</b>

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>27. General expenses</b>		
Accommodation	2,807,423	3,363,181
Advertising	646,903	724,692
Assessment rates & municipal charges	1,500,801	904,189
Bank charges	290,598	12,561
Bereavement costs	799	-
Billing charges	81,630	110,406
Chemicals	27,275,840	18,549,317
Cleaning	-	79,789
Commission paid	12,073,406	6,093,576
Community programmes	8,079,527	6,378,675
Conferences and seminars	275,970	232,131
Consulting and professional fees	37,632,417	13,655,667
Consumables	342,770	25,966
Debt collection	5,325,637	2,372,390
Electricity	52,431,525	43,125,398
Entertainment	156,292	145,136
Events	1,224,731	1,231,686
Fuel and oil	4,901,777	4,081,021
Insurance	801,935	4,672,184
IDP Review Costs	328,542	580,150
IT expenses	2,937,522	2,650,067
Lease rentals on operating lease	16,495,047	17,966,850
Levies	325,873	173,245
Licences	188,148	329,958
Magazines, books and periodicals	72,404	156,670
Marketing	2,241,463	1,800,453
Mayor's bursary fund	592,966	980,004
Medical expenses	222,762	236,345
Other expenses	2,138,232	28,500
Planning forums	187,713	251,665
Postage and courier	2,347	5,287
Printing and stationery	2,821,557	2,401,491
Promotions	1,250	-
Protective clothing	1,682,753	3,582,024
Rations	2,314,527	2,676,206
Security (Guarding of municipal property)	282,354	1,874,236
Software expenses	2,135,490	1,569,632
Staff welfare	296,740	5,023,968
Subscriptions and membership fees	4,390,738	1,683,859
Summit	62,670	456,200
Telephone and fax	4,912,125	3,918,746
Training	5,299,198	2,962,382
Travel - local	4,049,657	4,707,189
Travel - overseas	5,952	-
Uniforms	495,071	50,000
Water services expenditure	45,476,574	58,765,866
	<b>255,809,656</b>	<b>220,588,958</b>
<b>28. Auditor's remuneration</b>		
Audit fees	2,506,245	2,269,822

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>29. Cash generated from operations</b>		
Surplus	264,296,947	318,675,526
<b>Adjustments for:</b>		
Depreciation and amortisation	75,999,900	77,464,853
Impairment deficit	1,043,700	6,410,520
Debt impairment	17,531,373	53,816,108
Gain on creditors write off	-	(20,903,121)
Interest received - non cash	-	(9,387,221)
Movements in provisions	4,529,715	27,481,571
<b>Changes in working capital:</b>		
Inventories	(13,622,286)	(13,799,173)
Receivables from exchange transactions	(28,602,538)	4,939,901
Consumer debtors	(17,531,373)	-
Other receivables from non-exchange transactions	(52,250,731)	(42,810,117)
Payables from exchange transactions	73,120,923	55,187,243
VAT	8,176,125	(207,532,430)
Unspent conditional grants and receipts	59,695,564	59,802,088
Consumer deposits	64,051	(17,268)
	<b>392,451,370</b>	<b>309,328,480</b>
<b>30. Public contributions and donations</b>		
Donation received	-	789,246
<b>31. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	11,664,473	11,244,034

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>32. Contingencies</b>		
<b>Contingent Liabilities:</b>		
NW Civils	-	13,135,086
Van der Westhuizen	-	1,824,443
MICS empowerment	1,508,531	1,508,531
Sibadela NN	260,000	260,000
All connections	12,036,120	12,036,120
Synergy Income Fund Ltd	279,505	279,515
Capstain Trading	608,660	548,660
Musitha ME	82,510	82,510
Tricks Wought	1,419,970	1,419,970
Getudsburg Community	27,984,000	-
Thiambi Winnie Phuluwa	200,000	-
Generic Core/Denrob Business enterprises	904,924	-
	<b>45,284,220</b>	<b>31,094,835</b>

### NW Civils

NW Civils was awarded a contract to erect a reservoir and litigated against VDM relating to a dispute on that the Municipality was in breach of the contract and were seeking damages to the amount of R5 866 748.44 together with interest. The case took five (5) years to finalize. The Municipality lost the case and an amount of R14, 046, 312.45 was granted to the applicant and VDM paid as per court order in April 2015. Therefore, the case is closed.

### Van der Westhuizen

The municipality has received a claim from the attorneys of Van Der Westhuizen. The claim is for the damage on the crops that was as a result of construction of a road alongside a tomato farm. The municipality will only have an obligation to settle the claim when the claimant submits proof and basis of claim. The amount of damages is R 1,824,443 and the payment to be made to the applicant.

### MICS empowerment

MICS EMPOWERMENT is litigating against the Municipality as they are alleging that they have serviced water equipment which was taken from the National Department of Water Affairs as the former Water Service Authority. The Municipality is disputing claim as it does not have a contractual relationship with MICS EMPOWERMENT. They are suing for R1,508,531.33. Disbursements for the case are estimated at R300, 000.00. The case is still pending.

### Sibandela NN

Mr Sibadela NN is claiming that his house is water damaged due to the Municipality's reservoir that is leaking. He is claiming R 260 000. 00 from the Municipality. There is no disbursement for now as the case is still dealt with internally including resolving it amicably by repairing the damage if liable. The case is pending.

### All Connections

All Connections was awarded a one year training contract, as per appointment letter, by the Municipality. They are claiming that the advert indicated that it will be a three year contract. However, the appointment letter issued was specifically for one year subject to satisfactory performance the Municipality can renew. The claim against the Municipality is based on the allegations that the Municipality has terminated their contract unilaterally. The claimed amount is R12, 036,120.00. The disbursement amount is estimated at R 500, 000.00. The case is still pending.

### Synergy Income Fund Ltd

Synergy Income Fund Ltd is the owner of a Mall in Elim. They were experiencing blockages on their system and they procured services of an Engineering firm to assist in dealing with the blockage. After paying they sued the Municipality for the amount paid which is R279, 515.01 asserting that it is the duty of the Municipality to unblock the system. The Municipality is disputing the claim. The estimated disbursement amount is R200, 000.00 and the case is pending.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand

2015

2014

### 32. Contingencies (continued)

#### Capstain Trading

Capstain Trading is litigating against the Municipality and is disputing the validity of a cession that is purported to have been signed between the Capstain as the cedant and the third party. On the strength of the cession agreement the Municipality paid the third party an amount of R608, 660.42. The Municipality is defending the case. The estimated disbursement amount is R200, 000.00 and the case is pending.

#### Musitha ME

Musitha ME was involved in an accident and claim is that the motor vehicle of the Municipality was the sole cause of that accident. She is suing for R82, 509.53 from the Municipality. The estimated disbursement amount is R50, 000.00 and the case is pending.

#### Tricks Wrought

Tricks Wrought instituted a claim of R1, 419, 871.00 due to the Municipality not honoring a cession agreement. The Municipality is disputing the claim. The estimated disbursement amount is R400, 000.00 and the case is pending.

#### Thiambi Winnie Phuluwa

Thiambi Winnie Phuluwa sued the Municipality for an amount of R200, 000.00 including her legal cost claiming that the motor vehicle of the Municipality was the sole cause of that accident. The estimated disbursement amount is R150, 000.00 and the case is pending.

#### Generic Core/Denrob Business Enterprises

Generic Core, a sub-contractor, is suing Denrob Business Enterprises for R904, 924.10 for the job done. The Municipality is a joinder due to a contractual relationship with Denrob Enterprises as the main contractor. The estimated disbursement is R400, 000.00 and the case is still pending.

#### Getrusburg Community Property Association

The Association is suing the Makhado Municipality for R27, 984, 000.00 for drawing borehole water from its premises without consent. Makhado Municipality has joined VDM as a Water Services Authority. The estimated disbursement is R700, 000.00 and the case is still pending.

### 33. Related parties

#### Relationships

Accounting Officer  
Section 57 managers  
Councillors  
Members of key management

Refer to accounting officer's report  
Refer to note 20  
Refer to note 21  
Ms S.E Magwaza: Acting Municipal Manager  
Ms T.G Mufhe: Acting Chief Financial Officer  
Ms M Masuluke: GM Corporate Services  
Ms L Raphasha: GM Technical Services  
Ms N Demana: Acting GM Community Service  
Mr PM Mudau: GM Planning

Municipality did not enter into business with the above members of the key management and their close family members.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand

2015

2014

### 34. Prior period errors

#### Inventory

Inventory was understated in the accounting records of the municipality. Prior period journal was processed retrospectively to correct the misstatement.

#### Reveivable from non exchange transaction

Receivable for non-exchange transactions were understated in the accounting records of the municipality.

#### VAT receivable

The correction was due to the irrecoverable amount and disallowed VAT for prior financial years. External confirmation with SARS was obtained for the amount outstanding and reconciliations were performed to that effect. The journal was processed retrospectively since the error was emanating from prior years.

#### Receivable from exchange transactions

Prior period journal was processed due to the incorrect journal that was processed in prior year. Consumer debtors were wrongly credited in the previous financial year.

#### Cash and cash equivalent

The journal was processed to correct long outstanding reconciling items emanating from 2011/12 financial year.

#### Property, plant and equipment

The balance of PPE was restated retrospectively due to the following reasons:

Refurbishment expenditure, repairs and maintenance expenditure, sanitation expenditure and disaster roads was incorrectly capitalized as Work-in-progress instead of being expensed to the relevant expenditure votes. GRAP 3 was applied in processing the journals. Correction of prior period error was applied for the wrong allocations.

Take on balances that affected Furniture & Fittings, Other PPE and the understatement of the Infrastructure Balance.

Leased assets balance was also restated due to incorrect calculation which were recalculated and corrected retrospectively.

Duplicated assets on the IT equipment Balance.

This change also led to the accumulated depreciation balance of Furniture & Fittings, Motor vehicles, Office Equipment and Leased assets was also restated.

#### Intangible assets

The amount of R203, 199.00 for intangible assets was incorrectly classified on the PPE Vote. This resulted to the cost of intangibles to be restated with an amount of R203, 199.00 retrospectively.

#### Payables from exchange transaction

The journal was processed to correct wrong allocation for the payments made not using the accrual vote where the accruals were initially raised and as a result the accrual is overstated. The journal was processed to allocate the payment for accrual to the correct accrual vote.

#### Provisions

Long outstanding award opening balance was adjusted for prior year as per actuary report. Provision for employee benefits was understated in the accounting records of the municipality. Leave provision was adjusted in the prior year as per leave provision schedule.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand

2015

2014

### 34. Prior period errors (continued)

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

#### Statement of financial position

Inventory	-	4,379,060
Receivable from non-exchange transaction	-	6,860,278
VAT receivable	-	(90,940,155)
Receivable from exchange transactions	-	5,695,603
Cash and cash equivalent	-	(5,973,023)
Property, plant and equipment	-	(317,475,256)
Intangible assets	-	203,199
Payable from exchange transactions	-	11,452,971
Provisions	-	19,007,815

#### Statement of Financial Performance

Administration (reversal of expenditure recorded in an incorrect financial period)	-	27,600
Finance cost (recognition of accrual not recognised in the prior year)	-	5,087
Repair and maintenance (recognition of accrual not recognised in the prior year)	-	73,211
General Expenses (recognition of accrual not recognised in the prior year)	-	(3,737,101)
Debt impairment (Reversal of expenditure recorded in an incorrect financial period)	-	15,051,068

### 35. Risk management

#### Liquidity risk

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

#### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

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

#### Credit risk

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

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

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

Financial instrument	2015	2014
Receivables from exchange transaction	59,945,759	31,343,221
Receivables from non-exchange transaction	253,914,460	201,663,729
Cash and cash equivalents	85,883,698	71,689,738

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand

2015

2014

### 36. Financial sustainability

The indicators or conditions that may, individually or collectively, cast significant doubt about the going concern assumption are as follows:

#### Financial Indicators

Current Liabilities exceeds current assets by R 193 125 360 ( 2014: 157,705,466)

Treasury disapproved the roll-over of R 154,600,000 and directed the municipality to repay the amount by the 23 October 2015. An appeal was transmitted to NT requesting that the funds be paid over a longer period. In response, the NT agreed that the municipality should repay funds in three equal installments of R 51. 6 million to be deducted from the equitable share allocation transfers (November 2015, March 2016 and July 2016.)

77% of receivable from exchange transactions are provided for possible impairment.

#### Other Indicators

Possible outflow of resources due to the commitments disclosed in note 43.

#### Turnaround plan

The municipality will implement a turnaround plan to improve the financial sustainability as follows:

- a) implement cost containment measures to eliminate waste and expenditure on non-essential areas such as consultancy fees, travel and accommodation, catering, advertising and event costs;
- b) Proper record keeping be finalised in accordance with prescribed norms and standards;
- c) Utilise term contractors for emergency procurement only;
- d) Maintain an effective, efficient and transparent systems. internal controls and operational measures;
- e) Collect irrecoverable debt by implementing credit control measures;
- f) Prevent unauthorised, irregular or wasteful expenditure and other losses.
- g) Utilise transversal contracts for fleet procurement and computers;
- h) Procurement of bulk specialised material directly from suppliers as per National Treasury approval;
- i) Place a moratorium on filling of non-critical posts and restructure for improved efficiencies and productivity;
- j) Conduct quarterly ratio analysis to test financial sustainability in order to mitigate accordingly.
- k) The municipality has commenced with revenue collection. Bills were distributed for August and September 2015.

### 37. Events after the reporting date

Management is not aware of any events that occurred after year end that may have an impact on the financial statements.

### 38. Unauthorised expenditure

Opening Balance	118,167,381	5,753,769
Incurred during the year	182,007,714	112,413,716
Non cash items - Depreciation and amortisation	75,999,900	-
	<b>376,174,995</b>	<b>118,167,485</b>

During the current year and the prior year the municipality incurred unauthorised expenditures. In terms of Section 32 of the MFMA the council appoint a committee to investigate these. The investigations are still underway and no condonment, write off or recovery has been made of these expenses.

### 39. Fruitless and wasteful expenditure

Opening balance	8,377,775	2,281,502
Incurred during the year	31,132,331	6,096,273
	<b>39,510,106</b>	<b>8,377,775</b>

During the year and the prior year the municipality incurred unauthorised, irregular and fruitless expenditures. In terms of Section 32 of the MFMA the council appoint a committee to investigate these. The investigations are still underway and no condonment, write off or recovery has been made of these expenses.

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>40. Irregular expenditure</b>		
Opening balance	270,418,873	865,991,704
Add: Irregular Expenditure - current year	204,975,302	5,192,820
Less: Amounts condoned	-	(600,765,651)
	<b>475,394,175</b>	<b>270,418,873</b>
<b>Analysis of expenditure awaiting condonation per age classification</b>		
<b>Details of irregular expenditure – current year</b>		-
During the current year and the prior year the municipality incurred irregular expenditures. In terms of section 32 of the MFMA the council appoint a committee to investigate these. The council will appoint the committee to investigate.		
<b>41. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	-	1,588,343
Current year	4,283,417	3,248,566
Amount paid - current year	(4,283,417)	(4,836,909)
	-	-
<b>Audit fees</b>		
Current year	2,143,498	2,018,889
Amount paid - current year	(2,143,498)	(2,018,889)
	-	-
<b>PAYE and UIF</b>		
Current year	47,673,570	45,421,435
Amount paid - current year	(47,673,570)	(45,421,435)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year	50,620,426	46,065,634
Amount paid - current year	(50,620,426)	(46,065,634)
	-	-
<b>VAT</b>		
VAT receivable	37,449,502	45,625,627
<b>Deviation</b>		
Current year	1,616,926	555,176
Noted by council	(1,616,926)	(555,176)
	-	-

# Vhembe District Municipality

Annual Financial Statements for the year ended June 30, 2015

## Notes to the Annual Financial Statements

Figures in Rand	2015	2014
<b>42. Distribution losses</b>		
<b>Reconciliation of water losses:</b>		
Opening stock	356,797	341,542
Add: Water production	465,599,370	461,237,263
Less: Closing water inventory	(940,398)	(356,797)
Less: billing for the year	(87,208,471)	(86,392,000)
Less: portion subsidies	(3,506,777)	(32,427,716)
	<b>374,300,521</b>	<b>342,402,292</b>
<b>43. Commitments</b>		
<b>Capital commitments</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure	697,431,633	698,014,629
<b>Not yet contracted for and authorised by accounting officer</b>		
• Infrastructure	-	757,780,000
<b>Operational commitments</b>		
<b>Already contracted for but not provided for</b>		
• Authorised orders	10,172,615	5,174,810

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

## Appendix B

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

<b>Cost/Revaluation</b>	<b>Accumulated depreciation</b>
-------------------------	---------------------------------

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Under construction Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Infrastructure</b>														
Sewerage Mains & Purification	308,204,953	-	-	-	-	-	<b>308,204,953</b>	(64,965,943)	-	-	(13,870,423)	-	<b>(78,836,366)</b>	229,368,587
Water Mains & Purification	1,134,410,653	32,499,590	-	-	-	-	<b>1,166,910,243</b>	(101,069,369)	-	-	(22,811,635)	-	<b>(123,881,004)</b>	1,043,029,239
Reservoirs – Water	1,149,712,520	19,781,979	-	-	-	-	<b>1,169,494,499</b>	(105,652,762)	-	-	(23,788,764)	-	<b>(129,441,526)</b>	1,040,052,973
Water Meters	107,037,846	734,094	-	-	-	-	<b>107,771,940</b>	(24,980,388)	-	-	(5,336,419)	-	<b>(30,316,807)</b>	77,455,133
Under construction	666,673,746	282,999,185	-	(53,015,663)	84,379,102	-	<b>981,036,370</b>	-	-	-	-	-	-	981,036,370
<b>Total</b>	<b>3,366,039,718</b>	<b>336,014,848</b>	-	<b>(53,015,663)</b>	<b>84,379,102</b>	-	<b>3,733,418,005</b>	<b>(296,668,462)</b>	-	-	<b>(65,807,241)</b>	-	<b>(362,475,703)</b>	<b>3,370,942,302</b>

## Appendix B

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

Cost/Revaluation							Accumulated depreciation						
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Under construction Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

#### Other assets

Computer Equipment	1,783,162	-	-	-	-	-	1,783,162	(1,346,255)	-	-	(127,146)	-	(1,473,401)	309,761
Computer Software (part of computer equipment)	4,707,277	-	-	-	-	-	4,707,277	(1,099,591)	-	-	(275,654)	-	(1,375,245)	3,332,032
Furniture & Fittings	8,569,342	112,095	-	-	-	-	8,681,437	(2,750,051)	-	-	(651,259)	-	(3,401,310)	5,280,127
Office Equipment	1,135,145	18,550	-	-	-	-	1,153,695	(406,486)	-	-	(68,061)	-	(474,547)	679,148
Fire Engines	6,604,107	-	-	-	-	-	6,604,107	(1,036,682)	-	-	(367,120)	-	(1,403,802)	5,200,305
Motor Vehicles	38,586,243	9,094,324	-	-	-	-	47,680,567	(8,800,758)	-	-	(2,546,147)	-	(11,346,905)	36,333,662
Other Assets - Leased	8,297,629	-	-	-	-	-	8,297,629	(3,373,275)	-	-	(2,780,960)	-	(6,154,235)	2,143,394
Other PPE	23,460,933	-	-	-	-	-	23,460,933	(7,714,210)	-	-	(1,802,495)	-	(9,516,705)	13,944,228
	<b>93,143,838</b>	<b>9,224,969</b>	-	-	-	-	<b>102,368,807</b>	<b>(26,527,308)</b>	-	-	<b>(8,618,842)</b>	-	<b>(35,146,150)</b>	<b>67,222,657</b>

## Appendix B

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

Cost/Revaluation							Accumulated depreciation						
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Under construction Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

**Total property plant and equipment**

Infrastructure	3,366,039,718	336,014,848	-	(53,015,663)	84,379,102	-	<b>3,733,418,005</b>	(296,668,462)	-	-	(65,807,241)	-	<b>(362,475,703)</b>	3,370,942,302
Other assets	93,143,838	9,224,969	-	-	-	-	<b>102,368,807</b>	(26,527,308)	-	-	(8,618,842)	-	<b>(35,146,150)</b>	67,222,657
	<b>3,459,183,556</b>	<b>345,239,817</b>	<b>-</b>	<b>(53,015,663)</b>	<b>84,379,102</b>	<b>-</b>	<b>3,835,786,812</b>	<b>(323,195,770)</b>	<b>-</b>	<b>-</b>	<b>(74,426,083)</b>	<b>-</b>	<b>(397,621,853)</b>	<b>3,438,164,959</b>
<b>Total</b>	<b>3,459,183,556</b>	<b>345,239,817</b>	<b>-</b>	<b>(53,015,663)</b>	<b>84,379,102</b>	<b>-</b>	<b>3,835,786,812</b>	<b>(323,195,770)</b>	<b>-</b>	<b>-</b>	<b>(74,426,083)</b>	<b>-</b>	<b>(397,621,853)</b>	<b>3,438,164,959</b>

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
-------------------------	-------------------	-------------------	-------------------	----------------------	-------------------------------------	----------------------------	----------------------------	-------------------	-------------------	----------------------	-------------------------	----------------------------	---------------------------

## Appendix B

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
-------------------------	-------------------	-------------------	-------------------	----------------------	-------------------------------------	----------------------------	----------------------------	-------------------	-------------------	----------------------	-------------------------	----------------------------	---------------------------

## Appendix B

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
-------------------------	-------------------	-------------------	-------------------	----------------------	-------------------------------------	----------------------------	----------------------------	-------------------	-------------------	----------------------	-------------------------	----------------------------	---------------------------



## Appendix D

### Segmental Statement of Financial Performance for the year ended Prior Year Current Year

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
<b>Municipality</b>						
54,193,401	42,356,744	11,836,657	Executive & Council/Mayor and Council	44,262,237	58,475,494	(14,213,257)
39,814,953	34,125,261	5,689,692	Finance & Admin/Finance	46,086,895	54,992,459	(8,905,564)
36,344,657	23,972,197	12,372,460	Planning and Development/Economic Development/Plan	35,581,847	23,168,303	12,413,544
-	11,297,999	(11,297,999)	Health/Clinics	17,825,389	12,836,001	4,989,388
98,477,427	66,675,567	31,801,860	Comm. & Social/Libraries and archives	62,890,932	73,922,629	(11,031,697)
60,954,993	63,119,687	(2,164,694)	Public Safety/Police	69,158,008	70,631,394	(1,473,386)
403,689,298	101,791,442	301,897,856	Road Transport/Roads	530,971,803	96,118,867	434,852,936
469,527,401	500,909,012	(31,381,611)	Water/Water Distribution	377,719,975	537,562,048	(159,842,073)
<b>,163,002,130</b>	<b>844,247,909</b>	<b>318,754,221</b>		<b>,184,497,086</b>	<b>927,707,195</b>	<b>256,789,891</b>
<b>Municipal Owned Entities Other charges</b>						
,163,002,130	844,247,909	318,754,221	Municipality	,184,497,086	927,707,195	256,789,891
<b>,163,002,130</b>	<b>844,247,909</b>	<b>318,754,221</b>	<b>Total</b>	<b>,184,497,086</b>	<b>927,707,195</b>	<b>256,789,891</b>

## Appendix E(1)

### Actuals Versus Budget(Revenue and Expenditure) for the year ended 30 June 2015

	Forecast # 1 2015 Act. Bal.	Forecast # 1 2015 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
<b>Revenue</b>					
Sale of goods	87,208,471	117,068,939	(29,860,468)	(25.5)	Billing of Thulamela, Mutale and Makhado was done only in town
Rendering of services	437,149	587,888	(150,739)	(25.6)	More breakdowns and delay on repairer due spare parts
Sale of manure	-	1,035	(1,035)	(100.0)	
Rental of facilities and equipment	38,174	1,248,248	(1,210,074)	(96.9)	
Interest received (trading)	14,296,415	3,797,295	10,499,120	276.5	Statement were not issued to the consumer debtors on a monthly basis , consumer were not paying as they did not have statements and we where charging interests
Carnival festival	170,773	170,247	526	0.3	
Certificate of acceptance	274,952	189,679	85,273	45.0	The increase caused by the large number of businesses people who registered in order to submit tenders for feeding scheme for the schools and prisons
Fire services	168,938	67,250	101,688	151.2	There were lot of fire accidents during the year under review as compared to the pervious year
Sale of tender documents	597,339	703,493	(106,154)	(15.1)	Sales of tender declined compared to last financial year and the withdrawal of MWIG Grant
Other income	4,154,880	703,493	3,451,387	490.6	
Government grants & subsidies	,049,591,343	,250,045,391	(200,454,048)	(16.0)	There variance caused by the withdrawal of MWIG grant
Sundry income	1,697,791	3,045,030	(1,347,239)	(44.2)	There were lots of trainings done during the year under review.
Interest received - investment	11,664,473	13,300,867	(1,636,394)	(12.3)	Investment was not done according to plan due financial constrains
	<b>,170,300,698</b>	<b>,390,928,855</b>	<b>(220,628,157)</b>	<b>(15.9)</b>	
<b>Expenses</b>					
Personnel	(391,426,942)	(426,201,648)	34,774,706	(8.2)	
Remuneration of councillors	(12,398,686)	(12,228,907)	(169,779)	1.4	
Administration	(4,809,652)	(4,809,652)	-	-	
Depreciation	(76,269,900)	-	(76,269,900)	-	Provision for Depreciation was not in Budget and it will be disclosed as Unauthorized expenditure
Impairments	(1,043,700)	-	(1,043,700)	-	
Finance costs	(1,068,296)	(468,683)	(599,613)	127.9	
Debt impairment	(17,531,373)	-	(17,531,373)	-	Provision for Debt Impairment were not budgeted
Collection costs	(1,033,716)	(1,033,716)	-	-	
Repairs and maintenance	(160,028,713)	(74,952,161)	(85,076,552)	113.5	Major expenditure were funded by own funding and municipality did not do enough in terms of collecting
Bulk purchases	(765,299)	(11,971,231)	11,205,932	(93.6)	The department of water affairs not submitting thr expenditure on a monthly basis
General Expenses	(258,209,419)	(194,021,142)	(64,188,277)	33.1	Musina Expenditure, Bad Debts not on Budget and Electricity for Schemes Exceeded the budget and it was not avoidable.
	<b>(924,585,696)</b>	<b>(725,687,140)</b>	<b>(198,898,556)</b>	<b>27.4</b>	
Other revenue and costs					
Net surplus/ (deficit) for the year	245,715,002	665,241,715	(419,526,713)	(63.1)	

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

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun			
EPWP	National	118	148	111	111	-	-	122	133	8	108	-	-	-	-	-	-	Yes	
RBIG	National	-	-	5,557	997	4,478	-	645	100	243	188	-	-	-	-	-	-	Yes	
MIG	National	86	19,297	-	1,465	-	-	457	8,700	1,300	1,047	-	-	-	-	-	-	Yes	
MSIG	National	-	93	-	-	-	-	1	9	2	66	-	-	-	-	-	-	Yes	
Water	National	-	-	2,000	1,500	-	-	2,731	4,960	1,189	7,874	-	-	-	-	-	-	Yes	
Transport	National	-	195	-	-	-	-	-	128	-	670	-	-	-	-	-	-	Yes	
FMG	Treasury	-	125	-	-	-	-	20	9	1	66	-	-	-	-	-	-	Yes	
MISA	National	-	-	30	152	-	-	93	58	83	79	-	-	-	-	-	-	Yes	
Rural Sanitatio	National	152	-	-	-	-	-	152	-	-	-	-	-	-	-	-	-	Yes	
		356	43,323	7,698	4,225	4,478	-	4,221	14,097	2,826	10,098	-	-	-	-	-	-		

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.

**Appendix G1  
Budgeted Financial Performance (revenue and expenditure by standard classification)  
for the year ended June 30, 2015**

	2015/2014								2014/2013						
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Adjustments Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
<b>Revenue - Standard</b>															
<b>Governance and administration</b>	<b>187,932,952</b>	<b>4,836,186</b>	<b>192,769,138</b>	-		<b>192,769,138</b>	<b>159,592,247</b>		<b>(33,176,891)</b>	<b>83 %</b>	<b>85 %</b>				-
Executive and council	48,817,388	2,991,156	51,808,544	-		51,808,544	44,262,237		(7,546,307)	85 %	91 %				-
Budget and treasury office	44,723,894	-	44,723,894	-		44,723,894	46,086,895		1,363,001	103 %	103 %				-
Corporate services	94,391,670	1,845,030	96,236,700	-		96,236,700	69,243,115		(26,993,585)	72 %	73 %				-
<b>Community and public safety</b>	<b>75,023,005</b>	<b>(82,750)</b>	<b>74,940,255</b>	-		<b>74,940,255</b>	<b>62,890,932</b>		<b>(12,049,323)</b>	<b>84 %</b>	<b>84 %</b>				-
Community and social services	75,023,005	(82,750)	74,940,255	-		74,940,255	62,890,932		(12,049,323)	84 %	84 %				-
<b>Economic and environmental services</b>	<b>635,258,936</b>	<b>75,126,451</b>	<b>710,385,387</b>	-		<b>710,385,387</b>	<b>584,379,039</b>		<b>(126,006,348)</b>	<b>82 %</b>	<b>92 %</b>				-
Planning and development	34,893,825	(2,741,865)	32,151,960	-		32,151,960	35,581,847		3,429,887	111 %	102 %				-
Technical services	582,359,722	77,858,637	660,218,359	-		660,218,359	530,971,803		(129,246,556)	80 %	91 %				-
Health services	18,005,389	9,679	18,015,068	-		18,015,068	17,825,389		(189,679)	99 %	99 %				-
<b>Trading services</b>	<b>527,528,059</b>	<b>(62,963,817)</b>	<b>464,564,242</b>	-		<b>464,564,242</b>	<b>377,719,975</b>		<b>(86,844,267)</b>	<b>81 %</b>	<b>72 %</b>				-
Water	527,528,059	(62,963,817)	464,564,242	-		464,564,242	377,719,975		(86,844,267)	81 %	72 %				-
<b>Total Revenue - Standard</b>	<b>1,425,742,952</b>	<b>16,916,070</b>	<b>1,442,659,022</b>	-		<b>1,442,659,022</b>	<b>1,184,582,193</b>		<b>(258,076,829)</b>	<b>82 %</b>	<b>83 %</b>				-

**Appendix G1  
Budgeted Financial Performance (revenue and expenditure by standard classification)  
for the year ended June 30, 2015**

	2015/2014							2014/2013							
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget (i.t.o. s28 and s31 of the MFMA)	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
<b>Expenditure - Standard</b>															
<b>Governance and administration</b>	<b>187,932,952</b>	<b>(6,667,289)</b>	<b>181,265,663</b>	-	-	<b>181,265,663</b>	<b>184,099,347</b>	-	<b>2,833,684</b>	<b>102 %</b>	<b>98 %</b>	-	-	-	-
Executive and council	48,817,388	2,559,746	51,377,134	-	-	51,377,134	58,475,494	-	7,098,360	114 %	120 %	-	-	-	-
Budget and treasury office	44,723,894	-	44,723,894	-	-	44,723,894	54,992,459	-	10,268,565	123 %	123 %	-	-	-	-
Corporate services	94,391,670	(9,227,035)	85,164,635	-	-	85,164,635	70,631,394	-	(14,533,241)	83 %	75 %	-	-	-	-
<b>Community and public safety</b>	<b>75,023,005</b>	<b>619,164</b>	<b>75,642,169</b>	-	-	<b>75,642,169</b>	<b>73,922,629</b>	-	<b>(1,719,540)</b>	<b>98 %</b>	<b>99 %</b>	-	-	-	-
Community and social services	75,023,005	619,164	75,642,169	-	-	75,642,169	73,922,629	-	(1,719,540)	98 %	99 %	-	-	-	-
<b>Economic and environmental services</b>	<b>635,258,936</b>	<b>87,015,346</b>	<b>722,274,282</b>	-	-	<b>722,274,282</b>	<b>132,123,171</b>	-	<b>(590,151,111)</b>	<b>18 %</b>	<b>21 %</b>	-	-	-	-
Planning and development	34,893,825	3,959,120	38,852,945	-	-	38,852,945	23,168,303	-	(15,684,642)	60 %	66 %	-	-	-	-
Technical services	582,359,722	88,469,229	670,828,951	-	-	670,828,951	96,118,867	-	(574,710,084)	14 %	17 %	-	-	-	-
Health services	18,005,389	(5,413,003)	12,592,386	-	-	12,592,386	12,836,001	-	243,615	102 %	71 %	-	-	-	-
<b>Trading services</b>	<b>527,528,059</b>	<b>(64,051,151)</b>	<b>463,476,908</b>	-	-	<b>463,476,908</b>	<b>537,562,048</b>	-	<b>74,085,140</b>	<b>116 %</b>	<b>102 %</b>	-	-	-	-
Water	527,528,059	(64,051,151)	463,476,908	-	-	463,476,908	537,562,048	-	74,085,140	116 %	102 %	-	-	-	-
<b>Total Expenditure - Standard</b>	<b>1,425,742,952</b>	<b>16,916,070</b>	<b>1,442,659,022</b>	-	-	<b>1,442,659,022</b>	<b>927,707,195</b>	-	<b>(514,951,827)</b>	<b>64 %</b>	<b>65 %</b>	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	-	-	-	-		-	<b>256,874,998</b>		<b>256,874,998</b>	<b>DIV/0 %</b>	<b>DIV/0 %</b>				-

**Appendix G3**  
**Budgeted Financial Performance (revenue and expenditure)**  
**for the year ended June 30, 2015**

	2015/2014					2014/2013					Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome	
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Budget Adjustments	Actual Outcome as % of Final Budget					Actual Outcome as % of Original Budget
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand					Rand
<b>Revenue By Source</b>															
Service charges - water revenue	117,068,939	-	117,068,939	-		117,068,939	87,208,471		(29,860,468)	74 %	74 %				-
Rendering of services	3,500,000	(2,912,112)	587,888	-		587,888	437,149		(150,739)	74 %	12 %				-
Interest received (trading)	-	3,797,295	3,797,295	-		3,797,295	14,296,415		10,499,120	376 %	DIV/0 %				-
Other income	-	-	-	-		-	3,916,382		3,916,382	DIV/0 %	DIV/0 %				-
Rental of facilities and equipment	631,121	(617,127)	13,994	-		13,994	38,174		24,180	273 %	6 %				-
Interest earned - external investments	9,692,584	3,608,283	13,300,867	-		13,300,867	11,664,473		(1,636,394)	88 %	120 %				-
Sale of manure	-	1,035	1,035	-		1,035	-		(1,035)	- %	DIV/0 %				-
Certificate of acceptance	180,000	9,679	189,679	-		189,679	274,952		85,273	145 %	153 %				-
Fire services	150,000	(82,750)	67,250	-		67,250	168,938		101,688	251 %	113 %				-
Sale of tender documents	557,568	145,925	703,493	-		703,493	597,339		(106,154)	85 %	107 %				-
Carnival festival	-	170,247	170,247	-		170,247	-		(170,247)	- %	DIV/0 %				-
Transfers recognised - operational	1,219,122,002	30,923,389	1,250,045,391	-		1,250,045,391	1,050,693,405		(199,351,986)	84 %	86 %				-
Sundry income	1,200,000	1,845,030	3,045,030	-		3,045,030	1,697,791		(1,347,239)	56 %	141 %				-
Gains on disposal of PPE	73,640,736	(19,825,156)	53,815,580	-		53,815,580	-		(53,815,580)	- %	- %				-
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>1,425,742,950</b>	<b>17,063,738</b>	<b>1,442,806,688</b>	<b>-</b>		<b>1,442,806,688</b>	<b>1,170,993,489</b>		<b>(271,813,199)</b>	<b>81 %</b>	<b>82 %</b>				<b>-</b>

**Appendix G3  
Budgeted Financial Performance (revenue and expenditure)  
for the year ended June 30, 2015**

	2015/2014										2014/2013				
	Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance of Actual Outcome against Budget	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
<b>Expenditure By Type</b>															
Employee related costs	433,722,164	(7,520,516)	426,201,648	-	-	426,201,648	395,226,942	-	(30,974,706)	93 %	91 %	-	-	-	397,195,807
Remuneration of councillors	12,228,907	-	12,228,907	-	-	12,228,907	12,398,685	-	169,778	101 %	101 %	-	-	-	11,307,111
Debt impairment	-	-	-	-	-	-	17,531,373	-	17,531,373	DIV/0 %	DIV/0 %	-	-	-	53,816,108
Depreciation & asset impairment	-	-	-	-	-	-	77,043,600	-	77,043,600	DIV/0 %	DIV/0 %	-	-	-	83,875,373
Finance charges	-	-	-	-	-	-	1,068,296	-	1,068,296	DIV/0 %	DIV/0 %	-	-	-	1,712,640
Bulk purchases	68,094,316	5,640,000	73,734,316	-	-	73,734,316	2,506,245	-	(71,228,071)	3 %	4 %	-	-	-	2,269,822
Other expenditure	207,200,000	(13,178,858)	194,021,142	-	-	194,021,142	335,278,024	-	141,256,882	173 %	162 %	-	-	-	290,042,992
<b>Total Expenditure</b>	<b>721,245,387</b>	<b>(15,059,374)</b>	<b>706,186,013</b>	<b>-</b>	<b>-</b>	<b>706,186,013</b>	<b>841,053,165</b>	<b>-</b>	<b>134,867,152</b>	<b>119 %</b>	<b>117 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>840,219,853</b>
<b>Surplus/(Deficit)</b>	<b>704,497,563</b>	<b>32,123,112</b>	<b>736,620,675</b>	<b>-</b>	<b>-</b>	<b>736,620,675</b>	<b>329,940,324</b>	<b>-</b>	<b>(406,680,351)</b>	<b>45 %</b>	<b>47 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(840,219,853)</b>
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>704,497,563</b>	<b>32,123,112</b>	<b>736,620,675</b>	<b>-</b>	<b>-</b>	<b>736,620,675</b>	<b>329,940,324</b>	<b>-</b>	<b>(406,680,351)</b>	<b>45 %</b>	<b>47 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(839,430,607)</b>
<b>Surplus/(Deficit) after taxation</b>	<b>704,497,563</b>	<b>32,123,112</b>	<b>736,620,675</b>	<b>-</b>	<b>-</b>	<b>736,620,675</b>	<b>329,940,324</b>	<b>-</b>	<b>(406,680,351)</b>	<b>45 %</b>	<b>47 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(839,430,607)</b>
<b>Surplus/(Deficit) attributable to municipality</b>	<b>704,497,563</b>	<b>32,123,112</b>	<b>736,620,675</b>	<b>-</b>	<b>-</b>	<b>736,620,675</b>	<b>329,940,324</b>	<b>-</b>	<b>(406,680,351)</b>	<b>45 %</b>	<b>47 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(839,430,607)</b>
<b>Surplus/(Deficit) for the year</b>	<b>704,497,563</b>	<b>32,123,112</b>	<b>736,620,675</b>	<b>-</b>	<b>-</b>	<b>736,620,675</b>	<b>329,940,324</b>	<b>-</b>	<b>(406,680,351)</b>	<b>45 %</b>	<b>47 %</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(839,430,607)</b>