



**SEKHUKHUNE**  
District Municipality

Sekhukhune District Municipality  
(Registration number DC47)  
Financial statements  
for the year ended 30 June 2015

# **Sekhukhune District Municipality**

(Registration number DC47)

Financial Statements for the year ended 30 June 2015

## **General Information**

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<b>Legal form of entity</b>	District Municipality
<b>Mayoral committee</b>	
Executive Mayor	Cllr Magabe MD Cllr Mathebe NC - Speaker Cllr Nchabeleng TL Cllr Seloane LM Cllr Mathale SA Cllr Mokoka KSD Cllr Matlala RM Cllr Mamahlo M Cllr Kgoloko M Cllr Lekola MF
Councillors	Cllr Thamaga MM Cllr Sihlangu TL Cllr Mabuza DL Cllr Mafefe OH Cllr Makuwa TH Cllr Mokwana LW Cllr Tala DL Cllr Makitla RJ Cllr Thobejane MD Cllr Tau LC Cllr Thokoane MJ Cllr Tshoma LH Cllr Masemola HR Cllr Mashabela MR Cllr Matjomane GD Cllr Moifo KH
<b>Grading of local authority</b>	Grade 3 Municipality
<b>Chief Finance Officer (CFO)</b>	Rebotile Makgati Acting CFO
<b>Accounting Officer</b>	MF Mokoko
<b>Business address</b>	03 West Street Groblerdal 0470
<b>Postal address</b>	Private Bag X8611 Groblerdal 0470
<b>Bankers</b>	Standard Bank
<b>Auditors</b>	Auditor General South Africa - Limpopo Region Registered Auditors

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

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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)

# **Sekhukhune District Municipality**

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

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The accounting officer is required by the Constitution of SA, to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

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

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, 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 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, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 52, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2015 and were signed on its behalf by:

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**MF Mokoko**  
**Municipal Manager**

# **Sekhukhune District Municipality**

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## **Audit Committee Report**

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We are pleased to present our report for the financial year ended 30 June 2015.

### **Audit committee members and attendance**

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year four meetings were held.

<b>Name of member</b>	<b>Number of meetings attended</b>
Mr K Ramukumba (Chairperson)	3
Mr R Mnisi	3
Ms SM Makintla	4
Mr L Lankalebalela	4
Ms S Mabilane	4

### **Audit committee responsibility**

The audit committee reports that it has complied with its responsibilities arising from section 38(10)(1) of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### **The effectiveness of internal control**

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

### **Evaluation of financial statements**

The audit committee has:

- reviewed and discussed the audited financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the financial statements, and are of the opinion that the audited financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

### **Internal audit**

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

### **Auditor-General of South Africa**

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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**Chairperson of the Audit Committee**

**Date:** \_\_\_\_\_

# **Sekhukhune District Municipality**

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

# Sekhukhune District Municipality

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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 Restated*
<b>Assets</b>			
Current Assets			
Inventories	4	9 301 705	10 630 149
Other financial assets	3	1 000	1 000
Receivables from exchange transactions	5	46 938 070	49 120 682
Receivables from non-exchange transactions	6	70 523 429	149 543 204
VAT receivable	7	1 717 545	228 616 220
Cash and cash equivalents	8	202 335 812	74 428 014
		<b>330 817 561</b>	<b>512 339 269</b>
Non-Current Assets			
Property, plant and equipment	2	2 193 155 824	2 109 498 098
Non-Current Assets		<b>2 193 155 824</b>	<b>2 109 498 098</b>
Current Assets		<b>330 817 561</b>	<b>512 339 269</b>
Non-current assets held for sale (and) (assets of disposal groups)		-	-
<b>Total Assets</b>		<b>2 523 973 385</b>	<b>2 621 837 367</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	12	-	45 014 138
Lease liability	10	-	31 100
Payables from exchange transactions	15	201 144 049	261 795 596
Consumer deposits	16	1 576 624	102 230
Unspent conditional grants and receipts	11	177 467 309	165 535 605
Provisions	13	14 474 651	13 377 590
Borrowings	14	813 392	752 027
Bank overdraft	8	11 521 538	-
		<b>406 997 563</b>	<b>486 608 286</b>
Non-Current Liabilities			
Operating lease liability		-	148 805
Provisions	13	25 993 671	22 614 872
Borrowings	14	2 335 829	3 149 220
		<b>28 329 500</b>	<b>25 912 897</b>
Non-Current Liabilities		<b>28 329 500</b>	<b>25 912 897</b>
Current Liabilities		<b>406 997 563</b>	<b>486 608 286</b>
Liabilities of disposal groups		-	-
<b>Total Liabilities</b>		<b>435 327 063</b>	<b>512 521 183</b>
Assets		2 523 973 385	2 621 837 367
Liabilities		(435 327 063)	(512 521 183)
<b>Net Assets</b>		<b>2 088 646 322</b>	<b>2 109 316 184</b>
Accumulated surplus	9	2 088 646 324	2 109 316 184

\* See Note 34

# Sekhukhune District Municipality

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## Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	42 257 088	37 538 752
Interest received - Outstanding receivables		4 677 111	7 513 733
Penalties		-	215 000
Other income		1 226 647	2 267 707
Retention and water balance write off		53 958 838	-
Interest received - investment		10 877 820	10 787 018
<b>Total revenue from exchange transactions</b>		<b>112 997 504</b>	<b>58 322 210</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	19	775 010 404	1 025 420 499
Fines		1 878	-
<b>Total revenue from non-exchange transactions</b>		<b>775 012 282</b>	<b>1 025 420 499</b>
		112 997 504	58 322 210
		775 012 282	1 025 420 499
<b>Total revenue</b>	17	<b>888 009 786</b>	<b>1 083 742 709</b>
<b>Expenditure</b>			
Personnel	21	(266 448 445)	(236 110 643)
Remuneration of councillors	22	(10 600 599)	(10 604 876)
Transfers - Community Projects		(7 890 990)	-
Depreciation and amortisation	24	(63 135 854)	(54 829 933)
Impairment loss/ Reversal of impairments	25	(22 701 262)	(88 172)
Finance costs	26	(864 288)	(1 370 729)
Debt impairment	23	(72 229 714)	(4 142 004)
Water related expenses (commission payable)		-	(6 954 777)
Repairs and maintenance		(52 134 696)	(44 567 664)
Bulk purchases	29	(110 428 733)	(90 548 587)
VIP Sanitation	28	(82 131 782)	(215 113 355)
Grants and subsidies paid		(2 649 160)	(2 108 400)
General Expenses	20	(172 043 599)	(132 894 976)
<b>Total expenditure</b>		<b>(863 259 122)</b>	<b>(799 334 116)</b>
		-	-
Total revenue		888 009 786	1 083 742 709
Total expenditure		(863 259 122)	(799 334 116)
<b>Operating surplus</b>		<b>24 750 664</b>	<b>284 408 593</b>
Gain (loss) on disposal of assets and liabilities		5 951	(215 204)
Surplus before taxation		24 756 615	284 193 389
Taxation		-	-
<b>Surplus for the year</b>		<b>24 756 615</b>	<b>284 193 389</b>

\* See Note 34

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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2013</b>	<b>1 825 122 795</b>	<b>1 825 122 795</b>
Changes in net assets		
Surplus for the year	284 193 389	284 193 389
Total changes	284 193 389	284 193 389
Opening balance as previously reported	2 193 324 473	2 193 324 473
Adjustments		
Correction of errors	(129 434 764)	(129 434 764)
<b>Restated* Balance at 01 July 2014 as restated*</b>	<b>2 063 889 709</b>	<b>2 063 889 709</b>
Changes in net assets		
Surplus for the year	24 756 615	24 756 615
Total changes	24 756 615	24 756 615
<b>Balance at 30 June 2015</b>	<b>2 088 646 324</b>	<b>2 088 646 324</b>

Note(s)

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\* See Note 34

# Sekhukhune District Municipality

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## Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		31 840 006	83 040 479
Grants		786 942 108	837 341 181
Interest income		10 877 820	10 787 018
Other receipts		324 643 075	(208 114 945)
		1 154 303 009	723 053 733
<b>Payments</b>			
Employee costs		(277 049 044)	(246 715 519)
Suppliers		(490 269 212)	(365 097 934)
Finance costs		(864 288)	(1 370 729)
		(768 182 544)	(613 184 182)
Total receipts		1 154 303 009	723 053 733
Total payments		(768 182 544)	(613 184 182)
<b>Net cash flows from operating activities</b>	30	<b>386 120 465</b>	<b>109 869 551</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(223 096 872)	(308 113 762)
Proceeds from sale of property, plant and equipment	2	24 219	441 527
Proceeds from sale of financial assets		-	(1 000)
<b>Net cash flows from investing activities</b>		<b>(223 072 653)</b>	<b>(307 673 235)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(45 014 138)	2 134 849
Movement in borrowings		(752 026)	(695 294)
Finance lease payments		(895 388)	(426 216)
<b>Net cash flows from financing activities</b>		<b>(46 661 552)</b>	<b>(1 121 510)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>116 386 260</b>	<b>(198 925 194)</b>
Cash and cash equivalents at the beginning of the year		74 428 014	273 353 208
<b>Cash and cash equivalents at the end of the year</b>	8	<b>190 814 274</b>	<b>74 428 014</b>

\* See Note 34

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## 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						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	41 130 000	-	41 130 000	42 257 088	1 127 088	
Interest received (trading)	6 000 000	(2 500 000)	3 500 000	4 677 111	1 177 111	
Other income 1	48 578 000	130 251 000	178 829 000	1 226 647	(177 602 353)	
Other income 2	-	-	-	53 958 838	53 958 838	
Interest received - investment	7 000 000	-	7 000 000	10 877 820	3 877 820	
<b>Total revenue from exchange transactions</b>	<b>102 708 000</b>	<b>127 751 000</b>	<b>230 459 000</b>	<b>112 997 504</b>	<b>(117 461 496)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Government grants & subsidies	573 873 000	(26 438 000)	547 435 000	775 010 404	227 575 404	
<b>Transfer revenue</b>						
Fines	-	-	-	1 878	1 878	
<b>Total revenue from non-exchange transactions</b>	<b>573 873 000</b>	<b>(26 438 000)</b>	<b>547 435 000</b>	<b>775 012 282</b>	<b>227 577 282</b>	
'Total revenue from exchange transactions'	102 708 000	127 751 000	230 459 000	112 997 504	(117 461 496)	
'Total revenue from non-exchange transactions'	573 873 000	(26 438 000)	547 435 000	775 012 282	227 577 282	
<b>Total revenue</b>	<b>676 581 000</b>	<b>101 313 000</b>	<b>777 894 000</b>	<b>888 009 786</b>	<b>110 115 786</b>	
<b>Expenditure</b>						
Personnel	(241 760 000)	(10 688 000)	(252 448 000)	(266 448 445)	(14 000 445)	
Remuneration of councillors	(13 285 000)	2 853 000	(10 432 000)	(10 600 599)	(168 599)	
Transfer payments	-	-	-	(7 890 990)	(7 890 990)	
Depreciation and amortisation	(60 000 000)	1 500 000	(58 500 000)	(63 135 854)	(4 635 854)	
Impairment loss/ Reversal of impairments	-	-	-	(22 701 262)	(22 701 262)	
Finance costs	(750 000)	-	(750 000)	(864 288)	(114 288)	
Debt impairment	(9 420 000)	5 000 000	(4 420 000)	(72 229 714)	(67 809 714)	
Repairs and maintenance	(35 000 000)	(3 200 000)	(38 200 000)	(52 134 696)	(13 934 696)	
Bulk purchases	(108 000 000)	(2 000 000)	(110 000 000)	(110 428 733)	(428 733)	
Contracted Services	(48 100 000)	3 830 000	(44 270 000)	(82 131 782)	(37 861 782)	
Grants and subsidies paid	(3 000 000)	-	(3 000 000)	(2 649 160)	350 840	
General Expenses	(219 832 000)	(82 498 000)	(302 330 000)	(172 043 599)	130 286 401	
<b>Total expenditure</b>	<b>(739 147 000)</b>	<b>(85 203 000)</b>	<b>(824 350 000)</b>	<b>(863 259 122)</b>	<b>(38 909 122)</b>	
<b>Operating surplus</b>	<b>676 581 000</b>	<b>101 313 000</b>	<b>777 894 000</b>	<b>888 009 786</b>	<b>110 115 786</b>	
Gain on disposal of assets and liabilities	(739 147 000)	(85 203 000)	(824 350 000)	(863 259 122)	(38 909 122)	
	<b>(62 566 000)</b>	<b>16 110 000</b>	<b>(46 456 000)</b>	<b>24 750 664</b>	<b>71 206 664</b>	
				5 951	5 951	
	(62 566 000)	16 110 000	(46 456 000)	24 750 664	71 206 664	

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## 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						
<b>Surplus before taxation</b>	<b>(62 566 000)</b>	<b>16 110 000</b>	<b>(46 456 000)</b>	<b>24 756 615</b>	<b>5 951</b>	<b>5 951</b>
Deficit before taxation	(62 566 000)	16 110 000	(46 456 000)	24 756 615	71 212 615	71 212 615
Taxation	-	-	-	-	-	-
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(62 566 000)</b>	<b>16 110 000</b>	<b>(46 456 000)</b>	<b>24 756 615</b>	<b>71 212 615</b>	

# Sekhukhune District Municipality

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## 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						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	3 100 000	-	<b>3 100 000</b>	9 301 705	<b>6 201 705</b>	
Other financial assets	-	-	-	1 000	<b>1 000</b>	
Receivables from exchange transactions	212 324 000	-	<b>212 324 000</b>	46 938 070	<b>(165 385 930)</b>	
Receivables from non-exchange transactions	42 554 000	-	<b>42 554 000</b>	70 523 429	<b>27 969 429</b>	
VAT receivable	-	-	-	1 717 545	<b>1 717 545</b>	
Cash and cash equivalents	327 660 000	-	<b>327 660 000</b>	202 335 812	<b>(125 324 188)</b>	
	<b>585 638 000</b>	-	<b>585 638 000</b>	<b>330 817 561</b>	<b>(254 820 439)</b>	
<b>Non-Current Assets</b>						
Property, plant and equipment	3 563 724 000	-	<b>3 563 724 000</b>	2 193 155 824	<b>(1 370 568 176)</b>	
Non-Current Assets	585 638 000	-	<b>585 638 000</b>	330 817 561	<b>(254 820 439)</b>	
Current Assets	3 563 724 000	-	<b>3 563 724 000</b>	2 193 155 824	<b>(1 370 568 176)</b>	
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-	-	
<b>Total Assets</b>	<b>4 149 362 000</b>	-	<b>4 149 362 000</b>	<b>2 523 973 385</b>	<b>(1 625 388 615)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	695 000	-	<b>695 000</b>	-	<b>(695 000)</b>	
Payables from exchange transactions	290 423 000	-	<b>290 423 000</b>	201 144 049	<b>(89 278 951)</b>	
Consumer deposits	-	-	-	1 576 624	<b>1 576 624</b>	
Unspent conditional grants and receipts	-	-	-	177 467 309	<b>177 467 309</b>	
Provisions	-	-	-	14 474 651	<b>14 474 651</b>	
Borrowings	-	-	-	813 392	<b>813 392</b>	
Bank overdraft	-	-	-	11 521 538	<b>11 521 538</b>	
	<b>291 118 000</b>	-	<b>291 118 000</b>	<b>406 997 563</b>	<b>115 879 563</b>	
<b>Non-Current Liabilities</b>						
Provisions	20 850 000	-	<b>20 850 000</b>	25 993 671	<b>5 143 671</b>	
Borrowings	4 240 000	-	<b>4 240 000</b>	2 335 829	<b>(1 904 171)</b>	
	<b>25 090 000</b>	-	<b>25 090 000</b>	<b>28 329 500</b>	<b>3 239 500</b>	
	291 118 000	-	<b>291 118 000</b>	406 997 563	<b>115 879 563</b>	
	25 090 000	-	<b>25 090 000</b>	28 329 500	<b>3 239 500</b>	
<b>Total Liabilities</b>	<b>316 208 000</b>	-	<b>316 208 000</b>	<b>435 327 063</b>	<b>119 119 063</b>	
Assets	4 149 362 000	-	<b>4 149 362 000</b>	2 523 973 385	<b>(1 625 388 615)</b>	
Liabilities	(316 208 000)	-	<b>(316 208 000)</b>	(435 327 063)	<b>(119 119 063)</b>	
<b>Net Assets</b>	<b>3 833 154 000</b>	-	<b>3 833 154 000</b>	<b>2 088 646 322</b>	<b>(1 744 507 678)</b>	

# **Sekhukhune District Municipality**

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## **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						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	3 833 154 000		- 3 833 154 000	2 088 646 322	(1 744 507 678)	

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## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2015</b>											
<b>Financial Performance</b>											
Service charges	41 130 000	-	41 130 000	-		41 130 000	42 257 088		1 127 088	103 %	103 %
Investment revenue	13 000 000	(2 500 000)	10 500 000	-		10 500 000	10 877 820		377 820	104 %	84 %
Transfers recognised - operational	573 873 000	(26 438 000)	547 435 000	-		547 435 000	478 787 285		(68 647 715)	87 %	83 %
Other own revenue	48 578 000	130 251 000	178 829 000	-		178 829 000	59 870 425		(118 958 575)	33 %	123 %
<b>Total revenue</b>	<b>676 581 000</b>	<b>101 313 000</b>	<b>777 894 000</b>	-		<b>777 894 000</b>	<b>591 792 618</b>		<b>(186 101 382)</b>	<b>76 %</b>	<b>87 %</b>
<b>(excluding capital transfers and contributions)</b>											
Employee costs	(241 760 000)	(10 688 000)	(252 448 000)	-	-	(252 448 000)	(266 448 445)	-	(14 000 445)	106 %	110 %
Remuneration of councillors	(13 285 000)	2 853 000	(10 432 000)	-	-	(10 432 000)	(10 600 599)	-	(168 599)	102 %	80 %
Debt impairment	(9 420 000)	5 000 000	(4 420 000)			(4 420 000)	(72 229 714)	-	(67 809 714)	1 634 %	767 %
Depreciation and asset impairment	(60 000 000)	1 500 000	(58 500 000)			(58 500 000)	(85 837 116)	-	(27 337 116)	147 %	143 %
Finance charges	(750 000)	-	(750 000)	-	-	(750 000)	(864 288)	-	(114 288)	115 %	115 %
Materials and bulk purchases	(108 000 000)	(2 000 000)	(110 000 000)	-	-	(110 000 000)	(110 428 733)	-	(428 733)	100 %	102 %
Transfers and grants	(3 000 000)	-	(3 000 000)	-	-	(3 000 000)	(2 649 160)	-	350 840	88 %	88 %
Other expenditure	(302 932 000)	(81 868 000)	(384 800 000)	-	-	(384 800 000)	(314 201 067)	-	70 598 933	82 %	104 %
<b>Total expenditure</b>	<b>(739 147 000)</b>	<b>(85 203 000)</b>	<b>(824 350 000)</b>	-	-	<b>(824 350 000)</b>	<b>(863 259 122)</b>	-	<b>(38 909 122)</b>	<b>105 %</b>	<b>117 %</b>
Total revenue (excluding capital transfers and contributions)	676 581 000	101 313 000	777 894 000	-	-	777 894 000	591 792 618	-	(186 101 382)	76 %	87 %
Total expenditure	(739 147 000)	(85 203 000)	(824 350 000)	-	-	(824 350 000)	(863 259 122)	-	(38 909 122)	105 %	117 %
<b>Surplus/(Deficit)</b>	<b>(62 566 000)</b>	<b>16 110 000</b>	<b>(46 456 000)</b>	-	-	<b>(46 456 000)</b>	<b>(271 466 504)</b>	-	<b>(225 010 504)</b>	<b>584 %</b>	<b>434 %</b>

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2015

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	719 345 000	(112 379 000)	606 966 000	-		606 966 000	296 223 119		(310 742 881)	49 %	41 %
Surplus/(Deficit)	(62 566 000)	16 110 000	(46 456 000)	-	-	(46 456 000)	(271 466 504)	-	(225 010 504)	584 %	434 %
Capital transfers and contributions	719 345 000	(112 379 000)	606 966 000	-	-	606 966 000	296 223 119	-	(310 742 881)	49 %	41 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>656 779 000</b>	<b>(96 269 000)</b>	<b>560 510 000</b>	-		<b>560 510 000</b>	<b>24 756 615</b>		<b>(535 753 385)</b>	<b>4 %</b>	<b>4 %</b>
Surplus (Deficit) after capital transfers and contributions	656 779 000	(96 269 000)	560 510 000	-	-	560 510 000	24 756 615	-	(535 753 385)	4 %	4 %
<b>Surplus/(Deficit) for the year</b>	<b>656 779 000</b>	<b>(96 269 000)</b>	<b>560 510 000</b>	-		<b>560 510 000</b>	<b>24 756 615</b>		<b>(535 753 385)</b>	<b>4 %</b>	<b>4 %</b>

# **Sekhukhune District Municipality**

(Registration number DC47)

Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1. Presentation of Financial Statements**

The 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 Constitution of SA.

These 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.

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

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

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

These accounting policies are consistent with the previous period.

#### **1.1 Presentation currency**

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

#### **1.2 Going concern assumption**

These financial statements have been 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**

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

##### **Trade receivables / Held to maturity investments and/or loans and receivables**

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

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

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

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

# **Sekhukhune District Municipality**

(Registration number DC47)

Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

#### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### **Impairment testing**

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

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. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

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

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

#### **Effective interest rate**

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

#### **Allowance for doubtful debts**

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

### **1.4 Property, plant and equipment**

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

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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
Buildings	15-30 years
Furniture and fixtures	3-10 years
Motor vehicles	5-7 years
Office equipment	3-10 years
Infrastructure	
• Roads, pavements, bridges and storm water	1-100 years
• Water, reservoirs and reticulation infrastructure	5-80 years
• Street names, signs and parking meters	7-20 years

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2015

## Accounting Policies

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

#### Community

• Parks and gardens	10-30 years
• Sport fields	20-30 years
• Community halls	30 years
• Security measures	3-10 years
• Specialised vehicles	15-20 years

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

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

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

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

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

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

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

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

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

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.5 Site restoration and dismantling cost (continued)**

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### **1.6 Financial instruments**

#### **Classification**

The municipality classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

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**

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

#### **Subsequent measurement**

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

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.6 Financial instruments (continued)**

#### **Impairment 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.

#### **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.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.6 Financial instruments (continued)**

#### **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.

#### **Derivatives**

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

#### **Held to maturity**

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment'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 investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.6 Financial instruments (continued)**

#### **Derecognition**

##### **Financial assets**

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

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

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### **Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

#### **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.

### **1.7 Leases**

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

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

# **Sekhukhune District Municipality**

(Registration number DC47)

Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.7 Leases (continued)**

#### **Finance leases - lessee**

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

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

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

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

#### **Operating leases - 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.

### **1.8 Inventories**

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

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

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

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

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

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

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

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

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

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

### **1.9 Impairment of cash-generating assets**

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

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

# **Sekhukhune District Municipality**

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## **Accounting Policies**

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

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

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

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

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

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

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

Useful life is either:

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

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

### **1.10 Employee benefits**

#### **Short-term employee benefits**

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

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

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

#### **Defined contribution plans**

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

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

### **1.11 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.

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Financial Statements for the year ended 30 June 2015

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### 1.11 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

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

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

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

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

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

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and

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### 1.11 Provisions and contingencies (continued)

- 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.
- 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.

### 1.12 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### 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.

#### Interest, royalties and dividends

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

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

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

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

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

### 1.13 Revenue from non-exchange transactions

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

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.13 Revenue from non-exchange transactions (continued)**

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

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

#### **Measurement**

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

#### **Government grants**

Government grants are recognised as revenue when:

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

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

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

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

#### **Other grants and donations**

Other grants and donations are recognised as revenue when:

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

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

### **1.14 Turnover**

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

### **1.15 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

# **Sekhukhune District Municipality**

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## **Accounting Policies**

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### **1.15 Borrowing costs (continued)**

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and . In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

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

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

### **1.16 Comparative figures**

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

### **1.17 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.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.18 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.

### **1.19 Irregular expenditure**

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

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

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

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

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

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

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

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.

### **1.20 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 a 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 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.

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2015

## **Accounting Policies**

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### **1.21 Related parties**

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

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

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

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

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## **Notes to the Financial Statements**

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## Notes to the Financial Statements

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### 2. Property, plant and equipment

	2015		2014	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated depreciation and accumulated impairment
Land	12 860 001	-	12 860 001	12 860 001
Buildings	22 188 342	(10 880 076)	11 308 266	21 561 955
Furniture and fixtures	4 164 223	(2 806 489)	1 357 734	3 845 000
Motor vehicles	4 610 599	(775 892)	3 834 707	4 610 599
Office equipment	8 349 734	(6 132 356)	2 217 378	7 929 641
Roads Infrastructure	65 704 027	(20 154 620)	45 549 407	65 704 027
Community Assets	5 184 955	(2 005 763)	3 179 192	5 184 955
Water Infrastructure	1 170 091 505	(299 704 304)	870 387 201	1 130 685 359
Sanitation Infrastructure	58 177 130	(20 698 118)	37 479 012	55 302 211
Bins and containers	198 141	(93 192)	104 949	197 391
Leased Assets	5 213 882	(5 213 882)	-	5 213 882
Emergency Assets	1 471 267	(1 110 809)	360 458	1 480 021
Assets under construction	1 204 517 519	-	1 204 517 519	1 101 228 251
<b>Total</b>	<b>2 562 731 325</b>	<b>(369 575 501)</b>	<b>2 193 155 824</b>	<b>2 415 803 293</b>
				<b>(306 305 195) 2 109 498 098</b>

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

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

	<b>Opening balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Depreciation</b>	<b>Impairment loss</b>	<b>Total</b>
Land	12 860 001	-	-	-	-	-	12 860 001
Buildings	11 946 064	1 458 437	-	(832 050)	(1 183 939)	(80 246)	11 308 266
Furniture and fixtures	1 679 772	346 793	(5 514)	-	(663 317)	-	1 357 734
Motor vehicles	4 056 229	-	-	-	(221 522)	-	3 834 707
Office equipment	3 381 013	708 186	(9 004)	-	(1 862 817)	-	2 217 378
Roads Infrastructure	48 946 127	-	-	-	(3 361 401)	(35 319)	45 549 407
Community Assets	3 425 967	-	-	-	(246 775)	-	3 179 192
Water Infrastructure	883 405 654	5 131 929	-	34 274 217	(52 424 599)	-	870 387 201
Sanitation Assets	37 774 308	126 470	-	2 748 449	(3 069 944)	(100 271)	37 479 012
Bins and containers	132 452	750	-	-	(28 253)	-	104 949
Leased assets	17 720	-	-	-	(17 720)	-	-
Emergency Equipment	644 540	6 246	(3 750)	-	(286 578)	-	360 458
Assets under construction	1 101 228 251	169 856 300	-	(44 081 606)	-	(22 485 426)	1 204 517 519
	<b>2 109 498 098</b>	<b>177 635 111</b>	<b>(18 268)</b>	<b>(7 890 990)</b>	<b>(63 366 865)</b>	<b>(22 701 262)</b>	<b>2 193 155 824</b>

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

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

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	10 550 001	4 700 000	(2 390 000)	-	-	-	-	12 860 001
Buildings	13 509 098	-	-	-	-	(1 528 285)	(34 749)	11 946 064
Furniture and fixtures	2 133 303	155 300	(14 337)	-	-	(594 494)	-	1 679 772
Motor vehicles	4 806 336	-	(527 230)	-	-	(222 877)	-	4 056 229
Office equipment	3 514 891	1 541 461	(63 307)	-	-	(1 612 032)	-	3 381 013
Infrastructure - Roads	78 867 645	-	(34 683 628)	-	-	4 762 110	-	48 946 127
Community	4 733 168	-	-	-	(1 014 630)	(292 571)	-	3 425 967
Water Infrastructure	919 519 920	2 882 094	(62 386 506)	57 356 634	-	(33 742 721)	(223 767)	883 405 654
Sanitation Infrastructure	43 072 575	-	(5 588 860)	974 032	-	(683 439)	-	37 774 308
Bins and containers	160 962	-	(345)	-	-	(28 165)	-	132 452
Leased assets	329 452	-	-	-	-	(311 732)	-	17 720
Emergency Assets	987 821	129 963	(140 832)	-	-	(332 412)	-	644 540
Assets under construction	869 665 238	233 930 784	-	-	-	-	(2 367 771)	1 101 228 251
	<b>1 951 850 410</b>	<b>243 339 602</b>	<b>(105 795 045)</b>	<b>58 330 666</b>	<b>(1 014 630)</b>	<b>(34 586 618)</b>	<b>(2 626 287)</b>	<b>2 109 498 098</b>

#### Other information

##### Property, plant and equipment fully depreciated and still in use (Original Cost Price)

Property, plant and equipment - Furniture and Equipment	2 835 355	318 638
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#### Details of properties

The municipality owns the following properties:

Groblersdal Municipal office - Back office/Erf No: 585

Groblersdal Ext 5 Erf No 488t

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## Notes to the Financial Statements

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

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.

### 3. Other financial assets

#### Designated at cost

Investment - Municipal Entity	1 000	1 000
The municipality is a sole shareholder of Sekhukhune Development Agency		
	1 000	1 000
	-	-
	-	-

#### Current assets

Designated at fair value	1 000	1 000
Non-current assets	-	-
Current assets	1 000	1 000

### 4. Inventories

Consumable stores	1 154 177	1 397 268
Maintenance materials	6 698 355	9 016 805
Water	1 449 173	216 076
	9 301 705	10 630 149

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 5. Receivables from exchange transactions

Trade debtors	46 938 070	49 120 682
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Summary of trade and other receivables

Trade and receivables at 30 June 2015	Gross Debtors	Provision for Doubtful Debts	Net Balances
Water	89 806 002	(47 789 073)	42 016 929
Sewerage	13 270 630	(8 349 489)	4 921 141
	<b>103 076 632</b>	<b>(56 138 562)</b>	<b>46 938 070</b>

Trade and receivables at 30 June 2014	Gross Debtors	Provision for Doubtful Debts	Net Balances
Water	63 636 999	(22 866 866)	40 770 133
Sewerage	13 034 084	(4 683 575)	8 350 509
	<b>76 671 083</b>	<b>(27 550 441)</b>	<b>49 120 642</b>

Figures in Rand	Sewerage		Water	
	2015	2014	2015	2014
Current (0-30 days)	1 177 560	1 792 853	3 862 737	8 753 342
31-90 days	2 552 980	609 478	9 052 410	2 975 687
91-120 days	484 939	1 082 627	2 735 387	5 285 766
121-180 Days	458 165	4 296 329	2 573 895	20 976 196
+181 Days	8 596 987	5 252 797	71 581 573	25 646 008
Subtotal	13 270 631	13 034 084	89 806 002	63 636 999
Less Provision for doubtful debts	(8 349 489)	(4 683 575)	(47 789 073)	(22 866 866)
	<b>4 921 142</b>	<b>8 350 509</b>	<b>42 016 929</b>	<b>40 770 133</b>

The above shows trade receivables ageing per service type

### Trade receivables ageing per customer classification

2015	Government departments	Business/Cc mmercial	Households	Total
Current (0-30 days)	245 360	1 732 795	3 260 469	5 238 624
31-90 days	395 686	3 810 624	6 809 168	11 015 478
91-120 Days	94 019	1 429 151	1 697 156	3 220 326
121-180 Days	87 662	1 525 504	1 418 895	3 032 061
+ 180 Days	4 338 944	13 649 260	62 581 939	80 570 143
Subtotal	5 161 671	22 147 334	75 767 627	103 076 632
Less Provision for doubtful debts	-	(12 698 543)	(43 440 019)	(56 138 562)
	<b>5 161 671</b>	<b>9 448 791</b>	<b>32 327 608</b>	<b>46 938 070</b>

2014	Government departments	Business/Cc mmercial	Households	Total
Current (0-30 days)	992 949	6 428 222	3 125 023	10 546 194
31-90 days	606 719	1 830 776	1 147 670	3 585 165
91-120 Days	1 379 173	790 403	4 198 817	6 368 393
121-180 Days	2 661 924	2 665 292	19 945 309	25 272 525
+ 180 Days	7 463 972	7 915 096	15 519 737	30 898 805

# Sekhukhune District Municipality

(Registration number DC47)

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>5. Receivables from exchange transactions (continued)</b>		
Subtotal	13 104 737	19 629 789
Less Provision for doubtful debts	- (11 685 201)	(15 865 232) (27 550 433)
	<b>13 104 737</b>	<b>7 944 588</b>
	<b>28 071 324</b>	<b>49 120 649</b>

### Fair value of trade and other receivables

#### Trade and other receivables impaired

As of 30 June 2015, trade and other receivables of R 28 588 120 (2014: R 4 142 004) were impaired and provided for.

The amount of the provision was R (56 138 562) as of 30 June 2015 (2014: R (27 550 441)).

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

Opening balance	27 550 441	28 793 623
Provision for impairment	15 988 427	4 142 004
Amounts written off as uncollectible	-	(5 385 186)
	<b>43 538 868</b>	<b>27 550 441</b>

### 6. Receivables from non-exchange transactions

Guarantees	27 665 230	60 973 089
Water Services - Local Municipalities	-	56 686 168
DWA - RBIG funds	39 839 738	28 808 565
Other debtors	3 018 461	3 075 382
	<b>70 523 429</b>	<b>149 543 204</b>

#### Guarantees

A bank guarantee amounting to R 150 990 959.40 for MIG grant was made for purchase of materials. The payment is released by the bank after the municipality having authorised the payment. The transfer is classified as a debtor. The amount represents the balance outstanding after part materials delivered and part guarantee amount released. The term of the guarantee is up to the completion of the project. The project is expected to be completed by December 2015. Interest and cost of guarantees are borne by the service provider.

### 7. VAT receivable

VAT	1 717 545	228 616 220
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South African Revenue Services has paid out a refund for long standing disputed VAT returns to the amount of R210million during the financial year.

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	-	68 883 603
Short-term deposits	202 335 812	5 544 411
Bank overdraft	(11 521 538)	-
	<b>190 814 274</b>	<b>74 428 014</b>

Current assets	202 335 812	74 428 014
Current liabilities	(11 521 538)	-
	<b>190 814 274</b>	<b>74 428 014</b>

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### 8. Cash and cash equivalents (continued)

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
Standard Primary Bank Account	18 745 951	68 921 451	202 941 133	(11 521 538)	68 877 931	169 041 822
ABSA Charity account	-	5 672	1 698	-	5 672	1 698
FNB call account	1 835 943	1 696 583	-	1 835 943	1 696 583	-
Nedbank call account	167 406 093	32 301	102 642 482	167 406 093	32 301	102 642 482
ABSA Call account	263 130	-	-	263 130	-	-
Standard bank call account	32 057 115	449 248	-	32 057 115	449 248	-
FNB Call account	-	3 249 372	-	-	3 249 372	-
Stanlib	-	116 905	-	-	116 905	-
<b>Total</b>	<b>220 308 232</b>	<b>74 471 532</b>	<b>305 585 313</b>	<b>190 040 743</b>	<b>74 428 012</b>	<b>271 686 002</b>

### 9. Accumulated surplus

### 10. Lease liability

#### Minimum lease payments due

- within one year	-	4 246 127
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#### Present value of minimum lease payments due

- within one year	-	4 216 361
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It is municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 15% (2014: 15%).

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

### 11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	160 287 608	137 300 258
Water Services Operating Grant	15 778 738	23 842 142
Rural Roads Assets Management System Grant	222 307	393 205
Rural Household Infrastructure Grant	1 178 656	4 000 000
<b>Total</b>	<b>177 467 309</b>	<b>165 535 605</b>

See note 19 for reconciliation of grants from National/Provincial Government.

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

### 12. Other financial liabilities

#### Designated at fair value

Ellias Motoaledi Municipality	-	45 014 138
Other provision as a result of an invoice amounting to R 45 014 138 from Elias Motoaledi local municipality. The municipality was appointed as a water service provider of the district for billing and collection of water and service to the consumer on behalf of the district. The local municipality has incurred water service expenses while rendering the service, however the amount is uncertain.		

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>12. Other financial liabilities (continued)</b>		
<b>Current liabilities</b> Designated at fair value	-	45 014 138

## 13. Provisions

### Reconciliation of provisions - 2015

	Opening Balance	Additions	Finance cost	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Leave Provision	20 772 337	3 173 007	1 742 649	-	(3 640 426)	22 047 567
Rehabilitation of landfill site provision	8 523 549	1 979 067	-	-	-	10 464 825
Long Service Awards Provision	6 696 576	1 080 311	566 934	103 129	(411 320)	7 955 930
	<b>35 992 462</b>	<b>6 232 385</b>	<b>2 309 583</b>	<b>103 129</b>	<b>(4 051 746)</b>	<b>40 468 322</b>
Non-current liabilities					25 993 671	22 614 872
Current liabilities					14 474 651	13 377 590
					<b>40 468 322</b>	<b>35 992 462</b>

### Environmental rehabilitation provision

The provision is the estimate for the closure and capping of Malogeng and JaneFurse Landfill sites at closure in terms of minimum requirements for Waste Disposal by landfill (Department of Water and Affairs and Forestry, 1998 - DWA-MRWL).

A discount rate of 9.5% and average inflation rate of 6.1% was used.

### Leave Provision

The provision is the value of unused leave liability at year end. The following assumptions were used in determining the leave liability:

The discount rate of 8.84% and general salary inflation at 7.51%

### Long service awards provision

The provision is the value of long service award liability that is expected to be payable under the municipality's current arrangements and as per condition of service approved by SALGBC. The following assumptions were used in determining the leave liability:

The discount rate of 8.84% and general salary inflation at 7.51%

## 14. Borrowings

Figures in Rand	2015	2014
Annuity loans	3 149 221	3 901 247
Subtotal	3 149 221	3 901 247
Less Short term portion	(813 392)	(752 027)
	<b>2 335 829</b>	<b>3 149 220</b>

Anglo Platinum Loan

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>14. Borrowings (continued)</b>		
An unsecured loan of R 16 280 716 bearing interest at a fixed rate of 8%, repayable semi-annually in equal instalments of capital, with interest on the reducing balance. The loan will be fully payable on 31st December 2018		
<b>15. Payables from exchange transactions</b>		
Trade payables	98 464 888	133 617 843
Payments received in advance	1 450 104	246 983
Retention	93 805 161	119 621 069
Staff bonus accrual	6 003 959	6 280 380
Other creditors	1 419 937	2 029 321
	<b>201 144 049</b>	<b>261 795 596</b>
<b>16. Consumer deposits</b>		
Water	1 576 624	102 230
<b>17. Revenue</b>		
Service charges	42 257 088	37 538 752
Interest received (trading)	4 677 111	7 513 733
Licences and permits	-	215 000
Other income	1 226 647	2 267 707
Bad debt recovered	53 958 838	-
Interest received - investment	10 877 820	10 787 018
Government grants & subsidies	775 010 404	1 025 420 499
Fines	1 878	-
	<b>888 009 786</b>	<b>1 083 742 709</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	42 257 088	37 538 752
Interest received (trading)	4 677 111	7 513 733
Licences and permits	-	215 000
Other income 1	1 226 647	2 267 707
Bad debt recovered	53 958 838	-
Interest received - investment	10 877 820	10 787 018
	<b>112 997 504</b>	<b>58 322 210</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
<b>Transfer revenue</b>		
Government grants & subsidies	775 010 404	1 025 420 499
Fines	1 878	-
	<b>775 012 282</b>	<b>1 025 420 499</b>

# **Sekhukhune District Municipality**

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Financial Statements for the year ended 30 June 2015

## **Notes to the Financial Statements**

Figures in Rand	2015	2014
<b>18. Service charges</b>		
Disconnections	148 704	7 892
Sale of water	32 836 584	29 792 685
Sewerage fees	9 271 800	7 738 175
	<b>42 257 088</b>	<b>37 538 752</b>

The municipality has since 01 July 2014 taken over the water service provision from local municipalities.

# Sekhukhune District Municipality

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Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 19. Government grants and subsidies

#### Operating grants

Equitable share	467 170 618	406 157 000
EPWP	3 466 000	1 000 000
MSIG	934 000	890 000
FMG Grant	1 250 000	1 250 000
Department of Health	5 966 667	-
	478 787 285	409 297 000

#### Capital grants

ACIP	-	1 683 828
RBIG	82 278 350	182 916 599
RTSIG	2 233 898	1 387 795
WSOG	8 964 720	12 894 856
MIG	199 424 807	388 040 421
MWIG	-	29 200 000
RHIG	3 321 344	-
	296 223 119	616 123 499
	<b>775 010 404</b>	<b>1 025 420 499</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	478 787 285	406 157 000
Unconditional grants received	296 223 119	619 263 499
	<b>775 010 404</b>	<b>1 025 420 499</b>

#### Equitable Share

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

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	137 300 258	309 266 047
Current-year receipts	281 120 000	216 074 632
Conditions met - transferred to revenue	(199 424 717)	(388 040 421)
Surrendered to Treasury	(58 707 933)	-
	<b>160 287 608</b>	<b>137 300 258</b>

Conditions still to be met - remain liabilities (see note 11).

Fifteen capital projects could not be implemented during the year due to alleged non compliant to SCM processes.

#### EPWP

Current-year receipts	3 466 000	1 000 000
Conditions met - transferred to revenue	(3 466 000)	(1 000 000)
	-	-

#### RBIG Grant

Current-year receipts	82 228 450	182 916 599
Conditions met - transferred to revenue	(82 228 450)	(182 916 599)
	-	-

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>19. Government grants and subsidies (continued)</b>		
<b>MSIG</b>		
Current-year receipts	934 000	890 000
Conditions met - transferred to revenue	(934 000)	(890 000)
	-	-
<b>WSOG Grant</b>		
Balance unspent at beginning of year	23 842 142	37 619 441
Current-year receipts	20 000 000	13 000 000
Conditions met - transferred to revenue	(8 964 719)	(12 887 004)
Surrendered to revenue	(19 098 685)	(13 890 295)
	<b>15 778 738</b>	<b>23 842 142</b>
Conditions still to be met - remain liabilities (see note 11).		
<b>Financial Management Grant</b>		
Current-year receipts	1 250 000	1 250 000
Conditions met - transferred to revenue	(1 250 000)	(1 250 000)
	-	-
<b>Department of Health</b>		
Current-year receipts	5 966 667	-
Conditions met - transferred to revenue	(5 966 667)	-
	-	-
<b>RTSIG Grant</b>		
Balance unspent at beginning of year	393 205	1 571 279
Current-year receipts	2 063 000	1 781 000
Conditions met - transferred to revenue	(2 233 898)	(1 387 795)
Surrendered to National Treasury	-	(1 571 279)
	<b>222 307</b>	<b>393 205</b>
<b>RHIG</b>		
Balance unspent at beginning of year	4 000 000	4 000 000
Current-year receipts	4 500 000	-
Conditions met - transferred to revenue	(3 321 344)	-
Surrendered to National Treasury	(4 000 000)	-
	<b>1 178 656</b>	<b>4 000 000</b>

Conditions still to be met - remain liabilities (see note 11).

# Sekhukhune District Municipality

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Figures in Rand	2015	2014
<b>20. General expenses</b>		
Advertising and promotions	2 066 140	1 979 879
Auditors remuneration	5 152 662	4 197 987
Bank charges	286 510	119 047
Cleaning	1 955 055	1 796 701
Computer expenses	1 279 686	2 646 060
Consulting and professional fees	33 352 259	11 538 279
Consumables	(227 521)	1 353 551
Laboratories and chemicals	12 381 270	8 872 640
Donations	(549 205)	2 390 000
Entertainment	84 546	109 939
Conferences and workshops	132 452	-
Insurance	1 088 308	1 283 090
Lease rentals on operating lease	6 911 048	7 087 324
Audit committee costs	509 917	367 923
Fuel and lubricants	12 303 094	11 325 756
Recruitment and retention fees	456 217	347 580
Protective clothing	-	526 180
Security (Guarding of municipal property)	21 696 794	19 605 200
Motor vehicle expenses	13 442 063	11 887 247
Subscriptions and membership fees	2 729 260	3 018 835
Telephone and fax	3 013 617	2 089 330
Travel and Subsistence	325 718	486 850
Water, electricity and rates	832 255	820 937
Accommodation	2 285 478	2 425 608
Other expenses	49 820 342	36 112 584
Training	715 634	506 449
	<b>172 043 599</b>	<b>132 894 976</b>

# Sekhukhune District Municipality

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## Notes to the Financial Statements

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### 21. Employee related costs

Basic	164 827 077	142 056 712
Medical aid - company contributions	9 081 226	7 241 917
UIF	1 231 533	1 197 043
SDL	2 018 933	1 758 273
Council levies	58 152	52 994
Leave and bonus pay	15 187 368	14 194 985
Pension fund contributions	23 902 708	21 279 566
Overtime payments	17 545 355	16 359 429
Transport allowance (bus coupons)	25 743 948	23 471 760
Housing benefits and allowances	3 459 500	2 011 616
Cellphone allowance	1 463 438	1 826 917
Daily and overnight allowance	405 664	431 680
Group insurance	967 534	823 058
Interns allowance	526 009	748 722
Uniform allowance	30 000	30 000
	<b>266 448 445</b>	<b>233 484 672</b>

### Remuneration of municipal manager

Annual Remuneration	1 104 529	1 077 383
Car Allowance	227 010	387 275
Structured Bonuses	91 878	-
Contributions to UIF, Medical and Pension Funds	197 868	83 836
Other allowances	26 920	-
	<b>1 648 205</b>	<b>1 548 494</b>

### Remuneration of chief finance officer

Annual Remuneration	464 656	798 928
Car Allowance	112 903	134 205
Annual Bonuses	84 050	66 456
Contributions to UIF, Medical and Pension Funds	72 439	240 598
Other	10 313	-
	<b>744 361</b>	<b>1 240 187</b>

### Director - Corporate Services

Annual Remuneration	741 764	764 262
Car Allowance	150 598	-
Performance and otherbonuses	-	43 215
Contributions to UIF, Medical and Pension Funds	76 038	88 396
Other	21 337	-
	<b>989 737</b>	<b>895 873</b>

### Director - Community Services

Annual Remuneration	802 983	612 720
Car Allowance	159 240	76 274
Contributions to UIF, Medical and Pension Funds	116 519	13 888
Other	20 616	-
	<b>1 099 358</b>	<b>702 882</b>

### Director - Infrastructure and water services

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>21. Employee related costs (continued)</b>		
Annual Remuneration	853 292	306 159
Car Allowance	100 000	47 458
Contributions to UIF, Medical and Pension Funds	153 593	3 836
	<b>1 106 885</b>	<b>357 453</b>
<b>Planning Director</b>		
Annual Remuneration	882 325	818 718
Car Allowance	151 445	165 096
Contributions to UIF, Medical and Pension Funds	52 208	48 792
Other	21 520	-
	<b>1 107 498</b>	<b>1 032 606</b>
<b>Chief Audit Executive</b>		
Annual Remuneration	166 860	682 421
Car Allowance	37 667	211 949
Structured Bonus	-	58 765
Contributions to UIF, Medical and Pension Funds	31 585	126 343
Other	1 800	-
	<b>237 912</b>	<b>1 079 478</b>
<b>Chief Operating Officer</b>		
Annual Remuneration	835 649	-
Car Allowance	202 699	-
Contributions to UIF, Medical and Pension Funds	73 344	-
Other	38 528	-
	<b>1 150 220</b>	<b>-</b>
<b>22. Remuneration of councillors</b>		
Councillors	10 600 599	10 604 876
<b>23. Debt impairment</b>		
Debt impairment	72 229 714	4 142 004
<b>24. Depreciation and amortisation</b>		
Property, plant and equipment	63 135 854	54 829 933

# Sekhukhune District Municipality

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### 25. Impairment of assets

#### Impairments

Property, plant and equipment

22 701 262

88 172

The water and sanitation assets were assessed as being in poor conditions. The recoverable service amount of the asset was based on its fair value less costs to sell or its value in use.

22 701 262

88 172

Future cash flows are based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Cash flows projections are based on the most recent financial budget approved by council. The future cash flows is estimated over a period of 5 years unless a longer period can be justified. The recoverable amounts are based on the present value of assets remaining useful service potential. The amounts were determined by using depreciated replacement costs due to the nature of the assets. Discount rate of 9.25% was used in calculating present value

### 26. Finance costs

Finance leases and borrowings

864 288

1 370 729

### 27. Auditors' remuneration

Fees

5 152 662

4 197 987

### 28. VIP Sanitation

VIP Sanitation

82 131 782

215 113 355

### 29. Bulk purchases

Electricity

33 580 077

22 900 281

Water

76 848 656

67 648 306

**110 428 733**

**90 548 587**

### 30. Cash generated from operations

Surplus

24 756 615

284 193 389

#### Adjustments for:

Depreciation and amortisation

63 135 854

54 829 933

(Loss) gain on sale of assets and liabilities

(5 951)

215 204

Finance costs - Finance leases

864 288

1 370 729

Impairment deficit

22 701 262

88 172

Debt impairment

72 229 714

4 142 004

Movements in provisions

4 593 351

(5 653 819)

Transfer of assets

7 890 990

-

#### Changes in working capital:

Inventories

1 328 444

(9 418 918)

Receivables from exchange transactions

(26 176 515)

41 359 723

Other receivables from non-exchange transactions

35 149 187

(42 012 394)

Payables from exchange transactions

(60 651 547)

144 933 837

VAT

226 898 675

(176 201 221)

Unspent conditional grants and receipts

11 931 704

(188 079 318)

Consumer deposits

1 474 394

102 230

**386 120 465**

**109 869 551**

# Sekhukhune District Municipality

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## Notes to the Financial Statements

Figures in Rand	2015	2014
<b>31. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	247 165 053	254 121 500
<b>Not yet contracted for and authorised by accounting officer</b>		
• Property, plant and equipment	222 934 961	-
This committed expenditure relates to plant and equipment and will be financed by conditional grants and retained surpluses,		
<b>32. Contingencies</b>		
Litigation is in the process against the municipality relating to a dispute with awarding of contracts, payments to contractors and employees dismissed to the value of <b>R 40 021 551</b> . 2014 (R27 995 000) The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the cases should be resolved within the next year.		
<b>33. Related parties</b>		
<b>Relationships</b>		
Accounting Officer	Refer to accounting officer's report note	
Ultimate controlling entity	Councillors	
Shareholder with significant influence	Sekhukhune District Municipality	
<b>Related party balances</b>		
<b>Amounts included in Trade receivable (Trade Payable) regarding related parties</b>		
Sekhukhune Development Agency - Loan amount	581 505	581 505
<b>Other 1</b>		
Shares in Sekhukhune Development Agency	1 000	1 000
<b>34. Prior period errors</b>		
The accruals and expenditure was understated by R5,285,592 in the previous year.		
Finance costs relating to Anglo Platinum loan was overstated in the prior year - R354 464		
The municipality has identified duplicated assets in the fixed asset register with a carrying value of R586 558 and both the carrying amount and depreciation of the duplicated assets was reversed.		
The input VAT claimed in previous year was understated and refunds received as per review performed - R70 251 225		
Work in progress for stagnant projects and projects capitalised in previous years written off - R155,044,864		
The water supply infrastructure (Boreholes) to the amount of R10 157 998 and the sewer assets to the amount of R 3 698 214 was adjusted due to some components removed and assigned to the parent component		
The correction of the error(s) results in adjustments as follows:		
<b>Statement of financial position</b>		
Trade payables	-	5 432 341
VAT Receivable	-	70 251 225
Borrowings	-	(354 464)
Property plant and equipment	-	(149 241 812)

# Sekhukhune District Municipality

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### 34. Prior period errors (continued)

#### Statement of Financial Performance

General expenses	-	146 415
Repairs and maintenance	-	995 466
Finance costs	-	(354 464)
Bulk purchases	-	4 290 460
Grants and subsidies paid	-	169 618
Depreciation	-	(60 172)
Assets written off	-	646 731

### 35. Going concern

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

### 36. Events after the reporting date

No events identified.

### 37. Unauthorised expenditure

Incurred during the year	32 423 782	31 373 544
Approved and condoned	(32 423 782)	(31 373 544)
	-	-

The unauthorised is due to overspending in votes (Infrastructure and water services as well in Corporate and Community Services).

### 38. Fruitless and wasteful expenditure

Opening balance	227 708	1 112 625
Expenditure incurred during the year	498 508	227 708
Condoned or written off expenditure	-	(1 112 625)
<b>Fruitless and wasteful expenditure awaiting authorisation</b>	<b>726 216</b>	<b>227 708</b>

Fruitless and wasteful expenditure is a result of interest and penalties on late payments.

### 39. Irregular expenditure

Opening balance	498 396 443	394 865 174
Add: Irregular Expenditure - current year	114 924 783	103 531 269
	<b>613 321 226</b>	<b>498 396 443</b>

#### Analysis of expenditure awaiting condonation per age classification

Current year	114 666 625	103 531 269
Prior years	498 363 443	394 865 174
	<b>613 030 068</b>	<b>498 396 443</b>

# Sekhukhune District Municipality

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## Notes to the Financial Statements

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### 39. Irregular expenditure (continued)

#### Details of irregular expenditure – current year

	<b>Disciplinary steps taken/criminal proceedings</b>	
SCM Non compliance for contracts appointed in the prior years	None. A letter has been sent to National Treasury for condonement of expenditure relating to prior year contracts	114 666 625
Awards to employees of the state	None	258 158
		<b>114 924 783</b>

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

#### Contributions to organised local government

Current year subscription / fee	2 549 810	2 850 509
Amount paid - current year	(2 549 810)	(2 850 509)
	-	-

#### Material distribution losses

Kilolitres of unaccounted water	5 249 771	17 478 335
Value of unaccounted water	33 737 593	78 477 100
	<b>33 737 593</b>	<b>78 477 100</b>

The material losses disclosed include the free water provided through tankering and non metered supply.

#### Audit fees

Current year subscription / fee	4 779 553	3 045 493
Amount paid - current year	(4 779 553)	(3 045 493)
	-	-

#### PAYE and UIF

Current year subscription / fee	38 093 852	32 215 218
Amount paid - current year	(38 093 852)	(32 215 218)
	-	-

#### Pension and Medical Aid Deductions

Opening balance	69 992	-
Current year subscription / fee	49 921 067	43 228 013
Amount paid - current year	(50 128 478)	(43 158 021)
	<b>(137 419)</b>	<b>69 992</b>

#### VAT

VAT receivable	1 717 545	228 616 220
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VAT output payables and VAT input receivables are shown in note .

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

# **Sekhukhune District Municipality**

(Registration number DC47)

Financial Statements for the year ended 30 June 2015

## **Notes to the Financial Statements**

Figures in Rand

2015

2014

### **40. Additional disclosure in terms of Municipal Finance Management Act (continued)**

#### **Councillors' arrear consumer accounts**

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2015:

### **41. 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 financial statements.

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to council who considered them and subsequently approved the deviation from the normal supply chain management regulations. The total amount approved during the year is R3,371,081.75,(2014-R 5,712,209)