



MAKHADO LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2015

Auditor General (S.A)
Registered Auditors

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

General Information

Executive committee

Mayor and chairperson of executive committee

Municipal manager

Speaker

Chief whip

Councillors

F D Mutavhatsindi

IP Mutshinyali

L.B Mogale

Ludere R

Mukhaha A.J

Hlugwani A.K

Mathoma M.P

Hlabioa M.M

Mazibuko M.P

Rekhotso S.M

Makhuvha V.S

Madavhu F.F

Tshavhuyo T.G

Ndzovela N.G

Luduvhungu V.S

Tshilambyana M.S

Makhubele R.T

Mthombeni S.Z

Masuka S

Mogale L.B

Maphahla A.Z

Machete M.S

Mamafha T.C

Mahladisa S.V

Du Ploy A

Davhana N.D

Mamatsiari M.S

Selepe R

Rasimphi M.P

Kutama N

Matodzi A.M

Mmbadi T.A

Munyai N.S

Madzhiga F.N

Thandavhathu N.R

Malange R

Mathalise L.M

Nemafhohoni M.G

Mamafha T.J

Magada M.R

Chililo N.F

Neluvhola T.A

Hlongwane F.B

Malima M.E

Baloyi N.B

Ludere E.H

Nkanyane R.G

Balibali N.P

Mafhala N.A

MAKHADO LOCAL MUNICIPALITY

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General Information

Rikhotso F.J
Ndwambi M.T
Ramakhanya-Lerule M.M
Mashimbye P.F
Sinyosi S.M
Mboyi M.D
Malange T.M
Ratshikuni D.T
Mulovhedzi M.D
Baloyi R.S
Matumba N.J
Ngobeni N.E
Mukhari M.F
Shandukani M.J
Gabara M.J
Mamorobela P.T
Mpashe M.J
Madzivhandila M.R
Ramudzuli S.D
Matumba M.T
Mutele T.M
Ratshivhombela M.Q
Mahani M.G
Netshivhulana T.P
Mathavha H.F
Maphala O.S
Underwood J.P
Mudau T.S

Grading of local authority

4

Chief Finance Officer (CFO)

MP Makhubela

Accounting Officer

I.P Mutshinyali

Registered office

Corner Krogh and Erasmus Street
Makhado
0920

Business address

Corner Krogh and Erasmus Street
Makhado
0920

Postal address

Private Bag X2596
Makhado
0920

Auditors

Auditor General (S.A)
Registered Auditors

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

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Abbreviations

| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GRAP | Generally Recognised Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 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. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is mainly 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 government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 6 to 66, which have been prepared on the going concern basis, were approved by the accounting officer on 31/08/2015.

I.P Mutshinyali
Municipal Manager

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Position as at 30 June 2015

| Figures in Rand | Note(s) | 2015 | 2014 |
|--|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Inventories | 3 | 114 049 049 | 112 279 221 |
| Sundry debtors | 4 | 8 875 231 | 12 478 840 |
| Receivables from non-exchange transactions | 5 | 2 549 876 | 2 371 180 |
| Consumer debtors | 6 | 50 036 718 | 51 375 834 |
| Cash and cash equivalents | 7 | 47 449 950 | 52 158 058 |
| | | 222 960 824 | 230 663 133 |
| Non-Current Assets | | | |
| Investment property | 8 | 11 869 731 | 12 054 151 |
| Property, plant and equipment | 9 | 1 777 093 866 | 1 759 420 802 |
| Intangible assets | 10 | 1 355 528 | 1 187 387 |
| Heritage assets | 11 | 1 566 329 | 1 566 329 |
| | | 1 791 885 454 | 1 774 228 669 |
| Non-Current Assets | | 1 791 885 454 | 1 774 228 669 |
| Current Assets | | 222 960 824 | 230 663 133 |
| Total Assets | | 2 014 846 278 | 2 004 891 802 |
| Liabilities | | | |
| Current Liabilities | | | |
| Borrowings | 12 | 1 303 559 | 1 194 817 |
| Finance lease liabilities | 13 | 2 494 026 | 2 199 271 |
| Operating lease liability | 14 | - | 11 400 |
| Payables from exchange transactions | 15 | 136 282 455 | 133 209 932 |
| VAT payable | 16 | 2 340 100 | 2 835 192 |
| Unspent conditional grants and receipts | 17 | 7 234 322 | 48 099 226 |
| Consumer deposits | 18 | 13 702 459 | 11 502 303 |
| Deferred income | 19 | 69 443 | 50 997 |
| | | 163 426 364 | 199 103 138 |
| Non-Current Liabilities | | | |
| Borrowings | 12 | 3 327 996 | 4 736 917 |
| Finance lease liabilities | 13 | 13 504 466 | 16 347 328 |
| Retirement benefit obligation | 20 | 98 111 536 | 81 935 356 |
| Provisions | 21 | 6 461 505 | 5 957 130 |
| | | 121 405 503 | 108 976 731 |
| Non-Current Liabilities | | 121 405 503 | 108 976 731 |
| Current Liabilities | | 163 426 364 | 199 103 138 |
| Total Liabilities | | 284 831 867 | 308 079 869 |
| Assets | | 2 014 846 278 | 2 004 891 802 |
| Liabilities | | (284 831 867) | (308 079 869) |
| Net Assets | | 1 730 014 411 | 1 696 811 933 |
| Reserves | | | |
| Revaluation reserve | 22 | | 1 101 246 127 |
| Accumulated surplus | | 1 730 014 411 | 595 565 806 |
| Total Net Assets | | 1 730 014 411 | 1 696 811 933 |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 23 | 254 906 114 | 228 997 001 |
| Rental of facilities and equipment | | 301 505 | 505 003 |
| Interest received - outstanding debtors | 37 | 7 830 081 | 12 886 392 |
| Licences and permits | | 10 610 914 | 11 077 738 |
| Other income | 24 | 7 436 560 | 17 592 971 |
| Interest received - investment | 36 | 3 719 527 | 1 954 654 |
| Total revenue from exchange transactions | | 284 804 701 | 273 013 759 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 25 | 43 327 689 | 28 523 281 |
| Transfer revenue | | | |
| Government grants & subsidies | 26 | 446 854 369 | 373 365 991 |
| Fines, Penalties and Forfeits | | 5 844 485 | 5 649 640 |
| Total revenue from non-exchange transactions | | 496 026 543 | 407 538 912 |
| | | 284 804 701 | 273 013 759 |
| | | 496 026 543 | 407 538 912 |
| Total revenue | 27 | 780 831 244 | 680 552 671 |
| Expenditure | | | |
| Employee related costs | 28 | (211 502 971) | (201 865 584) |
| Remuneration of councillors | 29 | (21 798 349) | (20 781 673) |
| Depreciation and amortisation | 30 | (101 814 631) | (119 885 137) |
| Impairment of non cash generating assets | | (4 341 680) | (3 556 770) |
| Finance costs | 31 | (11 091 598) | (10 301 617) |
| Debt Impairment | 32 | (24 309 745) | (12 893 946) |
| Repairs and maintenance | 33 | (20 735 135) | (17 584 714) |
| Bulk purchases | 34 | (183 246 320) | (157 753 908) |
| General Expenses | 35 | (168 788 336) | (165 519 705) |
| Total expenditure | | (747 628 765) | (710 143 054) |
| | | - | - |
| Total revenue | | 780 831 244 | 680 552 671 |
| Total expenditure | | (747 628 765) | (710 143 054) |
| Operating surplus (deficit) | | 33 202 479 | (29 590 383) |
| Surplus (deficit) before taxation | | 33 202 479 | (29 590 383) |
| Taxation | | - | - |
| Surplus (deficit) for the year | | 33 202 479 | (29 590 383) |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

| Figures in Rand | Revaluation reserve | Accumulated surplus | Total net assets |
|---|------------------------|------------------------|----------------------|
| Balance at 01 July 2013 | 1 101 246 127 | 623 789 487 | 1 725 035 614 |
| Changes in net assets | | | |
| Correction of error | - | 1 366 702 | 1 366 702 |
| Net income (losses) recognised directly in net assets | - | 1 366 702 | 1 366 702 |
| Surplus for the year | - | (29 590 383) | (29 590 383) |
| Total recognised income and expenses for the year | - | (28 223 681) | (28 223 681) |
| Total changes | - | (28 223 681) | (28 223 681) |
| Balance at 01 July 2014 | 1 101 246 127 | 595 565 805 | 1 696 811 932 |
| Changes in net assets | | | |
| Surplus for the year | - | 33 202 479 | 33 202 479 |
| Transfer to accumulated funds | (1 101 246 127) | 1 101 246 127 | - |
| Total changes | (1 101 246 127) | 1 134 448 606 | 33 202 479 |
| Balance at 30 June 2015 | - | 1 730 014 411 | 1 730 014 411 |
| Note(s) | 22 | | |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---------|---------------------------|---------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Property rates | | 47 048 504 | 30 437 294 |
| Service charges | | 270 918 452 | 331 246 324 |
| Grants | | 446 854 369 | 373 365 991 |
| Interest income | | 3 719 527 | 1 954 654 |
| Other income | | 7 436 560 | 12 081 055 |
| | | <u>775 977 412</u> | <u>749 085 318</u> |
| Payments | | | |
| Employee costs | | (209 521 138) | (198 567 060) |
| Remuneration of council | | (21 798 349) | (20 781 673) |
| Finance costs | | (9 454 858) | (8 443 247) |
| Payment to suppliers | | (412 831 654) | (367 838 688) |
| | | <u>(653 605 999)</u> | <u>(595 630 668)</u> |
| Total receipts | | 775 977 412 | 749 085 318 |
| Total payments | | (653 605 999) | (595 630 668) |
| Net cash flows from operating activities | 38 | <u>122 371 413</u> | <u>153 454 650</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 9 | (173 572 624) | (176 489 780) |
| Proceeds from sale of property, plant and equipment | 9 | 54 659 353 | 75 250 068 |
| Purchase of other intangible assets | 10 | (558 147) | - |
| Purchase of intangible assets | 10 | - | (643 057) |
| Purchase of heritage assets | 11 | - | (514 350) |
| Proceeds from sale of financial assets | | (4 341 680) | (3 556 770) |
| | | <u>(123 813 098)</u> | <u>(105 953 889)</u> |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (1 300 179) | (3 215 483) |
| Movement in deferred income | | 18 446 | - |
| Finance lease payments | | (4 184 847) | (4 341 394) |
| Movements in consumer deposits | | 2 200 156 | 1 910 177 |
| | | <u>(3 266 424)</u> | <u>(5 646 700)</u> |
| Net increase/(decrease) in cash and cash equivalents | | (4 708 109) | 41 854 061 |
| Cash and cash equivalents at the beginning of the year | | 52 158 058 | 10 303 998 |
| Cash and cash equivalents at the end of the year | 7 | <u>47 449 949</u> | <u>52 158 059</u> |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|----------------------|---------------------|----------------------|------------------------------------|--|-----------|
| Figures in Rand | | | | | | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 264 129 000 | 2 607 000 | 266 736 000 | 254 906 114 | (11 829 886) | 51 |
| Rental of facilities and equipment | 258 000 | 170 867 | 428 867 | 301 505 | (127 362) | 51 |
| Interest earned-outstanding receivables | 20 439 000 | (9 000 437) | 11 438 563 | 7 830 081 | (3 608 482) | 51 |
| Licences and permits | 13 986 000 | (3 244 689) | 10 741 311 | 10 610 914 | (130 397) | 51 |
| Other income | 25 942 000 | (6 134 000) | 19 808 000 | 7 436 560 | (12 371 440) | 51 |
| Interest earned-external investment | 1 734 000 | 1 402 247 | 3 136 247 | 3 719 527 | 583 280 | 51 |
| Total revenue from exchange transactions | 326 488 000 | (14 199 012) | 312 288 988 | 284 804 701 | (27 484 287) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Property rates | 35 311 000 | 6 355 061 | 41 666 061 | 43 327 689 | 1 661 628 | 51 |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 405 392 000 | 44 785 000 | 450 177 000 | 446 854 369 | (3 322 631) | 51 |
| Fines, Penalties and Forfeits | 3 118 000 | (1 551 505) | 1 566 495 | 5 844 485 | 4 277 990 | 51 |
| Total revenue from non-exchange transactions | 443 821 000 | 49 588 556 | 493 409 556 | 496 026 543 | 2 616 987 | |
| 'Total revenue from exchange transactions' | 326 488 000 | (14 199 012) | 312 288 988 | 284 804 701 | (27 484 287) | 51 |
| 'Total revenue from non-exchange transactions' | 443 821 000 | 49 588 556 | 493 409 556 | 496 026 543 | 2 616 987 | 51 |
| Total revenue | 770 309 000 | 35 389 544 | 805 698 544 | 780 831 244 | (24 867 300) | |
| Expenditure | | | | | | |
| Employee related costs | (228 090 000) | (1 667 000) | (229 757 000) | (211 502 971) | 18 254 029 | 51 |
| Remuneration of councillors | (20 675 000) | (1 030 272) | (21 705 272) | (21 798 349) | (93 077) | 51 |
| Depreciation and amortisation | (145 015 000) | - | (145 015 000) | (101 814 631) | 43 200 369 | 51 |
| Impairment loss/ Reversal of impairments | - | - | - | (4 341 680) | (4 341 680) | 51 |
| Finance costs | (5 859 000) | (42 171) | (5 901 171) | (11 091 598) | (5 190 427) | 51 |
| Debt impairment | (20 000 000) | - | (20 000 000) | (24 309 745) | (4 309 745) | 51 |
| Repairs and maintenance | - | (23 486 000) | (23 486 000) | (20 735 135) | 2 750 865 | 51 |
| Bulk purchases | (188 227 000) | (1 670 000) | (189 897 000) | (183 246 320) | 6 650 680 | 51 |
| General Expenses | (138 402 000) | 9 498 000 | (128 904 000) | (168 788 336) | (39 884 336) | 51 |
| Total expenditure | (746 268 000) | (18 397 443) | (764 665 443) | (747 628 765) | 17 036 678 | |
| Deficit before taxation | 24 041 000 | 16 992 101 | 41 033 101 | 33 202 479 | (7 830 622) | 51 |
| Taxation | - | - | - | - | - | |
| Actual Amount on Comparable Basis | 24 041 000 | 16 992 101 | 41 033 101 | 33 202 479 | (7 830 622) | |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1. Basis of preparation

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.

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

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

1.1 Presentation currency

These annual financial statements are presented in South African Rand.

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

The use of judgment, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

Judgements

In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

In the process of applying the municipality's accounting policies the following estimates, were made:

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Other provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes. Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the 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 21 - Provisions.

Post retirement benefits

Post-employment benefits offered by the entity take the form of defined benefit plans. The cost of defined benefit pension plans, other post employment medical benefits, and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20

Effective interest rate

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

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

Provision for rehabilitation of landfill site

The municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value at 9.50%, representing the time value of money.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives. The valuation of heritage assets is dependent on the type of the asset and the availability of reliable information. Management makes estimates and assumptions about factors such as the restoration cost, replacement cost and cash flow generating ability in estimating fair value.

Impairment of non financial assets

In testing for, and determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

1.4 Investment property

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

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

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 by equal installments over the useful life of the property, which is as follows:

| Item | Useful life |
|----------------------|-------------|
| Property - land | indefinite |
| Property - buildings | 30 years |

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

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

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Accounting Policies

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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.

Depreciation commences when the assets are available for use.

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 and Buildings | |
| • Land | Indefinite |
| • Buildings | 30 years |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.5 Property, plant and equipment (continued)

Furniture and fixtures

- Furniture and fittings 7-10 years
- Air conditioners 5-7 years
- Office machines 3-5 years
- Computer hardwares 5 years

Motor vehicles

- Vehicles 5-7 years

Infrastructure

- Roads 10-30 years
- Pedestrian malls 20 years
- Electricity 20-30 years
- Security measures 3-5 years

Community Assets

- Buildings and other assets 30 years
- Recreational facilities 20 years
- Watercraft 15 years
- Emergency equipments 5-15 years
- Plant and equipments 2-15 years
- Landfill sites 5 years

Other assets

- Bins and containers 5-10 years

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives. The valuation of heritage assets is dependent on the type of the asset and the availability of reliable information. Management makes estimates and assumptions about factors such as the restoration cost, replacement cost and cash flow generating ability in estimating fair value.

Under-construction assets

Under-construction assets are stated at cost and not depreciated until the respective assets are completed and ready for use.

1.6 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.

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.

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 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.

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Accounting Policies

1.6 Intangible assets (continued)

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

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

| Item | Useful life |
|--------------------------|-------------|
| Computer software, other | 6 years |

1.7 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories which are measured at amortised cost :

- Loans and receivables,
- Consumer deposits, trade and other payables,
- Financial liabilities.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

The municipality recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as a financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

Initial Measurement

When a financial instrument is recognised, the municipality measures it initially at its fair value. Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends or similar distributions and interest.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost.

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Accounting Policies

1.7 Financial instruments (continued)

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment and uncollectibility of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.7 Financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried 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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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Accounting Policies

1.8 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.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. The operating lease expense is recognised over the course of the lease arrangement.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005, in accordance with the transitional requirements of GRAP 3.

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

1.9 Inventories

Initial recognition and measurement

Inventories are initially recognised at cost. Cost refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

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

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Accounting Policies

1.9 Inventories (continued)

Subsequent measurement

Inventories, consisting of consumable stores, raw materials and land inventories are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. The basis of determining cost is the Weighted Average Cost method.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction of inventories recognised as an expense in the period in which the reversal occurs.

Unsold properties for the purpose of resale are accounted for as inventory. The fair value of these inventory was determined by the Professional Valuer.

Derecognition

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

It is the municipality's policy to write down the obsolete and slow moving inventory to the net realisable value of 66.67%.

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.

1.10 Conditional grants and receipts

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

1.11 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 2014/07/01 to 2015/06/30.

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

1.12 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.

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Accounting Policies

1.12 Related parties (continued)

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.

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Accounting Policies

1.13 Impairment of non-cash-generating assets

The municipality has implemented GRAP 21 and 26 on the impairment of assets based on a position paper adopted on these standards. Assets tested during the financial year under review were treated according to GRAP 21: Impairment of non-cash generating assets. Although the municipality hold material amounts of infrastructure assets such as water and electricity networks where a cost plus return is billed for services rendered, the majority of these assets are non-cash generating as the primary objective of such services is not to generate a commercial return that reflects the risk involved in holding the asset, but rather to provide a basic service in terms of the municipality's constitutional mandate.

Cash-generating assets are those assets held by the group 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.

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 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:

the period of time over which an asset is expected to be used by the municipality; or

the number of production or similar units expected to be obtained from the asset by the municipality .

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 group estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the group 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 group would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an over designed or overcapacity asset. Over designed 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

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Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

the service potential required of the asset.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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 group 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 (amortization) 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.

The following condition grading scale was used in 2014/15 to test the RUL of the assets in comparison to the condition of the asset:

Grade 1: Very good - sound structure, well maintained, only normal maintenance required : Average 86% indicative RUL
Grade 2: Good - Serves needs but minor deterioration (, 5%), minor maintenance required : Average 58% indicative RUL
Grade 3: Fair - Marginal, clearly evident deterioration (10 - 20%), significant maintenance required : Average 36% indicative RUL
Grade 4: Poor - Significant deterioration of structure and/or appearance, significant impairment of functionality (20 - 40%), significant renewal/upgrade required : Average 18% indicative RUL
Grade 5: Very poor - Unsound, failed needs, reconstruction/replacement (50% needs replacement) : Average 5% indicative RUL.

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 group 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.

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Accounting Policies

1.14 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 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.

Short-term employee benefits include items such as:

Wages, salaries and social security contributions; short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service; bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service.

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.

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Accounting Policies

1.14 Employee benefits (continued)

Defined benefit plans

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Accounting Policies

1.14 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as

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Accounting Policies

1.14 Employee benefits (continued)

the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula.

Medical Aid post retirement obligation

The municipality provides post-retirement health care benefits upon retirement to some retirees.

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

1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

The following provision exists within the municipality :

Provision for landfill site rehabilitation

The municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. A provision was established from 2011/12 financial year. The amount of the provision is recognized as the present value of the expenditure expected to be required to settle the obligation and is carried at amortized cost. Refer to note 21

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.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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 40.

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.

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.

1.16 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.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Revenue from exchange transactions (continued)

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

Measurement

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

Rendering of services

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

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

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

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

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

Interest earned

Revenue arising from the use by others of entity assets yielding interest 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.

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

Prepaid Electricity

Prepaid electricity is estimated based on the average unit sales and rate per unit as at 30 June 2014 and 30 June 2015 based on the Contour Prepaid Electricity vending system.

Service charges relating to electricity

Service charges relating to electricity are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Provisional estimates of consumption are made in the invoicing period in which meters have been read.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. At reporting date, an estimate of the prepaid electricity consumed is made and revenue is adjusted accordingly. The estimate is based on trend analysis and historical data of electricity consumption. Revenue arising from the consumption of electricity in the month of June is fully accounted for whether invoiced or not. Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Refuse removal

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

Rental income

Service charges relating to rental income are recognised on a monthly basis in arrears by applying the approved tariff and/or contract conditions. Tariffs are determined per category of property usage and are levied on a monthly based.

1.17 Revenue from non-exchange transactions

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

Non-exchange transactions are defined as transactions where the municipality receives value from another municipality or entity giving approximately equal value 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 from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

Fines

Fines are recognised when it is probable that future economic benefits will flow to the entity, the costs can be reliably measured and all restrictions have been complied with. Revenue is recognised when fines or summons are issued.

The amount due by a particular offender is specified on the notice, summons or equivalent document. The entity issuing the traffic fine may indicate that reductions are available, subject to further processes being undertaken.

Fines reductions are not within the Makhado Municipality's discretion, they are subject to a further judicial process which is outside the municipality's control, then these reductions are not considered in measuring the asset (receivable) on initial recognition. This is because of the high degree of uncertainty in estimating the likely outcome of this process.

Relevant disclosures should be made on the assumptions used to estimate revenue and any other relevant information.

The municipality is able to reliably measure the fair value of fines issued. The value of the fine that can be imposed on the offender is usually stipulated in legislation, regulation or equivalent, and will vary depending on the nature and severity of the offence. The amount due by a particular offender is usually indicated on the notice, summons or similar document issued. In these instances, the asset (receivable) can be measured reliably.

The basis of a receivables provision for fines outstanding as at year end in Makhado municipality is based on a percentage of fines settled which already has accounted for the discretion applied by the court to reduce or withdraw fines requested from review by public members divided by the total fines issued for the current year.

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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.

Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a differential rating system i.e business, farming and residential properties. In terms of this system, assessment rates are levied on the market value in respect of properties. Rebates are granted according to the use of the property concerned.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Collection charges

Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid bills is recognised on a time proportion basis.

1.18 Investment income

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

1.19 Comparative figures

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

Current year comparatives (Budget)

Budget information in accordance with GRAP 1 and 24, has been provided in a separate disclosure note to these annual financial statements.

Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Certain comparative figures have been reclassified.

The nature and reasons for the reclassification and restatement are disclosed in note 42 correction of prior period error to the financial statements.

1.20 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.

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

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.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Accounting Policies

1.22 Irregular expenditure (continued)

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.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the municipal council 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.

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

1.23 Commitments

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.

1.24 Budget information

The municipality is subject to budgetary limits in the form of appropriations or budget authorisation (or equivalent), which is given effect through authorizing legislation, appropriation or similar.

General purpose financial reporting by the group 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 2014/07/01 to 2015/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts (Appropriation Statement in terms of Circular 67 of National Treasury).

Notes to the Annual Financial Statements

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

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

GRAP 20: Related parties

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

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

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

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

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

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

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

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

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Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

GRAP109: Accounting by Principals and agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

This Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

The effective date of the standard is not yet set by the Minister of Finance.

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

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

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

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

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

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|------------------------------------|---------------------------|---------------------------|
| 3. Inventories | | |
| Consumable stores | 10 366 540 | 7 555 385 |
| Land inventory | 103 871 200 | 104 771 200 |
| | <u>114 237 740</u> | <u>112 326 585</u> |
| Slow moving inventory written down | (188 691) | (47 364) |
| | <u>114 049 049</u> | <u>112 279 221</u> |

During the year the municipality had not yet completed the transfer of ownership of some of the properties sold.

The municipality has not yet completed the transfer of properties donated (RDP Houses) to beneficiaries of which the process is administered by Coghsta.

4. Sundry debtors

| | | |
|-----------------------------------|-------------------------|--------------------------|
| Other receivables | 6 856 965 | 8 149 487 |
| Debt collection commission | 1 816 329 | 4 051 653 |
| Prepayments | 81 527 | - |
| Deposit paid on office rental | 50 000 | 50 000 |
| Third parties vending receivables | 70 410 | 227 700 |
| | <u>8 875 231</u> | <u>12 478 840</u> |

5. Receivables from non-exchange transactions

| | | |
|---------------|------------------|------------------|
| Traffic fines | <u>2 549 876</u> | <u>2 371 180</u> |
|---------------|------------------|------------------|

Impairment of traffic fines

Receivables from traffic fines were impaired during the year as follows:

| | | |
|----------------|-------------------------|-------------------------|
| Gross balances | 6 891 556 | 5 927 949 |
| Impairment | (4 341 680) | (3 556 769) |
| | <u>2 549 876</u> | <u>2 371 180</u> |

Reconciliation of provision for impairment of receivables from non-exchange transactions

| | | |
|--------------------------------------|--------------|--------------------------|
| Opening balance | 17 078 176 | 13 521 406 |
| Provision for impairment | 4 341 680 | 3 556 770 |
| Amounts written off as uncollectible | (21 419 856) | - |
| | <u>-</u> | <u>17 078 176</u> |

6. Consumer debtors

Gross balances

| | | |
|-------------|---------------------------|---------------------------|
| Rates | 31 821 401 | 35 542 216 |
| Electricity | 38 636 398 | 55 590 424 |
| Interest | 19 979 694 | 37 959 537 |
| Refuse | 6 890 990 | 5 949 302 |
| Sundries | 10 119 789 | 9 835 622 |
| Vat | 6 041 381 | 11 842 160 |
| Other | 811 873 | 439 862 |
| | <u>114 301 526</u> | <u>157 159 123</u> |

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Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|--|---------------------|----------------------|
| 6. Consumer debtors (continued) | | |
| Less: Allowance for impairment | | |
| Rates | (19 185 488) | (25 431 995) |
| Electricity | (18 645 434) | (33 118 771) |
| Interest | (12 045 987) | (27 151 356) |
| Refuse | (4 154 657) | (4 261 052) |
| Sundries | (6 101 337) | (7 035 135) |
| Vat | (3 642 418) | (8 470 353) |
| Other | (489 487) | (314 621) |
| | (64 264 808) | (105 783 283) |
| Net balance | | |
| Rates | 12 635 913 | 10 110 221 |
| Electricity | 19 990 964 | 22 471 653 |
| Interest | 7 933 707 | 10 808 181 |
| Refuse | 2 736 333 | 1 688 250 |
| Sundries | 4 018 452 | 2 800 488 |
| Vat | 2 398 963 | 3 371 800 |
| Other | 322 386 | 125 241 |
| | 50 036 718 | 51 375 834 |
| Included in above is receivables from exchange transactions | | |
| Electricity | 19 990 964 | 22 471 653 |
| Interest | 7 933 707 | 10 808 181 |
| Refuse | 2 736 333 | 1 688 250 |
| Sundries | 4 018 452 | 2 800 488 |
| Vat | 2 398 963 | 3 371 800 |
| Other | 322 386 | 125 241 |
| | 37 400 805 | 41 265 613 |
| Included in above is receivables from non-exchange transactions (taxes and transfers) | | |
| Rates | 12 635 913 | 10 110 221 |
| | 50 036 718 | 51 375 834 |
| Rates | | |
| Current (0 -30 days) | 5 156 404 | 2 283 726 |
| 31 - 60 days | 1 616 077 | 1 168 856 |
| 61 - 90 days | 1 583 583 | 937 477 |
| 91 - 120 days | 1 443 985 | 894 608 |
| > 121 days | 22 021 353 | 30 257 549 |
| | 31 821 402 | 35 542 216 |
| Electricity | | |
| Current (0 -30 days) | 24 902 745 | 20 386 654 |
| 31 - 60 days | 1 305 121 | 2 762 090 |
| 61 - 90 days | 812 436 | 1 503 990 |
| 91 - 120 days | 662 056 | 1 152 911 |
| > 121 days | 10 954 040 | 22 258 097 |
| | 38 636 398 | 48 063 742 |

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Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|--|-------------------|-------------------|
| 6. Consumer debtors (continued) | | |
| Interest | | |
| Current (0 -30 days) | 1 358 357 | 872 836 |
| 31 - 60 days | 621 543 | 936 078 |
| 61 - 90 days | 591 890 | 869 839 |
| 91 - 120 days | 563 809 | 1 112 479 |
| > 121 days | 16 844 096 | 34 168 305 |
| | 19 979 695 | 37 959 537 |
| Refuse | | |
| Current (0 -30 days) | 943 728 | 578 062 |
| 31 - 60 days | 357 391 | 322 322 |
| 61 - 90 days | 305 216 | 182 697 |
| 91 - 120 days | 366 705 | 171 256 |
| > 121 days | 4 917 951 | 4 694 965 |
| | 6 890 991 | 5 949 302 |
| Sundries | | |
| Current (0 -30 days) | 4 652 660 | 2 075 609 |
| 31 - 60 days | 253 383 | 2 518 635 |
| 61 - 90 days | 151 314 | 468 048 |
| 91 - 120 days | 153 602 | 724 116 |
| > 121 days | 4 908 829 | 4 049 214 |
| | 10 119 788 | 9 835 622 |
| Vat | | |
| Current (0 -30 days) | 2 947 928 | 2 258 682 |
| 31 - 60 days | 257 312 | 429 813 |
| 61 - 90 days | 193 562 | 236 305 |
| 91 - 120 days | 190 110 | 388 304 |
| > 121 days | 2 452 468 | 8 529 056 |
| | 6 041 380 | 11 842 160 |
| Other | | |
| Current (0 -30 days) | 72 583 | 3 729 |
| 31 - 60 days | 21 783 | 3 729 |
| 61 - 90 days | 21 514 | 3 631 |
| 91 - 120 days | 15 857 | 226 717 |
| > 121 days | 680 135 | 202 056 |
| | 811 872 | 439 862 |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|--|--------------------|--------------------|
| 6. Consumer debtors (continued) | | |
| Summary of debtors by customer classification | | |
| Residential | | |
| Current (0 -30 days) | 9 624 801 | 5 634 697 |
| 31 - 60 days | 2 217 189 | 3 795 470 |
| 61 - 90 days | 2 074 146 | 1 885 552 |
| 91 - 120 days | 1 992 054 | 2 257 326 |
| 121 - 365 days | 1 870 402 | 1 873 265 |
| > 365 days | 29 731 430 | 60 492 401 |
| | <u>47 510 022</u> | <u>75 938 711</u> |
| Less: Allowance for impairment | (28 644 337) | (71 680 102) |
| | 18 865 685 | 4 258 609 |
| Industrial/ commercial | | |
| Current (0 -30 days) | 16 705 257 | 13 246 094 |
| 31 - 60 days | 1 646 078 | 3 163 967 |
| 61 - 90 days | 1 213 123 | 1 555 552 |
| 91 - 120 days | 1 018 514 | 1 378 458 |
| 121 - 365 days | 1 057 006 | 854 826 |
| > 365 days | 19 659 957 | 26 469 288 |
| | <u>41 299 935</u> | <u>46 668 185</u> |
| Less: Allowance for impairment | (24 900 205) | (16 486 249) |
| | 16 399 730 | 30 181 936 |
| Agricultural | | |
| Current (0 -30 days) | 5 993 607 | 4 164 026 |
| 31 - 60 days | 569 342 | 1 133 731 |
| 61 - 90 days | 372 247 | 707 690 |
| 91 - 120 days | 385 557 | 1 044 997 |
| 121 - 365 days | 337 013 | 791 234 |
| > 365 days | 10 123 064 | 12 611 972 |
| | <u>17 780 830</u> | <u>20 453 650</u> |
| Less: Allowance for impairment | (10 720 266) | (17 616 933) |
| | 7 060 564 | 2 836 717 |
| Total | | |
| Current (0 -30 days) | 40 034 404 | 39 837 979 |
| 31 - 60 days | 4 432 610 | 8 093 168 |
| 61 - 90 days | 3 659 516 | 4 148 794 |
| 91 - 120 days | 3 396 124 | 4 680 781 |
| 121 - 365 days | 3 264 421 | 3 519 325 |
| > 365 days | 59 514 451 | 96 879 077 |
| | <u>114 301 526</u> | <u>157 159 124</u> |
| Less: Allowance for impairment | (64 264 808) | (105 783 284) |
| | 50 036 718 | 51 375 840 |
| Less: Allowance for impairment | | |
| Current (0 -30 days) | (19 488 308) | (17 040 002) |
| 31 - 60 days | (2 672 471) | (5 984 334) |
| 61 - 90 days | (2 206 364) | (3 067 745) |
| 91 - 120 days | (2 047 562) | (3 461 112) |
| 121 - 365 days | (1 968 157) | (76 230 090) |
| > 365 days | (35 881 946) | - |

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| Figures in Rand | 2015 | 2014 |
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| 6. Consumer debtors (continued) | | |
| | (64 264 808) | (105 783 283) |

Reconciliation of provision for doubtful debts

| | | |
|--------------------------------------|-------------------|--------------------|
| Opening balance | 105 783 284 | 169 032 690 |
| Allowance for impairment | 24 309 745 | (78 530 281) |
| Amounts written off as uncollectible | (65 828 220) | 15 280 875 |
| | 64 264 809 | 105 783 284 |

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 32).

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7. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|-----------------------|-------------------|-------------------|
| Primary bank account | 6 601 867 | 1 517 975 |
| Short-term deposits | 40 737 423 | 50 621 883 |
| Guarantee | 92 460 | - |
| Petty cash and floats | 18 200 | 18 200 |
| | 47 449 950 | 52 158 058 |

No impairments occurred during the financial period. Average rate of investments is 6.1 % . Municipality's investment is held with Nedbank, amounting to R 40,000,000.00 and the interest earned as at 30 June 2015 amounted to R 93,972.60

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|--|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | 30 June 2015 | 30 June 2014 | 30 June 2013 | 30 June 2015 | 30 June 2014 | 30 June 2013 |
| FNB BANK-Primary account-623-0832-9988 | 6 166 376 | 1 517 975 | 2 272 136 | 6 370 354 | (307 002) | 2 381 532 |
| FNB BANK-Investment account-623-0833-0779 | 16 324 | 49 019 120 | 7 310 810 | 16 324 | 49 019 120 | 7 813 554 |
| FNB BANK-Investment account-624-0465-0435 | 627 126 | 1 602 763 | 502 744 | 627 126 | 1 602 763 | - |
| NEDBANK - Investment account - 788-1085-81 | 40 093 973 | - | - | 40 093 973 | - | - |
| FNB BANK-Call account-624-8284-3408 | 92 460 | - | - | 92 460 | - | - |
| Total | 46 996 259 | 52 139 858 | 10 085 690 | 47 200 237 | 50 314 881 | 10 195 086 |

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 | 12 755 188 | (885 457) | 11 869 731 | 12 755 188 | (701 037) | 12 054 151 |

Reconciliation of investment property - 2015

| | | | |
|---------------------|-----------------|--------------|------------|
| | Opening balance | Depreciation | Total |
| Investment property | 12 054 151 | (184 420) | 11 869 731 |

Reconciliation of investment property - 2014

| | | | |
|---------------------|-----------------|--------------|------------|
| | Opening balance | Depreciation | Total |
| Investment property | 12 238 570 | (184 419) | 12 054 151 |

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.

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

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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 |
| Land and buildings | 369 990 354 | (23 364 015) | 346 626 339 | 362 761 233 | (19 664 268) | 343 096 965 |
| Infrastructure assets | 2 033 034 328 | (677 935 750) | 1 355 098 578 | 1 934 406 480 | (593 143 740) | 1 341 262 740 |
| Community assets | 52 971 496 | (19 552 694) | 33 418 802 | 41 655 720 | (18 113 207) | 23 542 513 |
| Other assets | 74 243 380 | (40 061 193) | 34 182 187 | 79 829 472 | (38 671 265) | 41 158 207 |
| Finance lease assets | 19 744 812 | (11 976 852) | 7 767 960 | 25 025 641 | (14 665 264) | 10 360 377 |
| Total | 2 549 984 370 | (772 890 504) | 1 777 093 866 | 2 443 678 546 | (684 257 744) | 1 759 420 802 |

Reconciliation of property, plant and equipment - 2015

| | Opening balance | Additions | Under construction | Transfers | Depreciation | Total |
|-----------------------|----------------------|-------------------|--------------------|---------------------|----------------------|----------------------|
| Land and buildings | 343 096 965 | 1 139 513 | 9 616 029 | (3 526 420) | (3 699 748) | 346 626 339 |
| Infrastructure assets | 1 341 262 740 | 7 963 259 | 136 948 168 | (46 283 579) | (84 792 010) | 1 355 098 578 |
| Community assets | 23 542 513 | 6 187 483 | 6 312 281 | (1 183 989) | (1 439 486) | 33 418 802 |
| Other assets | 41 158 207 | 5 405 891 | - | (3 665 365) | (8 716 546) | 34 182 187 |
| Finance lease assets | 10 360 377 | - | - | - | (2 592 417) | 7 767 960 |
| Total | 1 759 420 802 | 20 696 146 | 152 876 478 | (54 659 353) | (101 240 207) | 1 777 093 866 |

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Annual Financial Statements for the year ended 30 June 2015

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

| | Opening balance | Additions | Under construction | Transfers | Correction of error | Depreciation | Total |
|-----------------------|----------------------|--------------------|-----------------------|---------------------|------------------------|----------------------|----------------------|
| Land and buildings | 348 158 216 | 27 250 657 | 3 526 420 | (184 620) | (30 220 293) | (5 433 415) | 343 096 965 |
| Infrastructure assets | 1 369 816 399 | 102 922 484 | 34 444 166 | (66 473 565) | (154 607) | (99 292 137) | 1 341 262 740 |
| Community assets | 31 792 846 | 361 713 | 1 183 989 | (8 396 784) | - | (1 399 251) | 23 542 513 |
| Other assets | 44 512 679 | 5 838 237 | - | - | 37 895 | (9 230 604) | 41 158 207 |
| Finance lease assets | 13 268 175 | 962 114 | - | (195 099) | - | (3 674 813) | 10 360 377 |
| | 1 807 548 315 | 137 335 205 | 39 154 575 | (75 250 068) | (30 337 005) | (119 030 220) | 1 759 420 802 |

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.

10. Intangible assets

| | 2015 | | | 2014 | | |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Intangible assets | 3 963 760 | (2 608 232) | 1 355 528 | 3 405 614 | (2 218 227) | 1 187 387 |

Reconciliation of intangible assets - 2015

| | Opening balance | Additions | Amortisation | Total |
|-------------------|--------------------|----------------|------------------|------------------|
| Intangible assets | 1 187 387 | 558 147 | (390 006) | 1 355 528 |
| | 1 187 387 | 558 147 | (390 006) | 1 355 528 |

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10. Intangible assets (continued)

Reconciliation of intangible assets - 2014

| | Opening balance | Correction of error | Amortisation | Total |
|-------------------|-----------------|---------------------|------------------|------------------|
| Intangible assets | 846 666 | 643 057 | (302 336) | 1 187 387 |
| | 846 666 | 643 057 | (302 336) | 1 187 387 |

11. Heritage assets

| | 2015 | | | 2014 | | |
|-----------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Heritage assets | 1 566 329 | - | 1 566 329 | 1 566 329 | - | 1 566 329 |

Reconciliation of heritage assets 2015

| | Opening balance | Total |
|-----------------|-----------------|-----------|
| Heritage assets | 1 566 329 | 1 566 329 |

Reconciliation of heritage assets 2014

| | Opening balance | Correction of error | Total |
|-----------------|-----------------|---------------------|-----------|
| Heritage assets | 1 051 979 | 514 350 | 1 566 329 |

12. Borrowings

Designated at fair value

| | | |
|--|------------------|------------------|
| Development bank of South Africa(DBSA) 1 : Current portion The loan is unsecured, bears interest at 5% and repayable on 31 March 2018. | 970 769 | 313 484 |
| Development bank of South Africa(DBSA) 1 : Long-term portion The loan is unsecured, bears interest at 9.86% and repayable on 31 March 2018. | 2 569 273 | 3 629 478 |
| Development bank of South Africa (DBSA) 2 : Long-term portion The loan is unsecured, bears interest at 5% and repayable on 31 March 2018. | 758 723 | 1 107 439 |
| Development bank of South Africa (DBSA) 2 : current portion The loan is unsecured, bears interest at 5% and repayable on 31 March 2018. | 332 790 | 881 333 |
| | 4 631 555 | 5 931 734 |

Non-current liabilities

| | | |
|-------------------|-----------|-----------|
| At amortised cost | 3 327 996 | 4 736 917 |
|-------------------|-----------|-----------|

Current liabilities

| | | |
|-------------------|-----------|-----------|
| At amortised cost | 1 303 559 | 1 194 817 |
|-------------------|-----------|-----------|

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|---|--------------------------|--------------------------|
| 13. Finance lease liabilities | | |
| Minimum lease payments due | | |
| - within one year | 3 914 228 | 4 130 773 |
| - in second to fifth year inclusive | 16 150 075 | 20 064 303 |
| | <u>20 064 303</u> | <u>24 195 076</u> |
| less: future finance charges | (4 019 153) | (5 648 477) |
| Present value of minimum lease payments | <u>16 045 150</u> | <u>18 546 599</u> |
| Present value of minimum lease payments due | | |
| - within one year | 2 494 026 | 2 497 281 |
| - in second to fifth year inclusive | 13 504 466 | 16 049 318 |
| | <u>15 998 492</u> | <u>18 546 599</u> |
| Non-current liabilities | 13 504 466 | 16 347 328 |
| Current liabilities | 2 494 026 | 2 199 271 |
| | <u>15 998 492</u> | <u>18 546 599</u> |
| 14. Operating lease liability | | |
| Minimum lease payments due | | |
| Within one year | - | 11 400 |
| 15. Payables from exchange transactions | | |
| Accrued operating creditors | 72 639 844 | 78 811 548 |
| Retentions | 15 839 055 | 11 544 271 |
| Other Creditors | 180 678 | 2 037 992 |
| Department of labour | 9 010 085 | 5 345 494 |
| Debtors with credit balances | 14 254 658 | 13 074 325 |
| Accrual for Section 57 Bonuses | 687 447 | 441 492 |
| Accrual for 13th cheque | 4 976 539 | 4 761 015 |
| Accrual for outstanding leave | 18 694 149 | 17 193 795 |
| | <u>136 282 455</u> | <u>133 209 932</u> |
| There is no material difference between the fair value of payables from exchange transactions and their book value. | | |
| 16. VAT payable | | |
| VAT payables | 2 340 100 | 2 835 192 |

VAT is payable on the receipts basis. Vat is paid over to the receiver of revenue only once the payment is received from debtors.

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Figures in Rand 2015 2014

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

| | | |
|--|------------------|-------------------|
| MIG | 3 891 316 | 44 246 337 |
| INEP | - | 539 142 |
| DWAF grant | 2 567 495 | 2 567 495 |
| Finance management grant | - | 9 541 |
| Municipal system improvement grant | 38 800 | - |
| PHP grant | 379 168 | 379 168 |
| Department of sports, arts and culture grant | 207 369 | 207 369 |
| VDM refuse removal truck grant | 56 418 | 56 418 |
| Drought relief grant | 33 801 | 33 801 |
| Disaster management grant | 59 955 | 59 955 |
| | 7 234 322 | 48 099 226 |

Movement during the year

| | | |
|--------------------------------------|------------------|-------------------|
| Balance at the beginning of the year | 48 099 226 | 42 149 361 |
| Additions during the year | 117 749 000 | 152 971 000 |
| Income recognition during the year | (158 613 904) | (147 021 135) |
| | 7 234 322 | 48 099 226 |

Included in the movement above for conditional grants are the following grants:

MIG : Municipal Infrastructure Grant, this grant is used to construct basic municipal infrastructure to provide basic services for the benefit of the poor households such as roads. Other than the unspent amounts the conditions of the grants were met.

INEP : Integrated National Electrification Grant, this grant was used to address the electrification backlog of permanently occupied residential dwellings, the conditions of the grants were fully met.

DWAF : Department of Water Affairs Funds, this grant was not utilised in the current financial year as previously rolled over.

FMG Grant : Financial Management Grant, the purpose of this grant is to improve and support reforms to municipal finance management processes and compliance to Municipal Finance Management Act, the conditions of the grants were fully met.

PHP Grant : People Housing Project, this grant was not utilised in the current financial year as previously rolled over.

Department of Sports and Culture : This grant was not utilised in the current financial year as previously rolled over.

VDM Truck Structure : This grant was not utilised in the current financial year as previously rolled over.

EPWP : Expanded Public Works Programme, this grant was used to uplift socio and economic status of community members through various employment programmes in community work, the conditions of the grants were fully met.

Disaster Management Grant : This grant was not utilised in the current financial year as previously rolled over.

Municipal Systems Improvement Grant(MSIG) : The purpose of this grant is to assist the municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislations. Other than the unspent amounts the conditions of the grants were met.

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

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|---|-------------------|-------------------|
| 18. Consumer deposits | | |
| Electricity | | |
| Opening balance | 11 502 303 | 9 592 126 |
| Increase/(decrease) in the carrying amount recognised in the period as a result of a change in the fair value of the assets to be distributed | 2 200 156 | 1 910 177 |
| | 13 702 459 | 11 502 303 |

Guarantees held in lieu of consumer deposits amounts to R 1, 412,484 (2014:R 1, 440, 584)

19. Deferred income

The deferred income was estimated based on the average unit sales and rate per unit as at 30 June 2014 and 2015 based on the Contour Prepaid Electricity vending system.

| | | |
|-----------------|--------|--------|
| Deferred income | 69 443 | 50 997 |
|-----------------|--------|--------|

20. Retirement benefit obligations

Post retirement benefit plan

The municipality offers employees Long Service Awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.

Total long service awards liability

| | | |
|-----------------------------------|-------------------|-------------------|
| Opening balance | 13 535 361 | 13 980 348 |
| Current service cost | 1 010 685 | 1 932 594 |
| Interest cost | 1 026 714 | 907 349 |
| Actuarial gains/loss | 542 354 | (886 220) |
| Subtotal | 16 115 114 | 15 934 071 |
| Expected employer benefit vesting | (1 130 141) | (2 398 710) |
| | 14 984 973 | 13 535 361 |

Post retirement medical aid plan

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

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

Total post-retirement health care benefits liability

| | | |
|---------------------------------------|-------------------|-------------------|
| Opening balance | 68 399 995 | 58 884 113 |
| Current service cost | 3 851 321 | 3 298 524 |
| Interest cost | 6 248 701 | 4 937 216 |
| Actuarial gains/loss | 5 664 678 | 2 274 930 |
| Subtotal | 84 164 695 | 69 394 783 |
| Expected contributions(benefits paid) | (1 038 132) | (994 788) |
| | 83 126 563 | 68 399 995 |

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|--|---------------------|---------------------|
| 20. Retirement benefit obligations (continued) | | |
| Reconciliation and projection of the unfunded accrued liability | | |
| Carrying value | | |
| Opening balance | (81 935 356) | (72 864 461) |
| Current service cost | (4 862 006) | (5 231 118) |
| Interest cost | (7 275 415) | (5 844 565) |
| Expected employer benefit vesting | 2 168 273 | 3 393 498 |
| Actuarial (Gain)/Loss recognised in profit and loss | (6 207 032) | (1 388 710) |
| | (98 111 536) | (81 935 356) |

Key assumptions used

Assumptions used at the reporting date:

| | | |
|---------------------------------------|--------|--------|
| Discount rates used | 7.87 % | 7.91 % |
| Net effective discount rate | 0.81 % | 0.74 % |
| Expected increase in salaries | 7.00 % | 7.11 % |
| Expected increase in healthcare costs | 8.19 % | 8.36 % |

The salaries used in the valuation include an assumed increase on 1 July 2015 of 7% as per the SALGBC Circular No: 27/2015. The next salary increase was assumed to take place on the 1 July 2016.

21. Provisions

Reconciliation of provisions - 2015

| | Opening Balance | Additions | Total |
|---------------------------------|-----------------|-----------|-----------|
| Rehabilitation of landfill site | 5 957 130 | 504 375 | 6 461 505 |

Reconciliation of provisions - 2014

| | Opening Balance | Additions | Total |
|---------------------------------|-----------------|-----------|-----------|
| Rehabilitation of landfill site | 5 964 393 | (7 263) | 5 957 130 |

Provision for rehabilitation of landfill site

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate land fill sites used for waste disposal. It is calculated as the present value of future obligation, discounted at prime interest rate of 9.50% over an estimated useful life of 2.75 years. Rehabilitation cost is assumed to increase at inflation rate of 6.8%. The payment of expenditures relating to rehabilitation is expected to occur after the 30th June 2015.

22. Revaluation reserve

| | | |
|------------------------|------------------------|---------------|
| Opening balance | 1 101 246 127 | 1 101 246 127 |
| Change during the year | (1 101 246 127) | - |
| | - 1 101 246 127 | |

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22. Revaluation reserve (continued)

The municipality has subsequently changed from the fair value model for property, plant and equipment on a once-off basis to the cost model following the initial adoption of the Standard of GRAP by applying Directive 11 and this has resulted in a change in accounting policy. This Directive shall be applied by the municipality in preparing the financial statements for periods commencing on or after 1 April 2015. Earlier application is permitted.

This was carried out in order to ensure that the results in the financial statements are reliable and provide more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flows.

During the current financial year the reclassification has been made of revaluation reserve to accumulated funds by transferring the applicable balance of the revaluation reserve to accumulated funds.

23. Service charges

| | | |
|---------------------|--------------------|--------------------|
| Sale of electricity | 246 741 867 | 222 149 246 |
| Refuse removal | 8 164 247 | 6 847 755 |
| | 254 906 114 | 228 997 001 |

24. Other income

| | | |
|--------------------------|------------------|-------------------|
| Burial fees | 100 099 | 76 364 |
| Advertising | 14 407 | 10 046 |
| Employee benefit vesting | 2 168 273 | 3 393 498 |
| Trading licence | 122 380 | 78 023 |
| Land sales | 2 114 105 | 2 869 895 |
| Sundries | 1 885 878 | 4 221 859 |
| Actuarial income | - | 886 220 |
| Refunds | 156 406 | 1 705 534 |
| Sale of tender documents | 376 115 | 240 944 |
| Profit on sale of assets | - | 3 708 460 |
| Building plans | 179 764 | 171 640 |
| Duplicates | 313 344 | 230 488 |
| Land use management | 5 789 | - |
| | 7 436 560 | 17 592 971 |

25. Property rates

Rates received

| | | |
|-------------|-------------------|-------------------|
| Residential | 28 038 088 | 16 365 234 |
| Commercial | 12 235 428 | 9 959 327 |
| State | 3 054 173 | 2 198 720 |
| | 43 327 689 | 28 523 281 |

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|---------------------------------------|----------------------|----------------------|
| 25. Property rates (continued) | | |
| Valuations | | |
| Residential | 4 911 961 917 | 4 370 873 519 |
| Business | 1 399 610 540 | 1 122 404 468 |
| Agricultural | 1 949 268 648 | 2 026 451 800 |
| Municipal | 2 985 000 | 246 481 100 |
| Churches | 1 630 000 | 75 297 100 |
| Land reform | 4 127 000 | 18 480 000 |
| | 8 269 583 105 | 7 859 987 987 |

The last valuation came into effect on 01 July 2014. Rebates are granted to residential and state property owners. Rates are levied on a monthly basis to property owners.

26. Government grants and subsidies

Operating grants

| | | |
|--|--------------------|--------------------|
| Equitable share | 287 643 000 | 256 239 000 |
| Municipal disaster management grant | - | 1 400 045 |
| Electricity efficiency demand side management | - | 133 |
| Expanded public works programmes | 1 128 000 | 1 715 915 |
| Finance management grant | 1 609 541 | 1 590 942 |
| Municipal systems management grant | 895 200 | 890 000 |
| PHP grant | - | 4 234 |
| Local Government Sector for Education and Training Authority | 597 465 | 650 098 |
| | 291 873 206 | 262 490 367 |

Capital grants

| | | |
|---|--------------------|--------------------|
| Municipal Infrastructure Grant (MIG) | 147 442 021 | 94 732 321 |
| Intergrated national electrification programme (INEP) | 7 539 142 | 14 845 361 |
| VDM electrification grant | - | 1 297 942 |
| | 154 981 163 | 110 875 624 |
| | 446 854 369 | 373 365 991 |

Equitable Share

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

All registered indigents received a subsidy of R 7,724,967 (2015: R 8,363,244) which is funded from the grant during the year.

27. Revenue

| | | |
|---|--------------------|--------------------|
| Fines, Penalties and Forfeits | 5 844 485 | 5 649 640 |
| Government grants & subsidies | 446 854 369 | 373 365 991 |
| Interest earned - outstanding receivables | 7 830 081 | 12 886 392 |
| Interest received - investment | 3 719 527 | 1 954 654 |
| Licences and permits | 10 610 914 | 11 077 738 |
| Other income | 7 436 560 | 17 592 971 |
| Property rates | 43 327 689 | 28 523 281 |
| Rental of facilities and equipment | 301 505 | 505 003 |
| Service charges | 254 906 114 | 228 997 001 |
| | 780 831 244 | 680 552 671 |

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| Figures in Rand | 2015 | 2014 |
|---|--------------------|--------------------|
| 27. Revenue (continued) | | |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Service charges | 254 906 114 | 228 997 001 |
| Rental of facilities and equipment | 301 505 | 505 003 |
| Interest earned- outstanding receivables | 7 830 081 | 12 886 392 |
| Licences and permits | 10 610 914 | 11 077 738 |
| Other income | 7 436 560 | 17 592 971 |
| Interest received - investment | 3 719 527 | 1 954 654 |
| | 284 804 701 | 273 013 759 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Taxation revenue | | |
| Property rates | 43 327 689 | 28 523 281 |
| Transfer revenue | | |
| Government grants & subsidies | 446 854 369 | 373 365 991 |
| Fines, Penalties and Forfeits | 5 844 485 | 5 649 640 |
| | 496 026 543 | 407 538 912 |

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|--|--------------------|--------------------|
| 28. Employee related costs | | |
| Basic | 126 733 678 | 122 110 398 |
| Bonus | 11 051 274 | 9 930 114 |
| Medical aid - company contributions | 11 681 925 | 10 457 242 |
| UIF | 1 050 478 | 1 061 509 |
| Other payroll levies | 55 496 | 55 085 |
| Leave pay provision charge | 5 474 779 | 4 326 013 |
| Post employment benefits | 26 763 209 | 25 911 906 |
| Travel, motor car, accommodation, subsistence and other allowances | 8 446 483 | 7 772 373 |
| Overtime payments | 12 808 313 | 12 826 448 |
| Long-service awards | 4 862 006 | 5 231 118 |
| Housing benefits and allowances | 231 492 | 233 215 |
| Standby allowance | 1 398 498 | 1 198 988 |
| Group life insurance | 945 340 | 751 175 |
| | 211 502 971 | 201 865 584 |

Remuneration of municipal manager

| | | |
|---|------------------|------------------|
| Annual Remuneration | 853 374 | 765 372 |
| Car Allowance | 294 269 | 276 873 |
| Contributions to UIF, Medical and Pension Funds | 241 524 | 235 286 |
| Other | 16 315 | 8 693 |
| | 1 405 482 | 1 286 224 |

Remuneration of chief finance officer

| | | |
|---|----------------|----------------|
| Annual Remuneration | 610 743 | 547 762 |
| Car Allowance | 279 105 | 262 340 |
| Contributions to UIF, Medical and Pension Funds | 110 103 | 102 834 |
| Other | - | 6 221 |
| | 999 951 | 919 157 |

Remuneration of director technical services

The position of Director Technical Services remained vacant for the year ended 30 June 2015.

Remuneration of director corporate services

| | | |
|---|----------------|----------|
| Annual Remuneration | 473 901 | - |
| Car Allowance | 176 388 | - |
| Contributions to UIF, Medical and Pension Funds | 122 202 | - |
| Other | 9 372 | - |
| | 781 863 | - |

The position of Director Corporate Services remained vacant for the year ended 30 June 2014.

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| 28. Employee related costs (continued) | | |
| Remuneration of director planning and development | | |
| Annual Remuneration | 535 881 | 526 279 |
| Car Allowance | 277 931 | 283 283 |
| Contributions to UIF, Medical and Pension Funds | 66 334 | 67 569 |
| | 880 146 | 877 131 |
| Remuneration of director community services | | |
| Annual Remuneration | 511 212 | 42 601 |
| Car Allowance | 224 074 | 18 772 |
| Contributions to UIF, Medical and Pension Funds | 106 510 | 9 628 |
| Other | 10 224 | - |
| | 852 020 | 71 001 |
| 29. Remuneration of councillors | | |
| Mayor | 735 587 | 707 979 |
| Speaker | 584 993 | 637 633 |
| Councillors | 20 477 769 | 19 436 061 |
| | 21 798 349 | 20 781 673 |
| 30. Depreciation and amortisation | | |
| Property, plant and equipment | 97 540 460 | 113 755 723 |
| Investment properties | 184 419 | 184 419 |
| Land and buildings | 3 699 748 | 5 433 414 |
| Intangible assets | 390 004 | 511 581 |
| | 101 814 631 | 119 885 137 |
| 31. Finance costs | | |
| Finance leases | 1 636 740 | 1 858 370 |
| Other interest | 9 454 858 | 8 443 247 |
| | 11 091 598 | 10 301 617 |
| 32. Provision for doubtful debts | | |
| Provision for doubtful debt | 24 309 745 | 12 893 946 |
| 33. Repairs and maintenance | | |
| Repairs and maintenance during the year | 20 723 870 | 17 584 714 |
| 34. Bulk purchases | | |
| Electricity | 183 246 320 | 157 753 908 |

Included in the electricity bulk purchases is 23% % (2014: 17%) which relate to distribution losses. Makhado Municipality gets billed by Eskom on a monthly basis for electricity used/or given to the municipality based on readings.

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| 35. General expenses | | |
| Cost of sales : Land | 900 000 | 1 333 000 |
| Advertising | 299 791 | 299 260 |
| Assessment rates & municipal charges | 583 895 | 595 527 |
| Internal audit fees | 839 967 | 1 685 945 |
| Bank charges | 781 117 | 707 820 |
| Water transactions write off | 21 663 547 | 25 270 115 |
| Municipal bylaws | 499 299 | 321 113 |
| Consulting and professional fees | 5 674 535 | 5 265 832 |
| Consumables | 1 024 433 | 947 510 |
| Delivery expenses | - | 250 958 |
| IDP representation forums | 162 812 | 121 628 |
| Local economic development | 269 927 | 167 461 |
| Legal fees | 4 309 776 | 2 725 229 |
| External audit fees | 3 519 772 | 2 967 741 |
| Bush clearing | - | 169 200 |
| Insurance | 3 060 195 | 1 418 657 |
| Bursaries | 195 767 | 252 579 |
| IT expenses | 195 089 | 138 980 |
| Formalisation of sites | 477 900 | 315 542 |
| Township establishment | 505 149 | 222 000 |
| Lease rentals on operating lease | 376 750 | 331 000 |
| Levies | 1 935 679 | 1 848 360 |
| Environmental management plan | 255 553 | 431 430 |
| Debt collectors commission | 1 793 394 | 1 581 164 |
| Expanded Public Works Programmes | 3 301 066 | 2 461 408 |
| Fuel and oil | 7 431 820 | 10 082 368 |
| Ward committees allowances | 4 751 055 | 4 724 749 |
| Compilation of municipal valuation roll | 1 283 850 | 5 779 889 |
| Postage and courier | 7 137 329 | 58 903 |
| Printing and stationery | 3 751 107 | 2 706 900 |
| Employees assistance programmes | 598 013 | 474 863 |
| Royalties and license fees | 334 440 | 285 384 |
| Security costs | 15 121 213 | 13 891 425 |
| Workmens compensation | 1 682 685 | 7 327 400 |
| Subscriptions and membership fees | 2 355 670 | 2 175 164 |
| Telephone and fax | 2 547 447 | 2 591 417 |
| Assets written off | - | 23 713 092 |
| Training | 2 014 086 | 1 879 350 |
| Travel - local | 4 589 840 | 3 481 514 |
| Uniforms | 1 254 760 | 1 406 987 |
| Loss on disposal of assets | 1 235 157 | 51 552 |
| Indigent policy | 8 363 244 | 7 724 967 |
| Subscriptions and publications | 3 141 395 | 1 959 126 |
| Non asset items | 39 556 801 | 17 907 150 |
| Meter reading | 1 686 577 | 1 411 150 |
| Inventory written off | 188 691 | 47 364 |
| Special programmes | 615 283 | 1 101 527 |
| Acturial losses | 6 207 032 | 2 274 930 |
| Other expenses | 315 428 | 633 075 |
| | 168 788 336 | 165 519 705 |

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| 36. Investment revenue | | |
| Interest received from investments | 2 453 067 | 1 425 966 |
| Interest received from primary account | 1 266 460 | 528 688 |
| | 3 719 527 | 1 954 654 |
| | - | - |
| | 3 719 527 | 1 954 654 |
| 37. Interest earned- outstanding receivables | | |
| Receivables | 7 830 081 | 12 886 392 |
| 38. Cash generated from operations | | |
| Surplus (deficit) | 33 202 479 | (29 590 383) |
| Adjustments for: | | |
| Depreciation and amortisation | 101 814 631 | 119 885 137 |
| Finance costs - Finance leases | 1 636 740 | 1 858 370 |
| Impairment deficit | 4 341 680 | 3 556 770 |
| Debt impairment | 24 309 745 | 12 893 946 |
| Movements in operating lease assets and accruals | (11 400) | (10 000) |
| Movements in retirement benefit assets and liabilities | 16 176 180 | 9 070 895 |
| Movements in provisions | 504 375 | (7 263) |
| Other non-cash items | (1 769 834) | 23 132 085 |
| Changes in working capital: | | |
| Inventories | - | 418 437 |
| Sundry debtors | 3 603 609 | (507 567) |
| Consumer debtors | (22 970 623) | (13 754 432) |
| Other receivables from non-exchange transactions | (178 696) | 6 509 528 |
| Movements in deferred income | - | 2 701 |
| Payables from exchange transactions | 3 072 523 | 20 015 302 |
| VAT | (495 092) | (5 968 741) |
| Unspent conditional grants and receipts | (40 864 904) | 5 949 865 |
| | 122 371 413 | 153 454 650 |
| 39. Commitments | | |
| Authorised capital expenditure | | |
| Already contracted for but not provided for | | |
| • Infrastructure - roads | 131 000 982 | 25 262 038 |
| • Infrastructure - electricity supply | - | 15 145 151 |
| • Other services | 3 845 480 | 7 522 216 |
| • Community services | - | 322 445 |
| | 134 846 462 | 48 251 850 |
| Total capital commitments | | |
| Already contracted for but not provided for | 134 846 462 | 48 251 850 |

This committed expenditure relates to property 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.

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40. Contingencies

Litigations is in process against the municipality relating to a dispute with defendants in the following cases, should the judgement or ruling be in favour of the defendants the municipality will have to pay the estimated damages as indicated below:

| | | |
|--|------------------|------------------|
| Vhuthi Cleaning/Security Services CC : The plaintiff claims damages for unlawful termination of contract under Tender No.59 of 2008. | 1 540 000 | 667 000 |
| Dique Jan Arnold : The plaintiff claims damages for wrongful detention by municipality's traffic officers together with SAPS officer. | 60 350 | 60 350 |
| Mabula NE : Claim for damages as a result of malicious prosecution of the plaintiff by the municipality's traffic officers at Vuwani SAPS. | 100 000 | 100 000 |
| Antoinette Albertus Yeerds : Claim for damages as a result of malicious prosecution of the plaintiff by municipality's traffic officers. | 340 000 | 340 000 |
| Gobela : Claim for alleged services rendered for the training of councillors and officials of the municipality on anti-fraud and corruption. | 6 369 750 | 6 369 750 |
| Tshisa TM : Claim for unlawful dismissal/Reinstatement after dismissal | 795 000 | 439 000 |
| Synergy Income Fund t/a Hubyeni Shopping Centre : Claim for damages being costs to unblock the shopping center sewerage line to be in proper order and cleaning of the shopping center due to the sewerage spillage into the shops and municipal area. | 279 515 | 279 515 |
| Maria Venter : Reconnection of electricity. | 22 636 | - |
| Mashige N.E : CCMA ruling : Confused the identity of the respondent | 26 400 | - |
| SGL Engineers CC Consulting : Outstanding payment for consultancy rendered during the construction of Tsianda Vuwani Road | 66 463 | - |
| Mavona and Associates : Delay to resolve the rezoning application. | 48 000 | - |
| | 9 648 114 | 8 255 615 |

41. Change in estimates

1. In terms of GRAP 17, the depreciation method applied to assets shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Identified movable and infrastructure assets were assessed for their remaining useful lives based on a professional judgement on their expected lifecycle.

This resulted in an additional remaining useful life in the identified various category of assets and an increase in the depreciation in the current financial year.

2. The provision on rehabilitating of the landfill site was re-assessed as at 30 June 2015, as a result of existing conditions at the landfill site on estimated costs to rehabilitate until 31 March 2017.

This resulted in a increase in a provision and a increase in the carrying value of the asset.

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42. Prior period errors

1. Repairs and maintenance

In the previous set of financial statements for the year ending 30 June 2014, repairs and maintenance have been restated on correction of expenditure transactions wrongly accrued. The effect of the transaction amount to the reduction of (R 374.00) in repairs and maintenance and is recorded as correction error.

2. Advertising

In the previous set of financial statements for the year ending 30 June 2014, advertising have been restated on correction of expenditure transactions wrongly accrued. The effect of the transaction amount to the reduction of (R 90.00) in advertising and is recorded as correction error.

3. Other expenses

In the previous set of financial statements for the year ending 30 June 2014, other expenses have been restated on correction of expenditure transactions that were incorrectly recorded and also omitted from the cashbook. The effect of the transactions amount to the reduction of (R 123,245.00) in other expenses and is recorded as correction error.

4. Cash and cash equivalents

In the previous set of financial statements for the year ending 30 June 2014, the bank balances at year end have been restated on correction of expenditure transactions that were incorrectly recorded and also omitted from the cashbook. The effect of the transactions amount to the reduction of (R 148,035.00) in bank balance at year end and is recorded as correction error

5. Accruals

In the previous set of financial statements for the year ending 30 June 2014, accruals have been restated on correction of expenditure transactions wrongly accrued. The effect of the transaction amount to the increase of (R 519,351.00) in accruals and is recorded as correction error.

6. Retentions

In the previous set of financial statements for the year ending 30 June 2014, retentions have been restated on correction of expenditure transactions wrongly recorded as retentions at year end. The effect of the transaction amount to the decrease of (R 562,255) in retentions and is recorded as correction error.

7. Other creditors

In the previous set of financial statements for the year ending 30 June 2014, other creditors have been restated on recording of other creditors transactions omitted. The effect of the transaction amount to the increase of (R 51,978.00) in other creditors and is recorded as correction error.

The municipality restated other creditors and the respective income and vat account on reversal of interdepartmental transactions erroneously reversed in the current financial year. The effect of the transaction amount to the increase of (R 1,606,979.51) in other creditors and the reduction of income by (R 1,564,567.97) and vat payable reducing by (R 42,411.54). The impact of this transaction is recorded as correction error.

8. Vat payable

In the previous set of financial statements for the year ending 30 June 2014, vat payable have been restated on correction of expenditure accrued. The effect of the transaction amount to the increase of (R 6,141.00) in vat payable and is recorded as correction error.

9. Land and Buildings

In the previous set of financial statements for the year ending 30 June 2014, land and buildings have been restated to remove duplicated land in the reporting period to the value of (R 30,220,292.17). The effect of the transaction resulted with the decrease in land and buildings and the increase in assets written off by (R 30,220,292.17) and has been reported as

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42. Prior period errors (continued)

correction of error.

10. Depreciation

In the previous set of financial statements for the year ending 30 June 2014, depreciation have been restated to account for depreciation on computer equipments amounting to (R 4,210.47) and cost also increased by the same amount on including the assets into the financial records. Depreciation on electricity assets was also increased by (R 154,606.87) in correcting the depreciation previously reported. The effect of the transaction has been reported as correction of error.

11. Payables from exchange transactions

In the previous set of financial statements for the year ending 30 June 2014, payables from exchange transactions(Department of Labour) have been restated to account for workmens compensations invoice erroneously not expensed amounting to (R 5,345,494). The effect of the transaction resulted with the increase in payables from exchange transactions by (R 5,345,494) and general expenses(workmen compensation) by (R 5,345,494) and has been reported as correction of error.

12. Heritage Assets

In the previous set of financial statements for the year ending 30 June 2014, heritage assets have been restated to account for the assets erroneously omitted resulting with the understatement of the heritage assets to the value of (R 514,350). The impact of the restatement have been reported as correction of error.

13. Intangible assets

In the previous set of financial statements for the year ending 30 June 2014, the figure indicated under intangible assets was incorrectly stated as a result of omission of other intangible assets belonging to the municipality to the value of (R 1,562,561) and corresponding depreciation to the amount of (R 915,250.45). The impact of the restatement was reported as correction of error.

14. Inventory

In the previous set of financial statements for the year ending 30 June 2014, the figure indicated under land inventory was incorrectly stated as a result of omission of land belonging to the municipality to the value of (R 24,069,000.00) and erroneous inclusion of land to the value of (R 30,576,200.00). The impact of the restatement was reported as correction of error.

THE IMPACT OF THE CORRECTION OF ERROR IS AS FOLLOWS:

Statement of financial position

| | | |
|--|---|--------------|
| Bank balance increased by | - | 148 035 |
| Accrued operating creditors increased by | - | (490 591) |
| Retentions decreased by | - | 562 255 |
| Other creditors increased by | - | (1 658 958) |
| Payables from exchange transactions(Department of Labour) increased by | - | (5 345 494) |
| Other receivables increased by | - | 582 701 |
| VAT pyables decreased by | - | 36 271 |
| Intangible assets cost increased by | - | 1 562 561 |
| Intangible assets accumulated depreciation increased by | - | (915 250) |
| Heritage assets cost increased by | - | 514 350 |
| Developed land decreased by | - | (5 391 186) |
| Undeveloped land decreased by | - | (24 829 106) |
| Land inventory increased by | - | 6 507 200 |

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| 42. Prior period errors (continued) | | |
| Statement of Financial Performance | | |
| Repairs and maintenance decreased by | - | (374) |
| Advertising decreased by | - | (90) |
| Other expenses decreased by | - | (738 927) |
| Assets written off increased by | - | 23 713 092 |
| Non assets items decreased by | - | (42 544) |
| Depreciation increased by | - | 158 816 |
| General expenses(Workmens compensation) increased by | - | 5 345 494 |
| Other income decreased by | - | 38 850 |
| Service charges decreased by | - | 1 405 531 |
| Interest received-outstanding debtors reduced by | - | 120 187 |
| 43. Comparative figures | | |
| Certain comparative figures in the statement of financial performance and the statement of financial position have been reclassified to ensure proper disclosure of other items considered to be material. | | |
| The effects of the reclassification are as follows: | | |
| Statement of financial position | | |
| Property,plant and equipment (Community assets) | - | 2 050 363 |
| Property,plant and equipment (Other assets) | - | (2 050 363) |
| Payables from exchange transactions(Debtors with credit balances) | - | (1 757 855) |
| Sundry debtors(Other receivables) | - | 1 757 855 |
| Payables from exchange transactions(Accrued operating creditors) | - | 17 193 795 |
| Accrual for outstanding leave | - | (17 193 795) |
| Statement of Financial Performance | | |
| Land use management | - | 161 842 |
| Land sales | - | (161 842) |
| Legal fees | - | 2 725 229 |
| Consulting and professional fees | - | (2 725 229) |
| Other expenses | - | 4 393 |
| Inventory written off | - | (4 393) |
| Water transactions written off | - | 117 |
| Consumables | - | (117) |

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44. 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.

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

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

| At 30 June 2015 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|--------------------------|-------------------------|------------------------------|------------------------------|---------------------|
| Borrowings | 1 303 559 | 3 327 996 | - | - |
| Finance lease liability | 2 494 026 | - | 13 551 124 | - |
| Trade and other payables | 111 818 524 | - | - | - |
| At 30 June 2014 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| Borrowings | 1 194 817 | - | 4 736 917 | - |
| Finance lease liability | 2 199 271 | 16 347 328 | - | - |
| Trade and other payables | 111 199 981 | - | - | - |

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 counterparty.

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 management. The utilisation of credit limits is regularly monitored.

45. Fruitless and wasteful expenditure

| | | |
|---|-----------|-------------|
| Opening balance | - | 2 835 143 |
| Fruitless and wasteful expenditure current year | 894 783 | 1 088 077 |
| Condoned by council | (894 783) | (3 923 220) |
| | - | - |

46. Irregular expenditure

| | | |
|---|-------------|------------------|
| Opening balance | 6 589 075 | 47 389 556 |
| Add: Irregular Expenditure - current year | - | 77 692 982 |
| Less: Amounts condoned | (6 589 075) | (118 493 463) |
| | - | 6 589 075 |

Analysis of expenditure awaiting condonation per age classification

| | | |
|---------------------|-------------|------------------|
| Prior year | 6 589 075 | 47 389 556 |
| Current year | - | 77 692 982 |
| Condoned by council | (6 589 075) | (118 493 463) |
| | - | 6 589 075 |

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| 47. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government | | |
| Current year subscription / fee | - | 2 102 103 |
| Amount paid - current year | - | (2 102 103) |
| | - | - |
| Audit fees | | |
| Current year subscription / fee | 4 359 739 | 4 653 686 |
| Amount paid - current year | (4 359 739) | (4 653 686) |
| | - | - |
| PAYE and UIF | | |
| Current year subscription / fee | 32 336 804 | 30 063 256 |
| Amount paid - current year | (32 336 804) | (30 063 256) |
| | - | - |
| Pension and Medical Aid Deductions | | |
| Current year subscription / fee | 58 012 280 | 54 636 759 |
| Amount paid - current year | (58 012 280) | (54 636 759) |
| | - | - |
| VAT | | |
| VAT payable | 2 340 100 | 2 835 192 |

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

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47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

| 30 June 2015 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|--------------|--|--|---------------|
| Baloyi SR | 5 055 | 3 296 | 8 351 |
| Mathoma MP | 7 407 | - | 7 407 |
| Mahladisa SV | 633 | 1 357 | 1 990 |
| Mukhari MF | 1 304 | 2 621 | 3 925 |
| Mamorobela T | 2 287 | - | 2 287 |
| Underwood JP | 2 372 | - | 2 372 |
| | 19 058 | 7 274 | 26 332 |

| 30 June 2014 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|--------------|--|--|---------------|
| Nemafhohoni | 166 | 384 | 550 |
| Malange TM | 2 741 | - | 2 741 |
| Mathoma MP | 17 558 | - | 17 558 |
| Ahmed MO | 22 704 | 914 | 23 618 |
| Baloyi SR | 8 234 | 298 | 8 532 |
| Mboyi MD | 2 588 | 3 631 | 6 219 |
| | 53 991 | 5 227 | 59 218 |

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

| 30 June 2015 | Highest outstanding amount | Aging (in days) |
|--------------|----------------------------------|--------------------|
| Baloyi SR | 3 295 | 90 |
| Mahladisa SV | 1 357 | 90 |
| Mukhari MF | 2 621 | 90 |
| | 7 273 | 270 |

| 30 June 2014 | Highest outstanding amount | Aging (in days) |
|----------------|----------------------------------|--------------------|
| Nemafhohoni MG | 384 | 90 |
| Ahmed MO | 914 | 90 |
| Baloyi SR | 298 | 90 |
| Mboyi MD | 3 631 | 90 |
| | 5 227 | 360 |

48. Events after the reporting date

There were no events after reporting date (30 June 2014), known to management that can lead to significant changes in the statement of financial position in future.

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| 49. Unauthorised expenditure | | |
| Opening balance | 4 384 000 | 145 627 236 |
| Incurred during the year | - | 4 384 000 |
| Less: Condoned by council | (4 384 000) | (145 627 236) |
| | - | 4 384 000 |

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50. Deviation from supply chain management regulations

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

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

The following is the quotation and tender deviation for the year as approved by the Accounting Officer. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Quotation deviations for the 2014/2015 financial year in terms of the Supply Chain Management Regulations amounted to R 8 261 624.

Below is a table with tender deviations for the 2014/2015 financial year.

| Tender Deviation For 2014/2015 Financial Year | Date | Description of items | Motivation | Department | |
|---|------------|--|------------|--------------------------------|---------------|
| Service Provider Tripple Hawks Auditors and Forensic Audit | 14/10/2014 | Investigation of possible fraudulent payment | Emergency | Municipal Manager Office | 335 000 |
| Sleuth Investigative Services | 06/05/2015 | Protection of the municipal manager and the mayor | Emergency | Municipal Manager Office | 300 900 |
| | | | | | <hr/> 635 900 |

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51. Detailed explanation of variances between actual and budgeted amounts 30 June 2015

| | Current year actuals | Current year final budget | Variance | % variance | Explanations of material variances above 5% |
|---|-----------------------------|------------------------------|----------------------------|---------------|--|
| Property rates | 43 327 689 | 41 666 061 | 1 661 628 | 4 | |
| Service charges | 254 906 114 | 266 736 000 | (11 829 886) | 4 | |
| Government grants and subsidies | 446 854 369 | 450 177 000 | (3 322 631) | 1 | |
| Rental of facilities and equipments | 301 505 | 428 867 | (127 362) | 30 | Reduced rental of municipal facilities than anticipated. |
| Interest received- outstanding receivables | 7 830 081 | 11 438 563 | (3 608 482) | 32 | The decrease is as a result of debtors written off during the year . |
| Licences and permits | 10 610 914 | 10 741 311 | (130 397) | 1 | |
| Other income | 7 436 560 | 19 808 000 | (12 371 440) | 62 | The decrease is a result of improved classification of income related transactions to relevant items. |
| Interest received- investments | 3 719 527 | 3 136 247 | 583 280 | 19 | The municipality effectively invested the surplus funds during the year. |
| Fines | 5 844 485 | 1 566 495 | 4 277 990 | 100 | The increase is as a result of revenue recognised in terms of IGRAP 1 on outstanding fines which was not sufficiently provided on budget compilation. |
| Total revenue | <u>780 831 244</u> | <u>805 698 544</u> | <u>(24 867 300)</u> | | |
| Employee related costs | (211 502 971) | (229 757 000) | 18 254 029 | 8 | The variance is due to the municipality not filling all the budgeted positions and other officials no longer with the municipality for various reasons. |
| Remuneration of councillors | (21 798 349) | (21 705 272) | (93 077) | - | |
| Depreciation | (106 156 311) | (145 015 000) | 38 858 689 | 30 | The variance was the result of reassessment of useful lives of assets and assets reaching expected useful lives. |
| Finance costs | (11 091 597) | (5 901 171) | (5 190 426) | 88 | This is due to finance cost raised on provision for rehabilitation of landfill site as result of change in estimated date for finalisation of rehabilitation process. |
| Debt impairment | (24 309 745) | (20 000 000) | 4 309 745 | 22 | The variance is as a result of debtors written off during the year affecting the calculation of the provision for the financial year. |
| Repairs and maintenance | (20 735 135) | (23 486 000) | 2 750 865 | 12 | The municipality spent less on repairs and maintenance during the year than anticipated. |
| Bulk purchases | (183 246 320) | (189 897 000) | 6 650 680 | 4 | |
| General expenses | (168 788 336) | (128 904 000) | (39 884 336) | 30 | The variance is as a result of removal of duplicate assets which was expensed during the year. |
| Total expenditure | <u>(747 628 764)</u> | <u>(764 665 443)</u> | <u>-</u> | | |

MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2015

Notes to the Annual Financial Statements

Figures in Rand

2015

2014

52. Related parties

Makhado Local Municipality, is a category B municipalities which in terms of the Constitution of South Africa, section 155 (1) (b) means, "A Municipality that shares executive and legislative authority in its area with a category C municipality within whose area it falls. "Vhembe municipality"

Makhado Municipality is an performing agency services on behalf of Vhembe District Municipality as well as an agency service with the Department of Transport, Roads and Works related to motor Vehicle license renewal fees.

Council does not have and associates nor any joint ventures or any other form of association that may be defined as related parties

Relationships

Members of key management

Remuneration of councillors

Department of Transport

Vhembe District Municipality

Remuneration-Refer to note 28

Remuneration-Refer to note 29

Licences and permits

Water services

Municipality is involved in an Agency relationship with Vhembe District Municipality. Related party transactions are:

Municipality runs billing services for water consumption on behalf of the District. Expenditure of water related services was subsequently written off by council refer to note general expenditure disclosure.

MAKHADO LOCAL MUNICIPALITY
Appendix A

Schedule of external loans as at 30 June 2015

| Loan Number | Amount | Balance at 30 June 2014 | Interest paid | Redeemed written off during the period | Balance at 30 June 2015 | Current portion | Long term portion |
|------------------------------------|---------------|--------------------------------|----------------------|---|--------------------------------|------------------------|--------------------------|
| | | Rand | Rand | Rand | Rand | Rand | Rand |
| Annuity Loans | | | | | | | |
| INCA | Makh-00-0001 | 12,656,600 | - | - | - | - | - |
| Development Bank of South Africa 1 | 61000712 | 7,000,000 | 4 510 811 | - | 970 769 | 3 540 042 | 2 569 273 |
| Development Bank of South Africa 2 | 61000713 | 2,110,000 | 1 424 303 | - | 332 790 | 1 091 513 | 758 723 |
| | | 5 935 114 | - | 1 303 559 | 4 631 555 | 1 303 559 | 3 327 996 |
| Total external loans | | | | | | | |
| Annuity Loans | | 5 935 114 | - | 1 303 559 | 4 631 555 | 1 303 559 | 3 327 996 |
| | | 5 935 114 | - | 1 303 559 | 4 631 555 | 1 303 559 | 3 327 996 |

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

| | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Revaluations Rand | Work in progress Rand | Closing Balance Rand | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Impairment/Revaluations Rand | Closing Balance Rand | Carrying value Rand |
|--------------------------------|-------------------------|------------------------------|-------------------|---------------------|----------------------|--------------------------|-------------------------|-------------------------|------------------------------|-------------------|--------------------|---------------------------------|-------------------------|------------------------|
| Land and buildings | | | | | | | | | | | | | | |
| Developed land | 220 634 138 | - | - | - | - | - | 220 634 138 | - | - | - | - | - | - | 220 634 138 |
| Undeveloped land | 105 007 980 | - | - | - | - | - | 105 007 980 | 79 312 | - | 789 092 | - | - | 868 404 | 104 139 576 |
| Dwellings | 17 846 547 | - | - | - | - | - | 17 846 547 | 1 877 604 | - | 570 560 | - | - | 2 448 164 | 15 398 383 |
| Landfill site | 13 851 601 | - | 5 923 | (3 526 420) | - | 8 302 284 | 18 633 388 | 6 925 201 | - | 1 238 510 | - | - | 8 163 711 | 10 469 676 |
| Non residential structures | 35 641 261 | - | 1 133 590 | - | - | 1 313 744 | 38 088 595 | 10 782 150 | - | 1 101 586 | - | - | 11 883 736 | 26 204 858 |
| | 392 981 527 | - | 1 139 513 | (3 526 420) | - | 9 616 028 | 400 210 648 | 19 664 267 | - | 3 699 748 | - | - | 23 364 015 | 376 846 631 |
| Infrastructure | | | | | | | | | | | | | | |
| Electricity | 931 052 840 | - | 2 049 939 | (22 913 527) | - | 4 220 938 | 914 410 190 | 335 123 638 | 154 607 | 40 909 079 | - | - | 376 187 324 | 538 222 867 |
| Roads | 1 003 353 640 | - | 5 913 320 | (23 370 052) | - | 132 727 231 | 1 118 624 139 | 257 865 495 | - | 43 882 931 | - | - | 301 748 426 | 816 875 713 |
| | 1 934 406 480 | - | 7 963 259 | (46 283 579) | - | 136 948 169 | 2 033 034 329 | 592 989 133 | 154 607 | 84 792 010 | - | - | 677 935 750 | 1 355 098 580 |
| Other | | | | | | | | | | | | | | |
| Machinery and equipment | 28 123 090 | - | 2 078 895 | (736 705) | - | - | 29 465 280 | 12 794 264 | - | 2 991 226 | (468 117) | - | 15 317 373 | 14 147 905 |
| Furniture and office equipment | 9 410 131 | - | 403 818 | (30 946) | - | - | 9 783 003 | 4 647 674 | - | 664 719 | (24 297) | - | 5 288 096 | 4 494 906 |
| Computer equipment | 6 677 886 | 42 105 | 675 295 | (69 398) | - | - | 7 325 888 | 4 096 536 | 4 199 | 807 875 | (66 022) | - | 4 842 588 | 2 483 299 |
| Transport assets | 35 576 259 | - | 2 247 885 | (10 154 934) | - | - | 27 669 210 | 17 128 580 | - | 4 252 726 | (6 768 183) | - | 14 613 123 | 13 056 088 |
| | 79 787 366 | 42 105 | 5 405 893 | (10 991 983) | - | - | 74 243 381 | 38 667 054 | 4 199 | 8 716 546 | (7 326 619) | - | 40 061 180 | 34 182 198 |

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

| | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Revaluations Rand | Work in progress Rand | Closing Balance Rand | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Impairment/Revalu- ations Rand | Closing Balance Rand | Carrying value Rand |
|-----------------------------------|----------------------------|---------------------------------|-------------------|--------------------|----------------------|--------------------------|----------------------------|----------------------------|---------------------------------|-------------------|-------------------|--------------------------------------|----------------------------|---------------------------|
| Finance lease | | | | | | | | | | | | | | |
| Finance leased assets | 25 025 640 | - | - | - | - | - | 25 025 640 | 14 665 263 | - | 2 592 417 | - | - | 17 257 680 | 7 767 960 |
| | 25 025 640 | - | - | - | - | - | 25 025 640 | 14 665 263 | - | 2 592 417 | - | - | 17 257 680 | 7 767 960 |
| Community assets | | | | | | | | | | | | | | |
| Cemetries | 6 293 689 | - | - | - | - | - | 6 293 689 | 2 165 043 | - | 208 923 | - | - | 2 373 966 | 3 919 722 |
| Cemetries perimeter protection | 183 978 | - | - | - | - | - | 183 978 | 99 520 | - | 4 276 | - | - | 103 796 | 80 183 |
| Community center | 19 772 087 | - | - | - | - | - | 19 772 087 | 10 526 950 | - | 437 623 | - | - | 10 964 573 | 8 807 513 |
| Liabraries | 1 183 252 | - | - | - | - | - | 1 183 252 | 473 536 | - | 39 438 | - | - | 512 974 | 670 278 |
| Sport and recreational facilities | 12 172 351 | - | 6 187 484 | (1 183 989) | - | 6 312 281 | 23 488 127 | 4 101 812 | - | 339 434 | - | - | 4 441 246 | 19 046 880 |
| Library books | 2 050 363 | - | - | - | - | - | 2 050 363 | 746 347 | - | 409 792 | - | - | 1 156 139 | 894 225 |
| | 41 655 720 | - | 6 187 484 | (1 183 989) | - | 6 312 281 | 52 971 496 | 18 113 208 | - | 1 439 486 | - | - | 19 552 694 | 33 418 801 |

MAKHADO LOCAL MUNICIPALITY
Appendix B

Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

| | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Revaluations Rand | Work in progress Rand | Closing Balance Rand | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Impairment/Revaluations Rand | Closing Balance Rand | Carrying value Rand |
|---|----------------------|---------------------------|-------------------|---------------------|-------------------|-----------------------|----------------------|----------------------|---------------------------|--------------------|--------------------|------------------------------|----------------------|----------------------|
| Total property plant and equipment | | | | | | | | | | | | | | |
| Land and buildings | 392 981 527 | - | 1 139 513 | (3 526 420) | - | 9 616 028 | 400 210 648 | 19 664 267 | - | 3 699 748 | - | - | 23 364 015 | 376 846 631 |
| Infrastructure | 1 934 406 480 | - | 7 963 259 | (46 283 579) | - | 136 948 169 | 2 033 034 329 | 592 989 133 | 154 607 | 84 792 010 | - | - | 677 935 750 | 1 355 098 580 |
| Other | 79 787 366 | 42 105 | 5 405 893 | (10 991 983) | - | - | 74 243 381 | 38 667 054 | 4 199 | 8 716 546 | (7 326 619) | - | 40 061 180 | 34 182 198 |
| Finance lease | 25 025 640 | - | - | - | - | - | 25 025 640 | 14 665 263 | - | 2 592 417 | - | - | 17 257 680 | 7 767 960 |
| Community assets | 41 655 720 | - | 6 187 484 | (1 183 989) | - | 6 312 281 | 52 971 496 | 18 113 208 | - | 1 439 486 | - | - | 19 552 694 | 33 418 801 |
| | 2 473 856 733 | 42 105 | 20 696 149 | (61 985 971) | - | 152 876 478 | 2 585 485 494 | 684 098 925 | 158 806 | 101 240 207 | (7 326 619) | - | 778 171 319 | 1 807 314 170 |
| Investment properties | | | | | | | | | | | | | | |
| Developed land | 4 297 251 | - | - | - | - | - | 4 297 251 | - | - | - | - | - | - | 4 297 251 |
| Dwellings | 6 482 575 | - | - | - | - | - | 6 482 575 | 701 037 | - | 184 419 | - | - | 885 456 | 5 597 119 |
| Non residential structures | 1 975 362 | - | - | - | - | - | 1 975 362 | - | - | - | - | - | - | 1 975 362 |
| | 12 755 188 | - | - | - | - | - | 12 755 188 | 701 037 | - | 184 419 | - | - | 885 456 | 11 869 732 |
| Intangible assets | | | | | | | | | | | | | | |
| Computers - software & programming | 1 843 053 | 1 562 561 | 558 147 | - | - | - | 3 963 761 | 1 298 724 | 919 505 | 390 004 | - | - | 2 608 233 | 1 355 527 |
| | 1 843 053 | 1 562 561 | 558 147 | - | - | - | 3 963 761 | 1 298 724 | 919 505 | 390 004 | - | - | 2 608 233 | 1 355 527 |
| Heritage assets | | | | | | | | | | | | | | |
| Heritage assets | 1 051 979 | 514 350 | - | - | - | - | 1 566 329 | - | - | - | - | - | - | 1 566 329 |
| | 1 051 979 | 514 350 | - | - | - | - | 1 566 329 | - | - | - | - | - | - | 1 566 329 |
| Total | | | | | | | | | | | | | | |
| Land and buildings | 392 981 527 | - | 1 139 513 | (3 526 420) | - | 9 616 028 | 400 210 648 | 19 664 267 | - | 3 699 748 | - | - | 23 364 015 | 376 846 631 |
| Infrastructure | 1 934 406 480 | - | 7 963 259 | (46 283 579) | - | 136 948 169 | 2 033 034 329 | 592 989 133 | 154 607 | 84 792 010 | - | - | 677 935 750 | 1 355 098 580 |
| Other | 79 787 366 | 42 105 | 5 405 893 | (10 991 983) | - | - | 74 243 381 | 38 667 054 | 4 199 | 8 716 546 | (7 326 619) | - | 40 061 180 | 34 182 198 |
| Finance lease | 25 025 640 | - | - | - | - | - | 25 025 640 | 14 665 263 | - | 2 592 417 | - | - | 17 257 680 | 7 767 960 |
| Community assets | 41 655 720 | - | 6 187 484 | (1 183 989) | - | 6 312 281 | 52 971 496 | 18 113 208 | - | 1 439 486 | - | - | 19 552 694 | 33 418 801 |
| Investment properties | 12 755 188 | - | - | - | - | - | 12 755 188 | 701 037 | - | 184 419 | - | - | 885 456 | 11 869 732 |
| Intangible assets | 1 843 053 | 1 562 561 | 558 147 | - | - | - | 3 963 761 | 1 298 724 | 919 505 | 390 004 | - | - | 2 608 233 | 1 355 527 |
| Heritage assets | 1 051 979 | 514 350 | - | - | - | - | 1 566 329 | - | - | - | - | - | - | 1 566 329 |
| | 2 489 506 953 | 2 119 016 | 21 254 296 | (61 985 971) | - | 152 876 478 | 2 603 770 772 | 686 098 686 | 1 078 311 | 101 814 630 | (7 326 619) | - | 781 665 008 | 1 822 105 758 |

MAKHADO LOCAL MUNICIPALITY
Appendix B

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

| | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Revaluations Rand | Work in progress Rand | Closing Balance Rand | Opening Balance Rand | Correction of errors Rand | Additions Rand | Disposals Rand | Impairment/Revaluations Rand | Closing Balance Rand | Carrying value Rand |
|--------------------------------|-------------------------|------------------------------|--------------------|---------------------|----------------------|--------------------------|-------------------------|-------------------------|------------------------------|-------------------|-------------------|---------------------------------|-------------------------|------------------------|
| Land and buildings | | | | | | | | | | | | | | |
| Developed land | 211 048 050 | 9 586 088 | - | - | - | - | 220 634 138 | - | - | - | - | - | - | 220 634 138 |
| Undeveloped land | 56 297 763 | (5 182 832) | - | - | - | - | 51 114 931 | - | - | - | - | - | - | 51 114 931 |
| Dwellings | 17 846 547 | 61 203 | - | (61 203) | - | - | 17 846 547 | 1 309 083 | - | 568 521 | - | - | 1 877 604 | 15 968 943 |
| Landfill site | 6 747 280 | - | 3 577 901 | - | - | 3 526 420 | 13 851 601 | 3 241 206 | - | 3 683 995 | - | - | 6 925 201 | 6 926 399 |
| Non residential structures | 35 641 261 | 123 418 | 23 672 756 | (123 418) | - | - | 59 314 017 | 9 680 564 | - | 1 180 898 | - | - | 10 861 462 | 48 452 555 |
| | 327 580 901 | 4 587 877 | 27 250 657 | (184 621) | - | 3 526 420 | 362 761 234 | 14 230 853 | - | 5 433 414 | - | - | 19 664 267 | 343 096 966 |
| Infrastructure | | | | | | | | | | | | | | |
| Electricity | 921 380 029 | 1 227 273 | 2 073 453 | (9 400 958) | - | 15 773 042 | 931 052 839 | 294 403 651 | - | 40 719 987 | - | - | 335 123 638 | 595 929 202 |
| Roads | 940 906 092 | - | 100 849 031 | (57 072 607) | - | 18 671 124 | 1 003 353 640 | 199 293 344 | - | 58 572 150 | - | - | 257 865 494 | 745 488 145 |
| | 1 862 286 121 | 1 227 273 | 102 922 484 | (66 473 565) | - | 34 444 166 | 1 934 406 479 | 493 696 995 | - | 99 292 137 | - | - | 592 989 132 | 1 341 417 347 |
| Other | | | | | | | | | | | | | | |
| Machinery and equipment | 25 092 992 | - | 3 030 098 | - | - | - | 28 123 090 | 10 098 820 | - | 2 695 445 | - | - | 12 794 265 | 15 328 825 |
| Furniture and office equipment | 9 102 066 | - | 308 065 | - | - | - | 9 410 131 | 3 989 619 | - | 658 055 | - | - | 4 647 674 | 4 762 457 |
| Computer equipment | 5 799 050 | - | 878 836 | - | - | - | 6 677 886 | 3 316 373 | - | 780 163 | - | - | 4 096 536 | 2 581 350 |
| Transport assets | 33 955 021 | - | 1 621 238 | - | - | - | 35 576 259 | 12 031 638 | - | 5 096 942 | - | - | 17 128 580 | 18 447 680 |
| Library books | 1 688 551 | - | 361 713 | - | - | - | 2 050 264 | 336 554 | - | 409 792 | - | - | 746 346 | 1 303 918 |
| | 75 637 680 | - | 6 199 950 | - | - | - | 81 837 630 | 29 773 004 | - | 9 640 397 | - | - | 39 413 401 | 42 424 230 |

MAKHADO LOCAL MUNICIPALITY
Appendix B

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

| | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Revaluations Rand | Work in progress Rand | Closing Balance Rand | Opening Balance Rand | Correction of errors Rand | Additions Rand | Disposals Rand | Impairment/Revaluations Rand | Closing Balance Rand | Carrying value Rand |
|-----------------------------------|-------------------------|------------------------------|-------------------|--------------------|----------------------|--------------------------|-------------------------|-------------------------|------------------------------|-------------------|--------------------|---------------------------------|-------------------------|------------------------|
| Finance leases | | | | | | | | | | | | | | |
| Finance lease assets | 25 428 907 | - | 962 114 | (1 365 381) | - | - | 25 025 640 | 12 160 732 | - | 3 674 813 | (1 170 282) | - | 14 665 263 | 10 360 377 |
| | 25 428 907 | - | 962 114 | (1 365 381) | - | - | 25 025 640 | 12 160 732 | - | 3 674 813 | (1 170 282) | - | 14 665 263 | 10 360 377 |
| Investment property | | | | | | | | | | | | | | |
| Community assets | | | | | | | | | | | | | | |
| Cemetries | 6 293 689 | - | - | - | - | - | 6 293 689 | 1 956 120 | - | 208 923 | - | - | 2 165 043 | 4 128 646 |
| Cemetries perimeter protection | 183 978 | - | - | - | - | - | 183 978 | 95 244 | - | 4 276 | - | - | 99 520 | 84 458 |
| Community center | 27 784 530 | - | - | (8 396 784) | - | - | 19 387 746 | 10 089 327 | - | 437 623 | - | - | 10 526 950 | 8 860 796 |
| Liabraries | 1 567 592 | - | - | - | - | - | 1 567 592 | 434 098 | - | 39 438 | - | - | 473 536 | 1 094 057 |
| Sport and recreational facilities | 10 988 362 | - | - | - | - | 1 183 989 | 12 172 351 | 3 802 512 | - | 299 300 | - | - | 4 101 812 | 8 070 539 |
| | 46 818 151 | - | - | (8 396 784) | - | 1 183 989 | 39 605 356 | 16 377 301 | - | 989 560 | - | - | 17 366 861 | 22 238 496 |

MAKHADO LOCAL MUNICIPALITY
Appendix B

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

| | Opening Balance Rand | Correction of errors Rand | Additions Rand | Transfers Rand | Revaluations Rand | Work in progress Rand | Closing Balance Rand | Opening Balance Rand | Correction of errors Rand | Additions Rand | Disposals Rand | Impairment/Revaluations Rand | Closing Balance Rand | Carrying value Rand |
|---|----------------------------|---------------------------------|--------------------|---------------------|----------------------|--------------------------|----------------------------|----------------------------|---------------------------------|--------------------|--------------------|---------------------------------|----------------------------|---------------------------|
| Total property plant and equipment | | | | | | | | | | | | | | |
| Land and buildings | 327 580 901 | 4 587 877 | 27 250 657 | (184 621) | - | 3 526 420 | 362 761 234 | 14 230 853 | - | 5 433 414 | - | - | 19 664 267 | 343 096 966 |
| Infrastructure | 1 862 286 121 | 1 227 273 | 102 922 484 | (66 473 565) | - | 34 444 166 | 1 934 406 479 | 493 696 995 | - | 99 292 137 | - | - | 592 989 132 | 1 341 417 347 |
| Other | 75 637 680 | - | 6 199 950 | - | - | - | 81 837 630 | 29 773 004 | - | 9 640 397 | - | - | 39 413 401 | 42 424 230 |
| Finance leases | 25 428 907 | - | 962 114 | (1 365 381) | - | - | 25 025 640 | 12 160 732 | - | 3 674 813 | (1 170 282) | - | 14 665 263 | 10 360 377 |
| Community assets | 46 818 151 | - | - | (8 396 784) | - | 1 183 989 | 39 605 356 | 16 377 301 | - | 989 560 | - | - | 17 366 861 | 22 238 496 |
| | 2 337 751 760 | 5 815 150 | 137 335 205 | (76 420 351) | - | 39 154 575 | 2 443 636 339 | 566 238 885 | - | 119 030 321 | (1 170 282) | - | 684 098 924 | 1 759 537 416 |
| Investment properties | | | | | | | | | | | | | | |
| Developed land | 44 033 525 | (39 736 274) | - | - | - | - | 4 297 251 | - | - | - | - | - | - | 4 297 251 |
| Dwellings | 6 482 575 | - | - | - | - | - | 6 482 575 | - | 516 618 | 184 419 | - | - | 701 037 | 5 781 538 |
| Non residential structures | 1 975 362 | - | - | - | - | - | 1 975 362 | - | - | - | - | - | - | 1 975 362 |
| | 52 491 462 | (39 736 274) | - | - | - | - | 12 755 188 | - | 516 618 | 184 419 | - | - | 701 037 | 12 054 152 |
| Intangible assets | | | | | | | | | | | | | | |
| Computers - software & programming | 1 384 395 | 2 021 219 | - | - | - | - | 3 405 614 | 996 389 | 144 098 | 158 237 | - | - | 1 298 724 | 2 106 890 |
| | 1 384 395 | 2 021 219 | - | - | - | - | 3 405 614 | 996 389 | 144 098 | 158 237 | - | - | 1 298 724 | 2 106 890 |
| Heritage assets | | | | | | | | | | | | | | |
| Heritage assets | 520 979 | 1 045 350 | - | - | - | - | 1 566 329 | - | - | - | - | - | - | 1 051 979 |
| | 520 979 | 1 045 350 | - | - | - | - | 1 566 329 | - | - | - | - | - | - | 1 051 979 |
| Total | | | | | | | | | | | | | | |
| Land and buildings | 327 580 901 | 4 587 877 | 27 250 657 | (184 621) | - | 3 526 420 | 362 761 234 | 14 230 853 | - | 5 433 414 | - | - | 19 664 267 | 343 096 966 |
| Infrastructure | 1 862 286 121 | 1 227 273 | 102 922 484 | (66 473 565) | - | 34 444 166 | 1 934 406 479 | 493 696 995 | - | 99 292 137 | - | - | 592 989 132 | 1 341 417 347 |
| Other | 75 637 680 | - | 6 199 950 | - | - | - | 81 837 630 | 29 773 004 | - | 9 640 397 | - | - | 39 413 401 | 42 424 230 |
| Finance leases | 25 428 907 | - | 962 114 | (1 365 381) | - | - | 25 025 640 | 12 160 732 | - | 3 674 813 | (1 170 282) | - | 14 665 263 | 10 360 377 |
| Community assets | 46 818 151 | - | - | (8 396 784) | - | 1 183 989 | 39 605 356 | 16 377 301 | - | 989 560 | - | - | 17 366 861 | 22 238 496 |
| Investment properties | 52 491 462 | (39 736 274) | - | - | - | - | 12 755 188 | - | 516 618 | 184 419 | - | - | 701 037 | 12 054 152 |
| Intangible assets | 1 384 395 | 2 021 219 | - | - | - | - | 3 405 614 | 996 389 | 144 098 | 158 237 | - | - | 1 298 724 | 2 106 890 |
| Heritage assets | 520 979 | 1 045 350 | - | - | - | - | 1 566 329 | - | - | - | - | - | - | 1 051 979 |
| | 2 392 148 596 | (30 854 555) | 137 335 205 | (76 420 351) | - | 39 154 575 | 2 461 363 470 | 567 235 274 | 660 716 | 119 372 977 | (1 170 282) | - | 686 098 685 | 1 774 750 437 |

MAKHADO LOCAL MUNICIPALITY

Appendix C

Budgeted Financial Performance (revenue and expenditure by municipal vote) for the year ended 30 June 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 |
| Revenue by Vote | | | | | | | | | | | | | | | |
| Executive and Council | 387 023 357 | 52 485 677 | 439 509 034 | - | - | 439 509 034 | 446 854 369 | - | 7 345 335 | 102 % | 115 % | - | - | - | 338 107 000 |
| Waste Management | 6 080 671 | 96 610 | 6 177 281 | - | - | 6 177 281 | 8 164 247 | - | 1 986 966 | 132 % | 134 % | - | - | - | 6 109 000 |
| Roads Transport | 17 389 526 | (5 016 613) | 12 372 913 | - | - | 12 372 913 | 10 610 914 | - | (1 761 999) | 86 % | 61 % | - | - | - | 13 166 000 |
| Water | 6 367 855 | (6 376 813) | (8 958) | - | - | (8 958) | - | - | 8 958 | - % | - % | - | - | - | (18 000) |
| Electricity | 271 360 920 | (6 376 813) | 264 984 107 | - | - | 264 984 107 | 246 741 867 | - | (18 242 240) | 93 % | 91 % | - | - | - | 253 658 298 |
| Corporate Services | 28 161 351 | 19 164 208 | 47 325 559 | - | - | 47 325 559 | 43 327 689 | - | (3 997 870) | 92 % | 154 % | - | - | - | 26 698 000 |
| Planning and Development | 28 161 351 | 38 423 | 28 199 774 | - | - | 28 199 774 | 301 505 | - | (27 898 269) | 1 % | 1 % | - | - | - | 3 283 000 |
| Community and Social services | 425 590 | (22 087) | 403 503 | - | - | 403 503 | 100 099 | - | (303 404) | 25 % | 24 % | - | - | - | 107 000 |
| Housing | 108 652 | (2 301) | 106 351 | - | - | 106 351 | - | - | (106 351) | - % | - % | - | - | - | - |
| Other | - | - | - | - | - | - | - | - | - | DIV/0 % | DIV/0 % | - | - | - | 139 000 |
| Sports and Recreation | 67 884 | 11 600 | 79 484 | - | - | 79 484 | 39 095 | - | (40 389) | 49 % | 58 % | - | - | - | 78 000 |
| Budget and Treasury | 52 714 523 | (18 173 057) | 34 541 466 | - | - | 34 541 466 | 27 121 667 | - | (7 419 799) | 79 % | 51 % | - | - | - | 48 285 314 |
| Total Revenue by Vote | 797 861 680 | 35 828 834 | 833 690 514 | - | - | 833 690 514 | 783 261 452 | - | (50 429 062) | 94 % | 98 % | - | - | - | 689 612 612 |
| Expenditure by Vote to be appropriated | | | | | | | | | | | | | | | |
| Executive and Council | 91 421 825 | (4 371 876) | 87 049 949 | - | - | 87 049 949 | 74 831 977 | - | (12 217 972) | 86 % | 82 % | - | - | - | 92 050 000 |
| Waste and Management | 12 146 909 | 9 247 219 | 21 394 128 | - | - | 21 394 128 | 23 596 015 | - | 2 201 887 | 110 % | 194 % | - | - | - | 13 512 000 |
| Roads Transport | 24 111 421 | (196 295) | 23 915 126 | - | - | 23 915 126 | 20 619 922 | - | (3 295 204) | 86 % | 86 % | - | - | - | 22 428 000 |
| Water | 31 782 537 | 2 251 249 | 34 033 786 | - | - | 34 033 786 | 21 663 547 | - | (12 370 239) | 64 % | 68 % | - | - | - | 24 732 000 |
| Electricity | 234 968 885 | 1 350 180 | 236 319 065 | - | - | 236 319 065 | 193 296 141 | - | (43 022 924) | 82 % | 82 % | - | - | - | 211 313 000 |
| Corporate Services | 40 706 492 | (4 067 958) | 36 638 534 | - | - | 36 638 534 | 23 087 226 | - | (13 551 308) | 63 % | 57 % | - | - | - | 33 445 000 |
| Planning and Development | 42 444 407 | 2 733 886 | 45 178 293 | - | - | 45 178 293 | 18 001 914 | - | (27 176 379) | 40 % | 42 % | - | - | - | 20 451 000 |
| Community and Social Services | 12 177 760 | (5 104 209) | 7 073 551 | - | - | 7 073 551 | 13 663 371 | - | 6 589 820 | 193 % | 112 % | - | - | - | 8 281 000 |
| Housing | - | - | - | - | - | - | - | - | - | DIV/0 % | DIV/0 % | - | - | - | - |
| Other | 19 627 198 | 4 851 079 | 24 478 277 | - | - | 24 478 277 | 103 629 469 | - | 79 151 192 | 423 % | 528 % | - | - | - | 21 247 000 |
| Sports and Recreation | 10 342 616 | 6 322 944 | 16 665 560 | - | - | 16 665 560 | 14 935 468 | - | (1 730 092) | 90 % | 144 % | - | - | - | 11 902 000 |
| Budget and Treasury | 225 984 122 | 5 832 201 | 231 816 323 | - | - | 231 816 323 | 242 733 922 | - | 10 917 599 | 105 % | 107 % | - | - | - | 229 637 109 |
| Total Expenditure by Vote | 745 714 172 | 18 848 420 | 764 562 592 | - | - | 764 562 592 | 750 058 972 | - | (14 503 620) | 98 % | 101 % | - | - | - | 688 998 109 |
| Surplus/(Deficit) for the year | 52 147 508 | 16 980 414 | 69 127 922 | - | - | 69 127 922 | 33 202 480 | - | (35 925 442) | 48 % | 64 % | - | - | - | 614 503 |