



Thembelihle Local Municipality  
Financial statements  
for the year ended 30 June 2015  
Auditor General of South Africa  
Chartered Accountants (S.A.)  
Registered Auditors

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## General Information

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|--|---|
| <b>Nature of business and principal activities</b> | Provision of Municipal services in terms of the Municipal Finance Management Act No.56 Of 2003 and Municipal Systems Act No.32 of 2000. |
| <b>Grading of local authority</b>                  | Grade 1   |
| <b>Registered office</b>                           | Church street<br>Hopetown<br>8750   |
| <b>Business address</b>                            | Church street<br>Hopetown<br>8750   |
| <b>Postal address</b>                              | Private Bag X3<br>Hopetown<br>8750  |
| <b>Bankers</b>                                     | Standard Bank Limited   |
| <b>Auditors</b>                                    | Auditor General of South Africa<br>Chartered Accountants (S.A.)<br>Registered Auditors  |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

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### Abbreviations

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the 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 the 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 he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

The municipality's operations depend on a number sources of revenue ranging from National Government to its own sources and donations for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

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

The financial statements set out on pages 5 to 89, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2015 and were signed on its behalf by:



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**Mr.M Mogale**  
**Municipal Manager**

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Audit Committee Report

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### Accounting Officer's Report

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

#### 1. Review of activities

##### Main business and operations

The municipality is engaged in provision of municipal services in terms of the municipal finance management act no.56 Of 2003 and municipal systems act no.32 of 2000. and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 3 039 896 (2014: surplus R 1 120 031).

##### Proportion of income and loss attributable to various classes of business:

#### 2015

| Classes of business  | Proportion of contribution to income | Amount     |
|----------------------|--------------------------------------|------------|
| Property Rates       | 4 %                                  | 2 598 662  |
| Service Charges      | 23 %                                 | 16 230 103 |
| Grants and Subsidies | 62 %                                 | 45 592 233 |
| Other                | 11 %                                 | 8 471 806  |

#### 2014

| Classes of business  | Proportion of contribution to income | Amount     |
|----------------------|--------------------------------------|------------|
| Property Rates       | 4 %                                  | 2 288 849  |
| Service Charges      | 27 %                                 | 15 174 507 |
| Grants and Subsidies | 57 %                                 | 33 842 715 |
| Other                | 12 %                                 | 7 172 368  |

#### 2. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated deficits of R 176 819 769 and that the municipality's total liabilities exceed its assets by R 176 819 769.

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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

#### 3. Subsequent events

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

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

The municipality has a policy relating to the declaration of interest in contracts and other relating transactions. This was adhered to in that relevant officials with interest in SCM related transactions declared (both potential and existing) declared their interests.

#### 5. Accounting policies

The financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## 6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

| Name        | Nationality   |
|-------------|---------------|
| Mr.M Mogale | South African |

## 7. Corporate governance

### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

### Council

The Council:

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

### Remuneration

The upper limits of the remuneration of the councillors, are determined in terms of the Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required of him by the Remunerations of Public Office Bearers Act No.20 of 1998.

### Committee meetings

The accounting officer meets on a regular basis with the Mayor and Chairpersons of Portfolio Committees.

Portfolio Committee Chairpersons have access to all members of management (Section 57 Managers) of the municipality.

### Audit and risk committee

In terms of Section 166 of the Municipal Finance Management Act, Pixley Ka Seme District Municipality must appoint members of the shared Audit Committee. Thus more information with regards to the composition of the shared audit committee, its operations and sub-committees will be covered in the district municipality's annual financial statements.

### Internal audit

The municipality has a shared internal audit function based at the district municipality (as highlighted above). This is in compliance with the Municipal Finance Management Act, 2003.

## 8. Bankers

The municipality's main banker is Standard Bank.

## 9. Auditors

Auditor General of South Africa will continue in office for the next financial period.

## 10. Non compliance with applicable legislation

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Officer's Report

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### **The following non-compliances to the Municipal Finance Management Act occurred:**

- 1) Paragraph 165 & 166 - No internal audit unit or audit committee exists within the Municipality. The Municipality's internal audit functions are performed by Pixley Ka Seme.
- 2) Section 32 - Investigations have not been performed with regards to unauthorised, fruitless and wasteful or irregular expenditure during the 2014/2015 year relating to the amounts disclosed in the 2013/2014 financial year and neither have the report as required been submitted.
- 3) Paragraph 62 - Irregular, fruitless and wasteful and unauthorised expenditure occurred for the 2014-2015 financial year.
- 4) Section 63 - The municipality does not have an approved Road Maintenance Plan in place.
- 5) Section 65 - Suppliers were not paid within the 30 day requirement per the MFMA. This was due to cash constraints experienced by the Municipality.
- 6) Section 62 - A lack of proper record keeping and document control was experienced at the Municipality. Systems are being implemented to improve this situation at the Municipality.
- 7) Chapter 8 - The adjustments budget was not made public within 10 days as confirmed upon inspection of the website printout as it was dated the 3 August 2015 and it was approved on the 28 February 2015.  
The monthly budget statements did not include and explain:
  - (i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote;
  - (ii) any material variances from the service delivery and budget implementation plan; and
  - (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget
- 8) Section 62 - The municipality did not have code of ethical conduct signed by the municipality staff. There is no approved delegation of power by council for the 2014/2015 financial year. No reports are submitted within 10 days after the end of each quarter, on the implementation of the SCM policy to the mayor of the municipality. The municipality does not have a gift declaration register and policy in place. There are no properly implemented controls for vendor acceptance to prevent and detect fictitious providers.
- 9) The municipality does not have a disciplinary board to investigate allegations of financial misconduct; and monitor the institution of disciplinary proceedings against an alleged transgressor.
- 10) Section 83 - No assessment evaluation for competencies were performed for the following key positions: CFO, Municipal Manager and Acting corporate services manager.
- 11) Section 62 - The Municipality does not have a written policy or procedure to identify Subsequent events (events after reporting date).
- 12) Paragraph 127 - The Annual report was not tabled for the 2013/14 financial period. The annual performance report was not prepared and submitted for the audit.
- 13) Paragraph 14 - Background, qualifications and reference checks were not performed on all officials working at the Municipality.
- 14) Section 62 - No controls were in place to ensure discrepancies in the overtime paid out are detected and corrected.

### **The following non-compliances to the Municipal structures act occurred:**

- 1) Section 79 - IT, Finance & Budget and HR committees were not established.

### **The following non-compliances to the Basic Conditions of Employment Act occurred:**

- 1) There is no control in place to ensure that overtime is in accordance with Section 62 of MFMA and Basic Conditions of Employment Act section 10 (1) (b) chapter 2.
- 2) All employees did not take the minimum of 16 day leave during the financial period.
- 3) There insufficient controls over leave management within the municipality. This has however been addressed and proper controls have been implemented over the approval of leave.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Officer's Report

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4) Acting allowances were paid for periods exceeding 6 months.

### **The following non-compliances to the Municipal Systems Act occurred:**

1) Paragraph 5A - Declarations of interest for all section 56 members and Municipal Manager was only submitted on the 7th of July 2015, which was not within 60 days of appointment.

2) Section 25 - Planned objectives included in the integrated development plan were not consistent with the service delivery and budget implementation plan. Planned objectives specified in the service delivery and budget implementation plan for the year under review were not aligned with the integrated development plan submitted for audit purposes. Per the SDBIP it can be concluded that there is 5 overall objectives. Per the IDP it was confirmed that there is 10 overall objectives. 3) Section 25 - Budgets were not allocated to each individual objective in the SDBIP 4) Section 25 - There was no correlation between the IDP and Annual Budget. 5) The indicators in IDP for the 2014/2015 financial period were inspected and it was confirmed that there is a total budget and there is a projection for the next three years. The budget also states the financial resources available for capital expenditure. It was not evident from the information provided the projection includes a financial strategy that defines sound financial management and expenditure control as well as means of increasing revenues and external funding for the municipality and its development priorities and objectives. Consequently the approved budget cannot be tied up to the 10 strategic objectives. The objectives as per the SDBIP can also not be linked to a budget per objective.

### **The following non-compliances to the Municipal Property Rates Act occurred:**

1) The valuation roll was inspected and the following was noted: The valuation roll was not updated annually and the valuation roll is not compiled in accordance with the Municipality Property Rates Act, in that the valuation roll does not include two sections where part A consists of the current valuation roll of the municipality, including any supplementary valuation rolls of the Municipality prepared in terms of Section 78 and Part B specify which properties on the valuation roll or any supplementary valuation rolls are subject to exceptions, rebates, phasing in of rates are specified. A new valuation roll has been compiled that will be implemented in July 2015.

### **The following non-compliances to the budget and reporting regulations occurred:**

1) The adjustments budget was not made public within 10 days as confirmed upon inspection of the website printout as it was dated the 3 August 2015 and it was approved on the 28 February 2015.

2) The monthly budget statements did not include an explanation for:

- i) any material variances from the municipality's projected revenue by source, and from the municipality's expenditure projections per vote
- ii) any material variances from the service delivery and budget implementation plan; and
- iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

### **The following non-compliances to the Division of Revenue Act occurred:**

1) The Municipality did not submit a quarterly non-financial performance report within 30 days after the end of each quarter to the transferring national officer and the relevant provincial treasury.

2) No section 12(5) reports have been completed for MIG, MSIG and FMG.

### **The following non-compliances to the VAT act occurred:**

1) The VAT 201 for May 2015 was not submitted and paid within 25 days of the following month of the VAT month period.

### **The following non-compliances to Regulations on the Predetermined Objectives occurred:**

1) The plan provided was a financial recovery plan which is similar to a financial strategy but it is not included in the integrated development plan. Thus it can be concluded that the integrated development plan did not include a financial strategy.

2) No information has been obtained with regards to ward committees.

3) The IDP had no organogram for the implementation of the IDP which addresses the municipality's internal transformation.

4) There is no evidence of a development framework which includes the provision of basic guidelines for the land use management system.

5) There was no evidence of an approved disaster management plan being included in the IDP.

6) There was no evidence to support that the municipality drafted its IDP taking into account the integrated development processes of and proposals submitted to it by the district municipality.

7) The municipal manager did not submit a copy of the IDP as adopted by council of the municipality, and any subsequent

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Officer's Report

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amendment to the plan, to the MEC for local government in the province within 10 working days of the adoption or amendment of the plan. The IDP was adopted on the 13/06/2014 and the submission to the MEC was dated the 18/08/2014.

8) The municipality prepared a SDBIP which indicated the projections of revenue to be collected and operational and capital expenditure for each quarter, and not each month.

9) The SDBIP does not contain clear, measurable service delivery targets.

10) There is no evidence of the SDBIP being revised and the revision approved after the approval of the adjustments budget.

11) There was no evidence to support that the annual budget was accompanied by measurable performance objectives for revenue from each source and for each vote in the budget.

12) There was no evidence supporting the annual review of the IDP and any proposed amendments.

13) There was no evidence supporting that particulars of service delivery agreements accompanied the annual budget when it was tabled.

14) There was no evidence of any resolutions, that approve measurable performance objectives for revenue, being adopted - when the SDBIP was tabled.

15) The SDBIP was sent to Provincial Treasury, however the date was the 9 September 2014 and the SDBIP was approved on the 13 June 2015. Thus the SDBIP was not sent to Treasury within 10 working days.

16) The municipal manager did not make public the approved adjustment budget and supporting documentation, as well as resolutions within 10 working days after the council approved the adjustment as the adjustments budget was approved on the 28 February 2015 but was only loaded on the system on the 3 August 2015.

17) No evidence was found to show that roles and responsibilities for ensuring data integrity and quality assurance were clear, documented and communicated to all relevant staff.

18) No information was provided with regards to the risk assessment process.

19) The municipality does not have any data assurance procedures in place such as data collection, processing and monitoring procedures.

20) There was no evidence to support that the annual budget was accompanied by measurable performance objectives for revenue from each source and for each vote in the budget.

21) There was no evidence of any resolutions, that approve measurable performance objectives for revenue, being adopted - when the SDBIP was tabled.

22) The municipal manager did not submit to the National Treasury and relevant provincial treasury, the mid-year performance assessment by 25 January of each year as it was sent on the 27 February 2015.

23) There is no evidence that that the mid-year assessment report included material variances to the SDBIP.

24) There was no evidence to support the fact that roles and responsibilities for collecting, coordinating and compiling performance information were clear, documented and communicated to all relevant staff.

25) The municipality does not have specific and appropriate information systems to enable the entity to monitor the progress made towards achieving the goals, targets and core objectives as indicated in the strategic plan.

26) The municipality does not have any valid mechanisms, systems and processes for the monitoring, measurement and review of performance.

27) There was no evidence that the annual performance agreements for the municipal manager and all senior managers are linked to measurable performance objectives approved with the budget and to the SDBIP.

28) No performance appraisals completed for any official working at the municipality.

29) The Annual Performance report for the 2014/2015 year has not been prepared and submitted for audit.

# **Thembelihle Local Municipality**

Financial Statements for the year ended 30 June 2015

## **Accounting Officer's Report**

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**With regards to the provision of water and sanitation the following occurred:**

- 1) Water projects in progress in 2014-15 does not address the cause of the water backlog. We are of the view that a channel should be constructed between Hopetown and Strydenburg, but the Department of Water and Sanitation does not support this view and will thus not make funds available for this project.
- 2) Thembelihle Bulk Water Supply : Strydenburg Ground Water Development water infrastructure project have exceeded their planned completion date as the planned due date was 30 June 2015 and was extended to 15 December 2015.
- 3) The municipality does not have an approved policy in place that addresses routine maintenance of water infrastructure.
- 4) Maintenance of water infrastructure was not budgeted for by the municipality.
- 5) The municipality has not reported on backlogs in the provisioning of functional water services to households.
- 6) The municipality does not have sufficient water infrastructure to meet the needs of the municipality as there has been backlogs in the provisioning of functional water services due to lack of funding, high percentage of indigents.
- 7) Appropriate steps to prevent overspending of the budget allocation for routine water infrastructure maintenance was not taken.

# Thembelihle Local Municipality

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               |
|--|---------|--------------------|--------------------|
| <b>Assets</b>                                      |         |                    |                    |
| Current Assets                                     |         |                    |                    |
| Inventories  | 10      | 1 641              | 144 939            |
| Receivables from exchange transactions             | 11&13   | 2 425 254          | 2 287 534          |
| Receivables from non-exchange transactions         | 12&13   | 3 543 284          | 1 597 879          |
| Prepayments  | 7       | 17 460             | 104 548            |
| Other Receivables                                  | 9       | 671 117            | 167 701            |
| Cash and cash equivalents                          | 14      | 722 539            | 8 862 798          |
|  |         | <b>7 381 295</b>   | <b>13 165 399</b>  |
| Non-Current Assets                                 |         |                    |                    |
| Investment property                                | 3       | 7 729 100          | 7 077 190          |
| Property, plant and equipment                      | 4       | 221 339 162        | 209 778 838        |
| Intangible assets                                  | 5       | 199 893            | 274 711            |
| Non-Current Receivables from Exchange Transactions | 8       | 455 117            | 438 559            |
|  |         | <b>229 723 272</b> | <b>217 569 298</b> |
| <b>Total Assets</b>                                |         | <b>237 104 567</b> | <b>230 734 697</b> |
| <b>Liabilities</b>                                 |         |                    |                    |
| Current Liabilities                                |         |                    |                    |
| Other financial liabilities                        | 17      | 412 671            | 60 552             |
| Finance lease obligation                           | 15      | 674 495            | 637 720            |
| Payables from exchange transactions                | 21      | 33 262 613         | 23 341 516         |
| VAT payable  | 22      | 111 760            | 2 490 894          |
| Consumer deposits                                  | 23      | 474 099            | 476 128            |
| Employee benefit obligation                        | 6       | 165 624            | 165 000            |
| Unspent conditional grants and receipts            | 16      | 6 785 456          | 11 620 201         |
| Provisions   | 18      | 7 532 099          | 5 630 026          |
| Third Party Collections                            | 19      | 1 261 378          | 1 139 914          |
| Long Service Awards                                | 20      | 108 722            | 865 000            |
|  |         | <b>50 788 917</b>  | <b>46 426 951</b>  |
| Non-Current Liabilities                            |         |                    |                    |
| Other financial liabilities                        | 17      | 4 729 714          | 5 537 753          |
| Finance lease obligation                           | 15      | 19 364             | 644 659            |
| Employee benefit obligation                        | 6       | 3 857 853          | 3 604 000          |
| Provisions   | 18      | -                  | 743 000            |
| Long Service Awards                                | 20      | 888 950            | -                  |
|  |         | <b>9 495 881</b>   | <b>10 529 412</b>  |
| <b>Total Liabilities</b>                           |         | <b>60 284 798</b>  | <b>56 956 363</b>  |
| <b>Net Assets</b>                                  |         | <b>176 819 769</b> | <b>173 778 334</b> |
| Accumulated surplus                                |         | 176 819 769        | 173 778 334        |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2015                | 2014                |
|---|---------|---------------------|---------------------|
| <b>Revenue</b>                                      |         |                     |                     |
| <b>Revenue from exchange transactions</b>           |         |                     |                     |
| Service charges                                     | 25      | 16 230 103          | 15 174 507          |
| Rental of facilities and equipment                  | 26      | 433 232             | 304 422             |
| Interest received (trading)                         |         | 807 643             | 785 471             |
| Licences and permits                                |         | 20 358              | 21 773              |
| Administration and management fees received         |         | 1                   | 79                  |
| Commissions received                                |         | 391 317             | 263 969             |
| Discount received                                   |         | 458 676             | -                   |
| Other income  | 28      | 602 695             | 381 383             |
| Connection fees                                     |         | 74 796              | 28 283              |
| Interest received                                   | 29      | 390 984             | 662 951             |
| <b>Total revenue from exchange transactions</b>     |         | <b>19 409 805</b>   | <b>17 622 838</b>   |
| <b>Revenue from non-exchange transactions</b>       |         |                     |                     |
| <b>Taxation revenue</b>                             |         |                     |                     |
| Property rates                                      | 30      | 2 486 124           | 2 093 143           |
| Licences or Permits (Non-exchange)                  |         | 192 720             | 231 442             |
| Informal Settlement rates                           |         | 112 539             | 195 706             |
| <b>Transfer revenue</b>                             |         |                     |                     |
| Government grants & subsidies                       | 31      | 45 592 233          | 33 842 715          |
| Fines, Penalties and Forfeits                       |         | 3 879 093           | 923 798             |
| <b>Total revenue from non-exchange transactions</b> |         | <b>52 262 709</b>   | <b>37 286 804</b>   |
| <b>Total revenue</b>                                | 24      | <b>71 672 514</b>   | <b>54 909 642</b>   |
| <b>Expenditure</b>                                  |         |                     |                     |
| Employee related costs                              | 32      | (22 187 621)        | (18 712 277)        |
| Remuneration of councillors                         | 33      | (2 498 053)         | (1 948 796)         |
| Administration                                      | 34      | (14 587)            | (34 836)            |
| Depreciation and amortisation                       | 35      | (8 936 295)         | (8 220 930)         |
| Finance costs                                       | 36      | (3 476 067)         | (1 086 378)         |
| Lease rentals on operating lease                    | 43      | (17 520)            | (48 501)            |
| Debt Impairment                                     | 37      | (6 689 570)         | (4 483 320)         |
| Repairs and maintenance                             |         | (1 191 139)         | (1 089 495)         |
| Bulk purchases                                      | 38      | (10 372 009)        | (9 571 786)         |
| Contracted services                                 | 39      | (91 531)            | (63 811)            |
| General Expenses                                    | 40      | (13 532 037)        | (12 098 278)        |
| <b>Total expenditure</b>                            |         | <b>(69 006 429)</b> | <b>(57 358 408)</b> |
| <b>Operating surplus (deficit)</b>                  |         | <b>2 666 085</b>    | <b>(2 448 766)</b>  |
| (Loss) gain on disposal of assets and liabilities   |         | (192 531)           | 182 907             |
| Fair value adjustments                              | 41      | 651 910             | 576 890             |
| Actuarial gains/losses                              | 6&20    | (85 568)            | 2 809 000           |
|   |         | <b>373 811</b>      | <b>3 568 797</b>    |
| <b>Surplus for the year</b>                         |         | <b>3 039 896</b>    | <b>1 120 031</b>    |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Changes in Net Assets

| Figures in Rand                                       | Accumulated surplus | Total net assets   |
|---|---------------------|--------------------|
| <b>Balance at 01 July 2013</b>                        | <b>125 180 017</b>  | <b>125 180 017</b> |
| Changes in net assets                                 |                     |                    |
| Surplus for the year                                  | 1 120 031           | 1 120 031          |
| Total changes   | 1 120 031           | 1 120 031          |
| Opening balance as previously reported                | 126 300 048         | 126 300 048        |
| Adjustments   |                     |                    |
| Prior year adjustments                                | 47 478 286          | 47 478 286         |
| <b>Balance at 01 July 2014 as restated*</b>           | <b>173 778 334</b>  | <b>173 778 334</b> |
| Changes in net assets                                 |                     |                    |
| Reclassification                                      | 1 539               | 1 539              |
| Net income (losses) recognised directly in net assets | 1 539               | 1 539              |
| Surplus for the year                                  | 3 039 896           | 3 039 896          |
| Total recognised income and expenses for the year     | 3 041 435           | 3 041 435          |
| Total changes   | 3 041 435           | 3 041 435          |
| <b>Balance at 30 June 2015</b>                        | <b>176 819 769</b>  | <b>176 819 769</b> |
| Note(s)   |                     |                    |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Cash Flow Statement

| Figures in Rand  | Note(s) | 2015                      | 2014                     |
|--|---------|---------------------------|--------------------------|
| <b>Cash flows from operating activities</b>                    |         |                           |                          |
| <b>Receipts</b>  |         |                           |                          |
| Sale of goods and services                                     |         | 13 436 370                | 20 422 523               |
| Grants   |         | 37 666 420                | 31 191 966               |
| Interest income  |         | 390 984                   | 662 951                  |
| Fines  |         | 470 570                   | 923 798                  |
| Other receipts   |         | 677 492                   | 1 858 147                |
|  |         | <u>52 641 836</u>         | <u>55 059 385</u>        |
| <b>Payments</b>  |         |                           |                          |
| Employee costs   |         | (25 045 674)              | (17 852 073)             |
| Suppliers  |         | (10 683 661)              | (25 022 775)             |
| Finance costs  |         | (3 377 430)               | (949 946)                |
|  |         | <u>(39 106 765)</u>       | <u>(43 824 794)</u>      |
| <b>Net cash flows from operating activities</b>                | 44      | <b><u>13 535 071</u></b>  | <b><u>11 234 591</u></b> |
| <b>Cash flows from investing activities</b>                    |         |                           |                          |
| Purchase of property, plant and equipment                      | 4       | (20 607 772)              | (10 948 099)             |
| Proceeds from sale of property, plant and equipment            | 4       | -                         | 212 955                  |
| Purchase of other intangible assets                            | 5       | (6 560)                   | (13 863)                 |
| Purchase of non-current receivables from exchange transactions |         | (16 558)                  | 1 907 019                |
|  |         | <u>(20 630 890)</u>       | <u>(8 841 988)</u>       |
| <b>Cash flows from financing activities</b>                    |         |                           |                          |
| Finance payments   |         | (1 044 440)               | (571 916)                |
|  |         | <u>(1 044 440)</u>        | <u>(571 916)</u>         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>    |         | <b><u>(8 140 259)</u></b> | <b><u>2 204 083</u></b>  |
| Cash and cash equivalents at the beginning of the year         |         | 8 862 798                 | 6 658 715                |
| <b>Cash and cash equivalents at the end of the year</b>        | 14      | <b><u>722 539</u></b>     | <b><u>8 862 798</u></b>  |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|   | Approved budget   | Adjustments        | Final Budget      | Actual amounts on comparable basis | Difference between final budget and actual | Reference   |
|---|-------------------|--------------------|-------------------|------------------------------------|--|---|
| Figures in Rand                                 |                   |                    |                   |                                    |  |   |
| <b>Statement of Financial Performance</b>       |                   |                    |                   |                                    |  |   |
| <b>Revenue</b>                                  |                   |                    |                   |                                    |  |   |
| <b>Revenue from exchange transactions</b>       |                   |                    |                   |                                    |  |   |
| Service charges                                 | 17 223 000        | 1 267 000          | <b>18 490 000</b> | 16 230 103                         | <b>(2 259 897)</b>                         | Load shedding had an effect on the Electricity billed for the year that was not considered in the budget. |
| Rental of facilities and equipment              | 488 000           | 26 000             | <b>514 000</b>    | 433 232                            | <b>(80 768)</b>                            | When the budget was compiled an expected increase was taken into account that did not materialise.        |
| Interest received (trading)                     | 3 178 000         | (2 274 000)        | <b>904 000</b>    | 807 643                            | <b>(96 357)</b>                            | More debtors receipts were obtained which meant less interest charges.                                    |
| Licences and permits                            | -                 | -                  | -                 | 20 358                             | <b>20 358</b>                              |   |
| Administration and management fees received     | -                 | -                  | -                 | 1                                  | <b>1</b>                                   |   |
| Commissions received                            | -                 | -                  | -                 | 391 317                            | <b>391 317</b>                             |   |
| Discount received                               | -                 | -                  | -                 | 458 676                            | <b>458 676</b>                             |   |
| Other income - (rollup)                         | 819 000           | (333 000)          | <b>486 000</b>    | 602 695                            | <b>116 695</b>                             |   |
| Connection Fees                                 | -                 | -                  | -                 | 74 796                             | <b>74 796</b>                              |   |
| Interest received - investment                  | 347 000           | (45 000)           | <b>302 000</b>    | 390 984                            | <b>88 984</b>                              | Larger utilisation of investment accounts than expected.  |
| <b>Total revenue from exchange transactions</b> | <b>22 055 000</b> | <b>(1 359 000)</b> | <b>20 696 000</b> | <b>19 409 805</b>                  | <b>(1 286 195)</b>                         |   |
| <b>Revenue from non-exchange transactions</b>   |                   |                    |                   |                                    |  |   |
| <b>Taxation revenue</b>                         |                   |                    |                   |                                    |  |   |
| Property rates                                  | 3 401 000         | 659 000            | <b>4 060 000</b>  | 2 486 124                          | <b>(1 573 876)</b>                         | Expected errors to be shown on the rates reconciliation that did not materialise.                         |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|   | Approved budget   | Adjustments        | Final Budget        | Actual amounts on comparable basis | Difference between final budget and actual | Reference  |
|---|-------------------|--------------------|---------------------|------------------------------------|--|--|
| Figures in Rand                                     |                   |                    |                     |                                    |  |  |
| Licences or Permits (Non-exchange)                  | 280 000           | (96 000)           | <b>184 000</b>      | 192 720                            | <b>8 720</b>                               |  |
| Informal Settlement Rates                           | -                 | -                  | -                   | 112 539                            | <b>112 539</b>                             |  |
| <b>Transfer revenue</b>                             |                   |                    |                     |                                    |  |  |
| Government grants & subsidies                       | 42 620 000        | (8 351 000)        | <b>34 269 000</b>   | 45 592 233                         | <b>11 323 233</b>                          | Grant income is determined by the DORA allocation. Large increase in MIG related expenditures. Treasury's contribution to the Auditor General's ourstanding account. |
| Fines, Penalties and Forfeits                       | 4 021 000         | 491 000            | <b>4 512 000</b>    | 3 879 093                          | <b>(632 907)</b>                           | Service provider for Traffic fines was appointed later than expected.  |
| <b>Total revenue from non-exchange transactions</b> | <b>50 322 000</b> | <b>(7 297 000)</b> | <b>43 025 000</b>   | <b>52 262 709</b>                  | <b>9 237 709</b>                           |  |
| <b>Total revenue</b>                                | <b>72 377 000</b> | <b>(8 656 000)</b> | <b>63 721 000</b>   | <b>71 672 514</b>                  | <b>7 951 514</b>                           |  |
| <b>Expenditure</b>                                  |                   |                    |                     |                                    |  |  |
| Personnel   | (21 325 000)      | 1 118 000          | <b>(20 207 000)</b> | (22 187 621)                       | <b>(1 980 621)</b>                         | Upgrading & New Appointments.  |
| Remuneration of councillors                         | (2 380 000)       | (239 000)          | <b>(2 619 000)</b>  | (2 498 053)                        | <b>120 947</b>                             |  |
| Administration                                      | -                 | -                  | -                   | (14 587)                           | <b>(14 587)</b>                            |  |
| Depreciation and amortisation                       | (3 291 000)       | (6 816 000)        | <b>(10 107 000)</b> | (8 936 295)                        | <b>1 170 705</b>                           | Budget based on prior period audited depreciation and was adjusted with the current year's asset register.   |
| Finance costs                                       | (393 000)         | (252 000)          | <b>(645 000)</b>    | (3 476 067)                        | <b>(2 831 067)</b>                         | Landfill site provision increase due to immediate closure requirements. Eskom increased interest charges on outstanding account.                                     |
| Lease rentals on operating lease                    | -                 | -                  | -                   | (17 520)                           | <b>(17 520)</b>                            |  |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

|  | Approved budget     | Adjustments         | Final Budget        | Actual amounts on comparable basis | Difference between final budget and actual | Reference  |
|--|---------------------|---------------------|---------------------|------------------------------------|--|--|
| Figures in Rand  |                     |                     |                     |                                    |  |  |
| Bad debts written off  | (8 749 000)         | -                   | <b>(8 749 000)</b>  | (6 689 570)                        | <b>2 059 430</b>                           | Increase in debtors collection was not expected.   |
| Repairs and maintenance  | (1 288 000)         | 492 000             | <b>(796 000)</b>    | (1 191 139)                        | <b>(395 139)</b>                           | Budget was based on cashflow payments towards repairs & Maintenance. Actuals include creditors transactions. |
| Bulk purchases   | (6 898 000)         | (2 480 000)         | <b>(9 378 000)</b>  | (10 372 009)                       | <b>(994 009)</b>                           | Budget was based on cashflow payments towards repairs & Maintenance. Actuals include creditors transactions. |
| Contracted Services  | (161 000)           | -                   | <b>(161 000)</b>    | (91 531)                           | <b>69 469</b>                              | Budget was based on contracts to start on January 2015, but only started in May 2015.                        |
| Transfers and Subsidies  | (1 313 000)         | 139 000             | <b>(1 174 000)</b>  | -                                  | <b>1 174 000</b>                           | The amount budgeted for never realised.  |
| General Expenses   | (9 339 000)         | (1 805 000)         | <b>(11 144 000)</b> | (13 532 037)                       | <b>(2 388 037)</b>                         | Budget was based on cashflow payments towards expenditures. Actuals include creditors transactions.          |
| <b>Total expenditure</b>   | <b>(55 137 000)</b> | <b>(9 843 000)</b>  | <b>(64 980 000)</b> | <b>(69 006 429)</b>                | <b>(4 026 429)</b>                         |  |
| <b>Operating surplus</b>   | <b>17 240 000</b>   | <b>(18 499 000)</b> | <b>(1 259 000)</b>  | <b>2 666 085</b>                   | <b>3 925 085</b>                           |  |
| Loss on disposal of assets and liabilities   | -                   | -                   | -                   | (192 531)                          | <b>(192 531)</b>                           |  |
| Fair value adjustments   | -                   | -                   | -                   | 651 910                            | <b>651 910</b>                             |  |
| Actuarial gains/losses   | 1 785 942           | (1 785 942)         | -                   | (85 568)                           | <b>(85 568)</b>                            |  |
|  | <b>1 785 942</b>    | <b>(1 785 942)</b>  | <b>-</b>            | <b>373 811</b>                     | <b>373 811</b>                             |  |
| <b>Surplus before taxation</b>   | <b>19 025 942</b>   | <b>(20 284 942)</b> | <b>(1 259 000)</b>  | <b>3 039 896</b>                   | <b>4 298 896</b>                           |  |
| <b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b> | <b>19 025 942</b>   | <b>(20 284 942)</b> | <b>(1 259 000)</b>  | <b>3 039 896</b>                   | <b>4 298 896</b>                           |  |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|                 | Approved<br>budget | Adjustments | Final Budget | Actual amounts<br>on comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|-----------------|--------------------|-------------|--------------|--|---|-----------|
| Figures in Rand |                    |             |              |  |   |           |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|  | Approved budget   | Adjustments      | Final Budget       | Actual amounts on comparable basis | Difference between final budget and actual | Reference   |
|--|-------------------|------------------|--------------------|------------------------------------|--|---|
| Figures in Rand                            |                   |                  |                    |                                    |  |   |
| <b>Statement of Financial Position</b>     |                   |                  |                    |                                    |  |   |
| <b>Assets</b>                              |                   |                  |                    |                                    |  |   |
| <b>Current Assets</b>                      |                   |                  |                    |                                    |  |   |
| Inventories                                | 50 000            | -                | <b>50 000</b>      | 1 641                              | <b>(48 359)</b>                            | Cashflow constraints meant the municipality can only purchase inventory as needed.  |
| Receivables from exchange transactions     | 1 193 000         | -                | <b>1 193 000</b>   | 2 425 254                          | <b>1 232 254</b>                           | The Impairment was less than expected.  |
| Receivables from non-exchange transactions | -                 | -                | -                  | 3 543 284                          | <b>3 543 284</b>                           | Impairment was less than expected   |
| Prepayments                                | -                 | -                | -                  | 17 460                             | <b>17 460</b>                              |   |
| Other Receivables                          | 1 306 000         | (946 000)        | <b>360 000</b>     | 671 117                            | <b>311 117</b>                             | Motor registration receivables have been accrued in the 2014/15 financial period. A court ruling in the 2014/15 financial period also increased the receivable. |
| Cash and cash equivalents                  | 7 912 000         | 2 490 000        | <b>10 402 000</b>  | 722 539                            | <b>(9 679 461)</b>                         | Outstanding creditors were paid more than expected.   |
|  | <b>10 461 000</b> | <b>1 544 000</b> | <b>12 005 000</b>  | <b>7 381 295</b>                   | <b>(4 623 705)</b>                         |   |
| <b>Non-Current Assets</b>                  |                   |                  |                    |                                    |  |   |
| Investment property                        | 4 773 000         | 660 000          | <b>5 433 000</b>   | 7 729 100                          | <b>2 296 100</b>                           | Changes to Investment properties were as a result of the new valuations used in the adjusted asset register.  |
| Property, plant and equipment              | 210 919 000       | (12 484 000)     | <b>198 435 000</b> | 221 339 162                        | <b>22 904 162</b>                          | Budget was based on the asset register before the new asset register was compiled.  |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|  | Approved budget    | Adjustments         | Final Budget       | Actual amounts on comparable basis | Difference between final budget and actual | Reference  |
|--|--------------------|---------------------|--------------------|------------------------------------|--|--|
| Figures in Rand                                    |                    |                     |                    |                                    |  |  |
| Intangible assets                                  | -                  | -                   | -                  | 199 893                            | <b>199 893</b>                             |  |
| Non-Current Receivables from Exchange Transactions | -                  | -                   | -                  | 455 117                            | <b>455 117</b>                             |  |
|  | <b>215 692 000</b> | <b>(11 824 000)</b> | <b>203 868 000</b> | <b>229 723 272</b>                 | <b>25 855 272</b>                          |  |
| <b>Total Assets</b>                                | <b>226 153 000</b> | <b>(10 280 000)</b> | <b>215 873 000</b> | <b>237 104 567</b>                 | <b>21 231 567</b>                          |  |
| <b>Liabilities</b>                                 |                    |                     |                    |                                    |  |  |
| <b>Current Liabilities</b>                         |                    |                     |                    |                                    |  |  |
| Other financial liabilities                        | 80 000             | 630 000             | <b>710 000</b>     | 412 671                            | <b>(297 329)</b>                           | Budgeted amount includes the finance charges   |
| Finance lease obligation                           | -                  | -                   | -                  | 674 495                            | <b>674 495</b>                             | The finance lease liability was budgeted for under Provisions.                                     |
| Payables from exchange transactions                | 23 444 000         | (4 631 000)         | <b>18 813 000</b>  | 33 262 613                         | <b>14 449 613</b>                          | Retention fees not budgeted for, less payments to Eskom than expected.                             |
| VAT payable  | -                  | -                   | -                  | 111 760                            | <b>111 760</b>                             |  |
| Consumer deposits                                  | 299 000            | 249 000             | <b>548 000</b>     | 474 099                            | <b>(73 901)</b>                            | Less consumer debt than expected. A number of accounts was closed meaning deposits were paid back. |
| Employee benefit obligation                        | -                  | -                   | -                  | 165 624                            | <b>165 624</b>                             |  |
| Unspent conditional grants and receipts            | -                  | -                   | -                  | 6 785 456                          | <b>6 785 456</b>                           | Unspent grants budgeted for as part of payables.   |
| Provisions   | 7 798 000          | (2 720 000)         | <b>5 078 000</b>   | 7 532 099                          | <b>2 454 099</b>                           | A large increase in the provision on landfill sites was not budgeted for.                          |
| Third Party Collections                            | -                  | -                   | -                  | 1 261 378                          | <b>1 261 378</b>                           | This liability was not budgeted for.   |
| Long Service Awards                                | -                  | -                   | -                  | 108 722                            | <b>108 722</b>                             |  |
|  | <b>31 621 000</b>  | <b>(6 472 000)</b>  | <b>25 149 000</b>  | <b>50 788 917</b>                  | <b>25 639 917</b>                          |  |
| <b>Non-Current Liabilities</b>                     |                    |                     |                    |                                    |  |  |
| Other financial liabilities                        | 5 462 000          | (574 000)           | <b>4 888 000</b>   | 4 729 714                          | <b>(158 286)</b>                           |  |
| Finance lease obligation                           | -                  | -                   | -                  | 19 364                             | <b>19 364</b>                              |  |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|  | Approved budget    | Adjustments        | Final Budget       | Actual amounts on comparable basis | Difference between final budget and actual | Reference   |
|--|--------------------|--------------------|--------------------|------------------------------------|--|---|
| Figures in Rand  |                    |                    |                    |                                    |  |   |
| Employee benefit obligation                                    | -                  | -                  | -                  | 3 857 853                          | <b>3 857 853</b>                           | This liability was not budgeted for.                              |
| Provisions   | 11 141 000         | -                  | <b>11 141 000</b>  | -                                  | <b>(11 141 000)</b>                        | A large increase in the landfill site provision was not expected. |
| Long Service Awards  | -                  | -                  | -                  | 888 950                            | <b>888 950</b>                             | This liability was not budgeted for.                              |
|  | <b>16 603 000</b>  | <b>(574 000)</b>   | <b>16 029 000</b>  | <b>9 495 881</b>                   | <b>(6 533 119)</b>                         |   |
| <b>Total Liabilities</b>                                       | <b>48 224 000</b>  | <b>(7 046 000)</b> | <b>41 178 000</b>  | <b>60 284 798</b>                  | <b>19 106 798</b>                          |   |
| <b>Net Assets</b>  | <b>177 929 000</b> | <b>(3 234 000)</b> | <b>174 695 000</b> | <b>176 819 769</b>                 | <b>2 124 769</b>                           |   |
| <b>Net Assets</b>  |                    |                    |                    |                                    |  |   |
| <b>Net Assets Attributable to Owners of Controlling Entity</b> |                    |                    |                    |                                    |  |   |
| <b>Reserves</b>  |                    |                    |                    |                                    |  |   |
| Revaluation reserve  | 31 661 000         | (207 000)          | <b>31 454 000</b>  | -                                  | <b>(31 454 000)</b>                        | Change in accounting policy.                                      |
| Accumulated surplus  | 146 268 000        | (3 027 000)        | <b>143 241 000</b> | 176 819 769                        | <b>33 578 769</b>                          | Change in accounting policy.                                      |
| <b>Total Net Assets</b>  | <b>177 929 000</b> | <b>(3 234 000)</b> | <b>174 695 000</b> | <b>176 819 769</b>                 | <b>2 124 769</b>                           |   |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

|   | Approved budget     | Adjustments        | Final Budget        | Actual amounts on comparable basis | Difference between final budget and actual | Reference                                    |
|---|---------------------|--------------------|---------------------|------------------------------------|--|--|
| Figures in Rand                                 |                     |                    |                     |                                    |  |  |
| <b>Cash Flow Statement</b>                      |                     |                    |                     |                                    |  |  |
| <b>Cash flows from operating activities</b>     |                     |                    |                     |                                    |  |  |
| <b>Receipts</b>                                 |                     |                    |                     |                                    |  |  |
| Sale of goods and services                      | 21 066 000          | 1 390 000          | <b>22 456 000</b>   | 13 436 370                         | <b>(9 019 630)</b>                         | Refer to Statement of financial performance. |
| Grants  | 42 690 000          | (8 421 000)        | <b>34 269 000</b>   | 37 666 420                         | <b>3 397 420</b>                           | Refer to statement of financial performance  |
| Interest income                                 | 1 713 000           | (508 000)          | <b>1 205 000</b>    | 390 984                            | <b>(814 016)</b>                           | Refer to statement of financial performance  |
| Fines   | -                   | -                  | -                   | 470 570                            | <b>470 570</b>                             | Cashflow budgeted under goods & Services     |
| Other cash item                                 | -                   | -                  | -                   | 677 492                            | <b>677 492</b>                             | Cashflow budgeted under goods & Services.    |
|   | <b>65 469 000</b>   | <b>(7 539 000)</b> | <b>57 930 000</b>   | <b>52 641 836</b>                  | <b>(5 288 164)</b>                         |  |
| <b>Payments</b>                                 |                     |                    |                     |                                    |  |  |
| Employee costs                                  | (23 705 000)        | 879 000            | <b>(22 826 000)</b> | (25 045 674)                       | <b>(2 219 674)</b>                         | Refer to statement of financial performance. |
| Suppliers                                       | (18 216 000)        | (263 000)          | <b>(18 479 000)</b> | (10 683 661)                       | <b>7 795 339</b>                           | Refer to statement of financial position.    |
| Finance costs                                   | (393 000)           | (252 000)          | <b>(645 000)</b>    | (3 377 430)                        | <b>(2 732 430)</b>                         | Refer to statement of financial performance. |
| Other payments                                  | (1 313 000)         | 139 000            | <b>(1 174 000)</b>  | -                                  | <b>1 174 000</b>                           |  |
|   | <b>(43 627 000)</b> | <b>503 000</b>     | <b>(43 124 000)</b> | <b>(39 106 765)</b>                | <b>4 017 235</b>                           |  |
| <b>Net cash flows from operating activities</b> | <b>21 842 000</b>   | <b>(7 036 000)</b> | <b>14 806 000</b>   | <b>13 535 071</b>                  | <b>(1 270 929)</b>                         |  |
| <b>Cash flows from investing activities</b>     |                     |                    |                     |                                    |  |  |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

|   | Approved budget     | Adjustments      | Final Budget        | Actual amounts on comparable basis | Difference between final budget and actual | Reference                               |
|---|---------------------|------------------|---------------------|------------------------------------|--|---|
| Figures in Rand   |                     |                  |                     |                                    |  |   |
| Purchase of property, plant and equipment               | (18 370 000)        | 6 270 000        | <b>(12 100 000)</b> | (20 607 772)                       | <b>(8 507 772)</b>                         | Capital grants were more than expected. |
| Purchase of other intangible assets                     | -                   | -                | -                   | (6 560)                            | <b>(6 560)</b>                             |   |
| Purchase of financial assets                            | -                   | -                | -                   | (16 558)                           | <b>(16 558)</b>                            |   |
| <b>Net cash flows from investing activities</b>         | <b>(18 370 000)</b> | <b>6 270 000</b> | <b>(12 100 000)</b> | <b>(20 630 890)</b>                | <b>(8 530 890)</b>                         |   |
| <b>Cash flows from financing activities</b>             |                     |                  |                     |                                    |  |   |
| Consumer deposits                                       | 47 000              | (47 000)         | -                   | -                                  | -  |   |
| Repayment of loan                                       | (80 000)            | (630 000)        | <b>(710 000)</b>    | (1 044 440)                        | <b>(334 440)</b>                           |   |
| <b>Net cash flows from financing activities</b>         | <b>(33 000)</b>     | <b>(677 000)</b> | <b>(710 000)</b>    | <b>(1 044 440)</b>                 | <b>(334 440)</b>                           |   |
| Net increase/(decrease) in cash and cash equivalents    | 3 439 000           | (1 443 000)      | <b>1 996 000</b>    | (8 140 259)                        | <b>(10 136 259)</b>                        |   |
| Cash and cash equivalents at the beginning of the year  | 4 474 000           | 3 932 000        | <b>8 406 000</b>    | 8 862 798                          | <b>456 798</b>                             |   |
| <b>Cash and cash equivalents at the end of the year</b> | <b>7 913 000</b>    | <b>2 489 000</b> | <b>10 402 000</b>   | <b>722 539</b>                     | <b>(9 679 461)</b>                         |   |

# Thembelihle Local Municipality

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 Municipal Finance Management Act (Act 56 of 2003).

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.

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, except for the changes set out in note 49 Changes in accounting policy.

#### 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

The calculation in respect of the impairment of trade receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per trade receivable per service.

##### 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 18 - 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.

##### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

# Thembelihle Local Municipality

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)

#### Effective interest rate

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

#### Cash & Cash Equivalents

Cash includes cash on hand (petty cash) and cash with banks (including call deposits). Cash equivalents are short term highly liquid investments that are readily convertible to a known amount of cash and are held with registered banking institutions with maturities of three months or less. They are subject to insignificant risk of changes in value.

For purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables. Bank overdrafts are recorded based on the facility used. Finance charges on bank overdrafts are expenses as incurred. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Cash and cash equivalents and bank borrowings are subsequently recorded at amortised cost.

#### VAT

The municipality accounts for Value added Tax (VAT) on an accrual basis. The municipality is liable to account for VAT at the standard rate of 14% in terms of section 7(1) of the VAT act in respect of supply of goods and services, except where the supplies are specifically zero rated in terms of section 11, exempted in terms of section 12 of the VAT act or are scoped out for VAT purposes. The municipality accounts for VAT on a transactional basis.

### 1.4 Investment property

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

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

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

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

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

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

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.4 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties; Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

#### **Land -**

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

#### **Infrastructure Assets -**

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the Asset Management Policy.

#### **Incomplete Construction work -**

Incomplete Construction Work is stated at historical cost. Depreciation only commences when the asset is available for use.

#### **Finance Leased Assets -**

Assets held under finance leases are depreciated over their useful lives on the same basis as owned assets or, where appropriate, the term of the relevant lease, and are recognised in the Statement of Financial Performance.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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

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

Property, plant and equipment are reviewed annually for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount. An impairment is written back only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of impairment is accounted for in the Statement of Financial Performance.

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

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| Item                      | Depreciation method | Average useful life - Years |
|---------------------------|---------------------|-----------------------------|
| Land                      |                     |                             |
| • Land                    | Not Applicable      |                             |
| Buildings                 | Straight line       | 10 - 30                     |
| Infrastructure            | Straight line       |                             |
| • Roads & Paving          |                     | 5 - 80                      |
| • Electricity             |                     | 5 - 50                      |
| • Water                   |                     | 10 - 100                    |
| • Sewerage / Solid Waste  |                     | 10 - 60                     |
| • Sanitation              |                     | 10 - 100                    |
| Community                 | Straight line       |                             |
| • Community Facilities    |                     | 30                          |
| • Recreational facilities |                     | 15 - 30                     |
| Other                     | Straight line       |                             |
| • Computer Equipment      |                     | 5 - 10                      |
| • Emergency Equipment     |                     | 10                          |
| • Furniture & Fittings    |                     | 5 - 15                      |
| • Motor Vehicles          |                     | 7 - 15                      |
| • Office Equipment        |                     | 5 - 15                      |
| • Plant & Equipment       |                     | 5 - 15                      |

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

Reviewing the useful life of an asset on an annual basis does not require the 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.

#### **Derecognition -**

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

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

Assets 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. 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.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.6 Site restoration and dismantling cost (Landfill sites)

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.

### 1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

| Item                     | Useful life |
|--------------------------|-------------|
| Computer software, other | 3 years     |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.7 Intangible assets (continued)

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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

### 1.8 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

Liabilities for annual leave (accrued leave pay) and annual bonus are recognised as they accrue to employees. Accrual is based on the potential liability of the municipality. Liabilities for goods and services rendered to the municipality before year end are accrued on management's estimate if the invoice or statement have not been issued.

### 1.9 Financial instruments

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

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

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

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

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

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

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

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

A financial asset is:

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

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

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

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

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

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

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

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

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

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

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

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

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

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Classification

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

| <b>Class</b>            | <b>Category</b>                        |
|-------------------------|--|
| Inventory               | Financial asset measured at fair value |
| Cash & Cash Equivalents | Financial asset measured at cost       |
| Pre-payments            | Financial asset measured at cost       |
| Grants Receivable       | Financial asset measured at cost       |
| Trade Receivables       | Financial asset measured at cost       |

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

| <b>Class</b>      | <b>Category</b>                                |
|-------------------|--|
| Loans             | Financial liability measured at amortised cost |
| Finance leases    | Financial liability measured at amortised cost |
| Payables          | Financial liability measured at cost           |
| Employee benefits | Financial liability measured at fair value     |

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

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

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

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

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

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

#### Fair value measurement considerations

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

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

#### Reclassification

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

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

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

#### Presentation

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

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

### 1.10 Leases

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

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

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

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

#### Operating leases - lessee

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

### 1.11 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.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.11 Inventories (continued)

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 first-in, first-out (FIFO) 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.

### Water

The estimation of the water inventory in the reservoirs is based on the measurement of water via manual level meters, where the level indicates the depth of the water in the reservoir, which is then converted into volumes based on the total capacity of the relevant reservoir.

Water is regarded as inventory when the municipality purchased water in bulk with the intention to resell it to the consumer or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.) However, water in dams, that are filled by natural resources and that has not yet been treated, is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, is not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location, net of trade discounts and rebates.

Water and purified effluent are valued by using the last invoice amount per KL as received from the water supplier to determine the lowest of cost and net realisable value.

### 1.12 Grant receivable

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Treasury provides the Municipality with the Regional Bulk infrastructure grant. This Grant refunds the Municipality for expenses incurred on approved projects.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

### 1.13 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.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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

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

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

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

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

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

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

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

Useful life is either:

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

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

### 1.14 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.15 Employee benefits

Employee benefits are all forms of consideration given by the municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

# Thembelihle Local Municipality

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### 1.15 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

#### Post-employment benefits

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

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

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

#### Multi-employer plans and/or State plans and/or Composite social security programmes

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

The municipality and its employees contribute to various pension, provident and retirement funds and its councillors contribute to the Pension fund for Municipal Councillors. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed by the relevant funds on a regular basis as per the requirement of the various funds. Current contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Some of the various funds that the municipality contributes to are multi-employer defined benefit plans but they are accounted for as defined contribution plans. This is because of the nature of these funds and the fact that the assets are not specifically associated to meet the obligations in respect of individual employers in terms of paragraph 30 of IAS 19. Thus there is no consistent and reliable basis for allocating the obligations, plan assets and costs to individual municipalities participating in the plan. The contributions to the fund obligations for the payment of retirement benefits are expensed in the year it becomes payable. These multi-employer plans are actuarially valued annually on a national or provincial basis, using the projected unit credit method. Deficits, if any, are recovered through lumpsum payments or increased future contributions on a proportional basis from all participating municipalities.

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

The cost of providing benefits is determined using the Projected Unit Credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10% of the greater of the present value of the municipality's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees.

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of all of the medical aid funds with which the municipality is associated, a member is entitled to remain a continued member of the medical aid fund upon retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These medical aid funds are classified as defined benefit plans.

The current service cost is recognised as a period expense in the statement of financial performance and is matched to the benefit received during the working life of the employee. The current service cost includes the expense for benefits received by the employee currently in service and the cost of funding the employee when no longer in service.

Where some of the employees are not members of any qualifying medical aid scheme as at the reporting date, the municipality accrues 50% of such potential liability. This management estimate is meant to cater for employees who are likely to join the qualifying medical schemes in future but before retirement.

### 1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model, the related depreciation, based on the estimated useful life of the landfill site is recognised immediately in surplus or deficit.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly 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; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;

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

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

### 1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or operational commitments are excluded.

### 1.18 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.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.18 Revenue from exchange transactions (continued)

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is accounted for when invoiced. Estimated consumptions are made monthly when meters have not been read. The estimates of consumption are accounted for as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are accounted for as revenue or as a write back of revenue in the invoicing period. Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year end based on the average consumption history.

#### 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.

Income from agency services: Income from agency services are accounted for on a monthly basis once the income collected/retrieved on behalf of agents has been quantified. The income is accounted for in terms of the agency agreement.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.19 Revenue from non-exchange transactions

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

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

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### Recognition

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

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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

#### Measurement

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

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

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is accounted for on a monthly basis when it is probable that economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and there has been compliance with relevant legal requirements.

Revenue from rates are accounted for when the legal entitlement to this revenue arises. A site rating system is applied. In terms of this system, assessment rates are levied on the land value of the property. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue. Changes to property values during the reporting period are valued by a qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is accounted for.

#### Transfers

Equitable share allocations are recognised in revenue at the start of the financial period if no time-based restrictions exists.

Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable. Revenue is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property plant and equipment, when expenses are incurred to construct the items of property plant and equipment.

#### Fines

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. Therefore revenue and receivables from fines are accounted for as the fines are issued.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

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

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

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.20 Borrowing costs (continued)

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.21 Comparative figures

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

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.23 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.

### 1.24 Irregular expenditure

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

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

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

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

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

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

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.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Accounting Policies

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### 1.24 Irregular expenditure (continued)

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.

### 1.25 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 budget for the economic entity includes all the entities approved budgets under its control.

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.

### 1.26 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 provincial sphere of government are considered to be related parties.

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

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

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

### 1.27 Accumulated surplus

Accumulated surplus is updated on a yearly basis with the net deficit or net loss, whichever is applicable for the financial period's results.

### 1.28 Value Added Tax (VAT)

The municipality is registered with SARS for VAT on the payment basis, in accordance with Sec15(2)(a) of the Value-added Tax Act No 89 of 1991. VAT is accounted for on the accrual basis as required by GRAP on the transaction basis. At year end balances remain for deferred VAT Receivable and Payable as well as the Actual amount receivable or payable with SARS.

# **Thembelihle Local Municipality**

Financial Statements for the year ended 30 June 2015

## **Notes to the Financial Statements**

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# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 2. New standards and interpretations

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

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

##### **GRAP 20: Related parties**

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

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

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

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

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

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

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

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

The standard elaborates on the definitions and identification of:

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

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

- Control;
- Related party transactions; and

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

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

- Remuneration of management

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

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

### **DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP**

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

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

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

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

### **GRAP108: Statutory Receivables**

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

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

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

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

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

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 3. Investment property

|                     | 2015             |   |                | 2014             |   |                |
|---------------------|------------------|---|----------------|------------------|---|----------------|
|                     | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 7 729 100        | -   | 7 729 100      | 7 077 190        | -   | 7 077 190      |

#### Reconciliation of investment property - 2015

|                     | Opening balance | Fair value adjustments | Total     |
|---------------------|-----------------|------------------------|-----------|
| Investment property | 7 077 190       | 651 910                | 7 729 100 |

#### Reconciliation of investment property - 2014

|                     | Opening balance | Fair value adjustments | Total     |
|---------------------|-----------------|------------------------|-----------|
| Investment property | 6 500 300       | 576 890                | 7 077 190 |

#### Details of property

##### Land

Land held for capital appreciation.

|   |                  |                  |
|---|------------------|------------------|
| - Fair value                            | 3 238 190        | 3 106 900        |
| - Additions since purchase or valuation | 142 710          | 131 290          |
|   | <b>3 380 900</b> | <b>3 238 190</b> |

##### Land and Improvements

Land and Improvements held for capital appreciation.

|   |                  |                  |
|---|------------------|------------------|
| - Fair value                            | 3 839 000        | 3 393 400        |
| - Additions since purchase or valuation | 509 200          | 445 600          |
|   | <b>4 348 200</b> | <b>3 839 000</b> |

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.

#### Details of valuation

The effective date of the revaluations was 30 June 2015. The method used by the valuator was to use the existing valuation roll as prepared by the municipal valuer. The value per the valuation roll was increased or decreased to be calculated the current marked value from analysis of most recent property sales dating from 2009 to current.

The assumptions made were to use the marked related property information over the last 6 years to increase or decrease the property value to get to a fair value at the end of the financial year under review.

The fair value of Investment Property was provided by Pieter Hendrik Venter, registered as a Candidate Valuer under subsection (2) of section 22 of (Act 47) of 2000 assisted Pierre Rynners, registered as a Professional Associated Valuer under subsection (2) of Section 22 of (Act 47) of 2000 of the Property Valuers Profession Bill.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

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### 4. Property, plant and equipment

|                        | 2015               |   |                    | 2014               |   |                    |
|------------------------|--------------------|---|--------------------|--------------------|---|--------------------|
|                        | Cost / Valuation   | Accumulated depreciation and accumulated impairment | Carrying value     | Cost / Valuation   | Accumulated depreciation and accumulated impairment | Carrying value     |
| Land                   | 7 227 066          | -   | 7 227 066          | 7 227 066          | -   | 7 227 066          |
| Buildings              | 5 642 621          | (2 878 046)   | 2 764 575          | 5 642 623          | (2 689 959)   | 2 952 664          |
| Plant and machinery    | 918 697            | (336 702)   | 581 995            | 752 571            | (178 516)   | 574 055            |
| Furniture and fixtures | 969 457            | (397 488)   | 571 969            | 915 255            | (274 283)   | 640 972            |
| Motor vehicles         | 1 089 700          | (268 322)   | 821 378            | 1 171 600          | (205 890)   | 965 710            |
| Office equipment       | 2 072 391          | (737 873)   | 1 334 518          | 1 668 288          | (429 456)   | 1 238 832          |
| Finance lease assets   | 2 342 049          | (1 363 128)   | 978 921            | 2 583 867          | (1 157 069)   | 1 426 798          |
| Infrastructure         | 273 136 243        | (90 860 685)  | 182 275 558        | 244 115 610        | (83 389 967)  | 160 725 643        |
| Emergency equipment    | 305 684            | (149 115)   | 156 569            | 302 908            | (94 184)  | 208 724            |
| Work in Progress       | 24 626 613         | -   | 24 626 613         | 33 818 374         | -   | 33 818 374         |
| <b>Total</b>           | <b>318 330 521</b> | <b>(96 991 359)</b>                                 | <b>221 339 162</b> | <b>298 198 162</b> | <b>(88 419 324)</b>                                 | <b>209 778 838</b> |

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

|                        | Opening balance    | Additions         | Disposals        | Transfers       | Depreciation       | Total              |
|------------------------|--------------------|-------------------|------------------|-----------------|--------------------|--------------------|
| Land                   | 7 227 066          | -                 | -                | -               | -                  | 7 227 066          |
| Buildings              | 2 952 664          | -                 | -                | -               | (188 089)          | 2 764 575          |
| Plant and machinery    | 574 055            | 19 317            | -                | 146 809         | (158 186)          | 581 995            |
| Furniture and fixtures | 640 972            | 34 660            | -                | 19 542          | (123 205)          | 571 969            |
| Motor vehicles         | 965 710            | -                 | (73 105)         | -               | (71 227)           | 821 378            |
| Office equipment       | 1 238 832          | 345 283           | -                | 58 820          | (308 417)          | 1 334 518          |
| Finance lease assets   | 1 426 798          | 71 466            | (115 807)        | -               | (403 536)          | 978 921            |
| Infrastructure         | 160 725 643        | -                 | -                | 29 020 633      | (7 470 718)        | 182 275 558        |
| Emergency equipment    | 208 724            | 2 776             | -                | -               | (54 931)           | 156 569            |
| Work in Progress       | 33 818 374         | 20 134 270        | -                | (29 326 031)    | -                  | 24 626 613         |
|                        | <b>209 778 838</b> | <b>20 607 772</b> | <b>(188 912)</b> | <b>(80 227)</b> | <b>(8 778 309)</b> | <b>221 339 162</b> |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

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

|                        | Opening<br>balance | Additions         | Prior Period<br>Errors | Disposals        | Transfers    | Depreciation       | Total              |
|------------------------|--------------------|-------------------|------------------------|------------------|--------------|--------------------|--------------------|
| Land                   | -                  | -                 | 7 227 066              | -                | -            | -                  | 7 227 066          |
| Buildings              | 29 397 044         | -                 | (26 256 293)           | -                | -            | (188 087)          | 2 952 664          |
| Plant and machinery    | 281 321            | 64 650            | 367 556                | (30 981)         | -            | (108 491)          | 574 055            |
| Furniture and fixtures | 367 080            | 44 478            | 343 839                | -                | -            | (114 425)          | 640 972            |
| Motor vehicles         | 545 327            | -                 | 616 904                | (118 389)        | -            | (78 132)           | 965 710            |
| Office equipment       | 1 810 437          | 95 831            | (393 924)              | (34 574)         | -            | (238 938)          | 1 238 832          |
| Finance Lease Assets   | -                  | 13 198            | 1 851 311              | -                | -            | (437 711)          | 1 426 798          |
| Infrastructure         | 114 802 909        | -                 | 33 170 613             | -                | 19 618 064   | (6 865 943)        | 160 725 643        |
| Emergency Equipment    | 46 919             | -                 | 216 004                | -                | -            | (54 199)           | 208 724            |
| Bins and containers    | 1 253              | -                 | (1 253)                | -                | -            | -                  | -                  |
| Work in Progress       | 39 639 237         | 10 729 942        | 3 067 259              | -                | (19 618 064) | -                  | 33 818 374         |
| Landfill sites         | 2 124 342          | -                 | (2 124 342)            | -                | -            | -                  | -                  |
|                        | <b>189 015 869</b> | <b>10 948 099</b> | <b>18 084 740</b>      | <b>(183 944)</b> | <b>-</b>     | <b>(8 085 926)</b> | <b>209 778 838</b> |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

#### Depreciation rates

The depreciation methods and average useful lives of property, plant and equipment have been assessed as follows:

| Item                    | Depreciation method | Average useful life |
|-------------------------|---------------------|---------------------|
| Buildings               | Straight line       | 10 - 30             |
| Electricity             | Straight line       | 5 - 50              |
| Roads and Paving        | Straight line       | 5 - 80              |
| Furniture and fittings  | Straight line       | 5 - 15              |
| Motor vehicles          | Straight line       | 7 - 15              |
| Office equipment        | Straight line       | 5 - 15              |
| Computer equipment      | Straight line       | 5 - 10              |
| Computer software       | Straight line       | 3                   |
| Emergency Equipment     | Straight line       | 10                  |
| Plant & Equipment       | Straight line       | 5 - 15              |
| Community Facilities    | Straight line       | 30                  |
| Recreational Facilities | Straight line       | 15 - 30             |
| Sanitation              | Straight line       | 10 - 100            |
| Sewerage / Solid Waste  | Straight line       | 10 - 60             |
| Water network           | Straight line       | 10 - 100            |

#### Assets subject to finance lease (Net carrying amount)

|                      |         |           |
|----------------------|---------|-----------|
| Finance lease assets | 978 921 | 1 426 798 |
|----------------------|---------|-----------|

#### Reconciliation of Work-in-Progress 2015

|                                | Included within Infrastructure | Total             |
|--------------------------------|--------------------------------|-------------------|
| Opening balance                | 33 818 374                     | 33 818 374        |
| Additions/capital expenditure  | 20 134 270                     | 20 134 270        |
| Transferred to completed items | (29 326 031)                   | (29 326 031)      |
|                                | <b>24 626 613</b>              | <b>24 626 613</b> |

#### Reconciliation of Work-in-Progress 2014

|                                | Included within Infrastructure | Total             |
|--------------------------------|--------------------------------|-------------------|
| Opening balance                | 42 706 496                     | 42 706 496        |
| Additions/capital expenditure  | 10 729 942                     | 10 729 942        |
| Transferred to completed items | (19 618 064)                   | (19 618 064)      |
|                                | <b>33 818 374</b>              | <b>33 818 374</b> |

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.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 5. Intangible assets

|                          | 2015             |   |                | 2014             |   |                |
|--------------------------|------------------|---|----------------|------------------|---|----------------|
|                          | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software, other | 500 300          | (300 407)   | 199 893        | 417 338          | (142 627)   | 274 711        |

#### Reconciliation of intangible assets - 2015

|                          | Opening balance | Additions | Disposals | Transfers received | Amortisation | Total   |
|--------------------------|-----------------|-----------|-----------|--------------------|--------------|---------|
| Computer software, other | 274 711         | 6 560     | (3 619)   | 80 227             | (157 986)    | 199 893 |

#### Reconciliation of intangible assets - 2014

|                          | Opening balance | Additions | Amortisation | Total   |
|--------------------------|-----------------|-----------|--------------|---------|
| Computer software, other | 395 852         | 13 863    | (135 004)    | 274 711 |

### 6. Employee benefit obligations

#### Defined benefit plan

The plan is a post employment medical benefit plan.

#### Post retirement medical aid plan

The municipality operates a funded post employment health care defined benefit plan for qualifying employees. Employees of the municipality are members of LA Health, Hosmed, Bonitas, Keyhealth and SAMWUMED medical aid schemes.

The municipality is committed to pay 70% of the members post employment medical aid contributions. All subsidies are subject to a maximum of R3 871 for the year ending 30 June 2016. Under the plan, dependants of the former employees are entitled to continued membership of their medical aid scheme upon the death of the primary member. No other post-employment benefits are provided to these employees. As at the end of the financial period, the members of the medical aid entitled to the post employment medical scheme subsidy were 66 in-service members and 5 pensioners.

The most recent actuarial valuation of the plan assets and the present value of the defined obligations were carried out at 30 June 2015 by ARCH Actuarial Consulting. The present value of the defined benefit obligation, and the related current service cost and past service costs, were measured using the Projected Unit Credit Method.

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

##### Carrying value

|  |                    |                    |
|--|--------------------|--------------------|
| Present value of the defined benefit obligation-Active members | (1 906 612)        | (1 221 800)        |
| Present value of the defined benefit obligation-Continuation   | (2 116 865)        | (2 547 200)        |
|  | <b>(4 023 477)</b> | <b>(3 769 000)</b> |
| Non-current liabilities  | (3 857 853)        | (3 604 000)        |
| Current liabilities  | (165 624)          | (165 000)          |
|  | <b>(4 023 477)</b> | <b>(3 769 000)</b> |

The municipality does not have assets set aside for post-employment medical aid funding that qualify as plan assets in terms of the requirements of GRAP 25

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 6. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

|  |                  |                  |
|--|------------------|------------------|
| Opening balance  | 3 769 000        | 5 875 000        |
| Benefits paid  | (205 418)        | -                |
| Net expense recognised in the statement of financial performance | 459 896          | (2 106 000)      |
|  | <b>4 023 478</b> | <b>3 769 000</b> |

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

|                          |                |                    |
|--------------------------|----------------|--------------------|
| Current service cost     | 129 000        | 286 000            |
| Interest cost            | 336 000        | 417 000            |
| Actuarial (gains) losses | (5 104)        | (2 809 000)        |
|                          | <b>459 896</b> | <b>(2 106 000)</b> |

### Calculation of actuarial gains and losses

|                                       |         |             |
|---------------------------------------|---------|-------------|
| Actuarial (gains) losses – Obligation | (5 104) | (2 809 000) |
|---------------------------------------|---------|-------------|

### Key assumptions used

Assumptions used at the reporting date:

|                                       |        |        |
|---------------------------------------|--------|--------|
| Discount rates used                   | 8.89 % | 8.94 % |
| Net effective discount rate           | 0.80 % | 1.00 % |
| Expected increase in healthcare costs | 8.03 % | 8.05 % |
| Consumer price inflation              | 6.53 % | 7.05 % |

Replacement Ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Decrement Assumptions: Mortality [Active members: SA(85-90), Pensioners: PA(90)]

Average retirement age: The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 63, which then implicitly allows for expected rates of early and ill-health retirement.

Continuation of Membership: It has been assumed that 100% of in-service members will remain on the Municipality's health care arrangement should they stay until retirement.

Family profile: It has been assumed that husbands will be five years older than their wives. For current retiree members, actual marital status was used and the potential for remarriage was ignored.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 6. Employee benefit obligations (continued)

#### Other assumptions - Sensitivity Analysis

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends, Discount rate and Post retirement mortality will have the following effects:

|   | One<br>percentage<br>point increase | One<br>percentage<br>point<br>decrease |
|---|-------------------------------------|--|
| Health care inflation: Effect on the accrued liability              | 4 207 000                           | 3 781 000                              |
| Discount rate: Effect on the accrued liability                      | 3 555 000                           | 4 601 000                              |
| Post retirement mortality: Effect on the accrued liability          | 4 141 000                           | 4 196 000                              |
| Health care inflation: Effect on Current service and Interest costs | 507 000                             | 419 000                                |
| Mortality Rates: Effect on Current service and Interest costs       | 454 000                             | 476 000                                |

Amounts for the current and previous two years are as follows:

|  | 2015<br>R   | 2014<br>R   | 2013<br>R   | 2012<br>R | 2011<br>R |
|--|-------------|-------------|-------------|-----------|-----------|
| Defined benefit obligation                 | 4 023 000   | 3 769 000   | 5 875 000   | -         | -         |
| Surplus (deficit)                          | (4 023 000) | (3 769 000) | (5 875 000) | -         | -         |
| Experience adjustments on plan liabilities | 51 000      | -           | -           | -         | -         |

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act and some are multi-employer exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plans which are Multi-Employer Funds and are Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plans as defined benefit plans. The municipality accounted for these plans as a defined contribution plans:

#### Multi-Employer State Plans

The following are the defined benefit plans that the municipality's employees belong to:

- Municipal Council Pension Fund
- Cape Joint Fund
- South African Local Authorities (SALA) Pension Fund

These are not treated as defined benefit plans as defined by IAS 19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 paragraph 30 which states where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

In terms of contributions to the fund, the municipality and employee contributions are as follows:

- SALA Pension fund - Employee (8.6%); Employer (20.78%)
- SAMWU Pension Fund - Employee (8.6%); Employer (18.6%)
- Metropolitan Pension Fund - Employee (8.6%); Employer (18.06%)
- Municipal Gratuity Fund - Employee (8.6%); Employer (18.6%)

An amount of R2 377 318 (2014: R2 221 348) was contributed by council in respect of councillors and employees retirement fund. These contributions have been expensed and are included in employee related costs for the year.

# Thembelihle Local Municipality

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### 7. Prepayments

Payments were made in advance on the OVK account to an amount of R17 460.33

### 8. Non-Current Receivables from Exchange Transactions

Thembelihle Municipality provides two settlement options to Consumer debtors to settle their outstanding service accounts, **Option 1:** 25% of the outstanding balance is paid over 3 years. Once the 25% is settled the remaining 75% of the outstanding account are written off.

**Option 2:** 60% of the outstanding balance is paid once-off and the remaining 40% of the outstanding balance is written off.

The balance of R455 117 (2014: R438 559), after provision for impairments of R2 271 376 (2014: R1 305 641), reflect the Non-Current portion payable under Option1. The Amount written off under Option 1 and 2 totals R357 919 (2014: R187 280).

### 9. Other Receivables

Other Receivables consists of Motor Registration fees receivable of R411 416 and two Court rulings to receive R259 701 from ex-employees.

### 10. Inventories

|                   |              |                |
|-------------------|--------------|----------------|
| Consumable stores | -            | 143 298        |
| Water             | 1 641        | 1 641          |
|                   | <b>1 641</b> | <b>144 939</b> |

Carrying value of inventories carried at fair value less costs to sell 1 641 144 939

### Inventory pledged as security

No inventory was pledged as security during the current financial period..

### 11. Receivables from exchange transactions

|                                |                  |                  |
|--------------------------------|------------------|------------------|
| Consumer debtors - Electricity | 1 745 297        | 1 724 419        |
| Consumer debtors - Water       | 214 597          | 236 649          |
| Consumer debtors - Sewerage    | 221 190          | 156 325          |
| Consumer debtors - Refuse      | 81 880           | 71 683           |
| Consumer debtors - Arrears     | 146 074          | 69 856           |
| Consumer debtors - Rentals     | 12 973           | 12 521           |
| Consumer debtors - Other       | 3 243            | 16 081           |
|                                | <b>2 425 254</b> | <b>2 287 534</b> |

### 12. Receivables from non-exchange transactions

|  |                  |                  |
|--|------------------|------------------|
| Fines  | 478 369          | -                |
| Government grants and subsidies (Refer to note 30) | 2 509 146        | 1 136 908        |
| Consumer debtors - Rates                           | 555 769          | 460 971          |
|  | <b>3 543 284</b> | <b>1 597 879</b> |

### Receivables from non-exchange transactions impaired

As of 30 June 2015, Traffic fine receivables from non-exchange transactions of R 3 372 000 (2014: R -) were impaired and provided for.

The amount of the provision was R 2 917 054 as of 30 June 2015 (2014: R -).

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand  | 2015                | 2014                |
|--|---------------------|---------------------|
| <b>13. Consumer debtors disclosure</b>   |                     |                     |
| <b>Gross balances</b>  |                     |                     |
| Consumer debtors - Rates   | 7 684 530           | 7 258 123           |
| Consumer debtors - Electricity   | 6 757 696           | 6 772 038           |
| Consumer debtors - Water   | 13 953 582          | 13 371 643          |
| Consumer debtors - Sewerage  | 11 893 967          | 10 941 829          |
| Consumer debtors - Refuse  | 6 742 939           | 6 220 143           |
| Consumer debtors - Arrears   | 1 791 814           | 1 636 641           |
| Consumer debtors - Rentals   | 172 012             | 151 813             |
| Consumer debtors - Other   | 280 456             | 255 847             |
|  | <b>49 276 996</b>   | <b>46 608 077</b>   |
| <b>Less: Allowance for impairment</b>  |                     |                     |
| Consumer debtors - Rates   | (7 128 761)         | (6 797 152)         |
| Consumer debtors - Electricity   | (5 012 399)         | (5 047 619)         |
| Consumer debtors - Water   | (13 738 985)        | (13 134 994)        |
| Consumer debtors - Sewerage  | (11 672 777)        | (10 785 504)        |
| Consumer debtors - Refuse  | (6 661 059)         | (6 148 460)         |
| Consumer debtors - Arrears   | (1 645 740)         | (1 566 785)         |
| Consumer debtors - Rentals   | (159 039)           | (139 292)           |
| Consumer debtors - Other   | (277 213)           | (239 766)           |
|  | <b>(46 295 973)</b> | <b>(43 859 572)</b> |
| <b>Net balance</b>   |                     |                     |
| Consumer debtors - Rates   | 555 769             | 460 971             |
| Consumer debtors - Electricity   | 1 745 297           | 1 724 419           |
| Consumer debtors - Water   | 214 597             | 236 649             |
| Consumer debtors - Sewerage  | 221 190             | 156 325             |
| Consumer debtors - Refuse  | 81 880              | 71 683              |
| Consumer debtors - Arrears   | 146 074             | 69 856              |
| Consumer debtors - Rentals   | 12 973              | 12 521              |
| Consumer debtors - Other   | 3 243               | 16 081              |
|  | <b>2 981 023</b>    | <b>2 748 505</b>    |
| <b>Included in above is receivables from exchange transactions</b>                           |                     |                     |
| Electricity  | 1 745 297           | 1 724 419           |
| Water  | 214 597             | 236 649             |
| Sewerage   | 221 190             | 156 325             |
| Refuse   | 81 880              | 71 683              |
| Arrears  | 146 074             | 69 856              |
| Rentals  | 12 973              | 12 521              |
| Other  | 3 243               | 16 081              |
|  | <b>2 425 254</b>    | <b>2 287 534</b>    |
| <b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b> |                     |                     |
| Rates  | 553 913             | 460 952             |
| Informal Settlements Rates   | 1 856               | 20                  |
|  | <b>555 769</b>      | <b>460 972</b>      |
| <b>Net balance</b>   | <b>2 981 023</b>    | <b>2 748 506</b>    |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand                                    | 2015             | 2014             |
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| <b>13. Consumer debtors disclosure (continued)</b> |                  |                  |
| <b>Rates</b>                                       |                  |                  |
| Current (0 -30 days)                               | 115 133          | 90 552           |
| 31 - 60 days                                       | 39 293           | 34 385           |
| 61 - 90 days                                       | 26 764           | 22 920           |
| 91 - 120 days                                      | 24 145           | 22 173           |
| >120 days  | 350 434          | 290 941          |
|  | <b>555 769</b>   | <b>460 971</b>   |
| <b>Electricity</b>                                 |                  |                  |
| Current (0 -30 days)                               | 807 539          | 739 937          |
| 31 - 60 days                                       | 134 983          | 173 922          |
| 61 - 90 days                                       | 121 586          | 114 600          |
| 91 - 120 days                                      | 61 571           | 48 704           |
| >120 days  | 619 618          | 647 256          |
|  | <b>1 745 297</b> | <b>1 724 419</b> |
| <b>Water</b>                                       |                  |                  |
| Current (0 -30 days)                               | 90 256           | 81 732           |
| 31 - 60 days                                       | 13 114           | 28 924           |
| 61 - 90 days                                       | 10 625           | 17 377           |
| 91 - 120 days                                      | 8 051            | 9 215            |
| >120 days  | 92 551           | 99 401           |
|  | <b>214 597</b>   | <b>236 649</b>   |
| <b>Sewerage</b>                                    |                  |                  |
| Current (0 -30 days)                               | 63 237           | 59 792           |
| 31 - 60 days                                       | 18 840           | 17 878           |
| 61 - 90 days                                       | 11 677           | 11 613           |
| 91 - 120 days                                      | 9 972            | 7 562            |
| >120 days  | 117 464          | 59 480           |
|  | <b>221 190</b>   | <b>156 325</b>   |
| <b>Refuse</b>                                      |                  |                  |
| Current (0 -30 days)                               | 27 177           | 29 017           |
| 31 - 60 days                                       | 5 660            | 7 475            |
| 61 - 90 days                                       | 3 675            | 5 061            |
| 91 - 120 days                                      | 2 794            | 3 502            |
| >120 days  | 42 574           | 26 628           |
|  | <b>81 880</b>    | <b>71 683</b>    |
| <b>Arrears</b>                                     |                  |                  |
| Current (0 -30 days)                               | 15 052           | 7 487            |
| 31 - 60 days                                       | 9 169            | 4 426            |
| 61 - 90 days                                       | 5 359            | 3 554            |
| 91 - 120 days                                      | 5 016            | 2 458            |
| >120 days  | 111 478          | 51 931           |
|  | <b>146 074</b>   | <b>69 856</b>    |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand                                      | 2015             | 2014             |
|--|------------------|------------------|
| <b>13. Consumer debtors disclosure (continued)</b>   |                  |                  |
| <b>Rentals</b>                                       |                  |                  |
| Current (0 -30 days)                                 | 9 210            | 4 480            |
| 31 - 60 days   | 937              | 972              |
| 61 - 90 days   | 416              | 209              |
| 91 - 120 days  | 416              | 143              |
| >120 days  | 1 994            | 6 717            |
|  | <b>12 973</b>    | <b>12 521</b>    |
| <b>Other</b>   |                  |                  |
| Current (0 -30 days)                                 | 2 745            | 7 166            |
| 31 - 60 days   | -                | 2 020            |
| >120 days  | 498              | 6 895            |
|  | <b>3 243</b>     | <b>16 081</b>    |
| <b>Summary of debtors by customer classification</b> |                  |                  |
| <b>Consumers</b>                                     |                  |                  |
| Current (0 -30 days)                                 | 1 068 565        | 1 028 657        |
| 31 - 60 days   | 544 552          | 600 507          |
| 61 - 90 days   | 508 423          | 642 907          |
| 91 - 120 days  | 476 627          | 562 919          |
| >120 days  | 41 820 452       | 39 572 183       |
|  | 44 418 619       | 42 407 173       |
| Less: Allowance for impairment                       | (43 279 187)     | (41 335 491)     |
|  | <b>1 139 432</b> | <b>1 071 682</b> |
| <b>Industrial/ commercial</b>                        |                  |                  |
| Current (0 -30 days)                                 | 595 724          | 495 772          |
| 31 - 60 days   | 145 135          | 133 500          |
| 61 - 90 days   | 148 936          | 73 006           |
| 91 - 120 days  | 156 256          | 78 238           |
| >120 days  | 2 763 855        | 2 445 568        |
|  | 3 809 906        | 3 226 084        |
| Less: Allowance for impairment                       | (3 016 788)      | (2 510 879)      |
|  | <b>793 118</b>   | <b>715 205</b>   |
| <b>National and provincial government</b>            |                  |                  |
| Current (0 -30 days)                                 | 159 910          | 160 981          |
| 31 - 60 days   | 92 498           | 127 732          |
| 61 - 90 days   | 88 117           | 110 149          |
| 91 - 120 days  | 32 909           | 46 664           |
| >120 days  | 675 332          | 529 294          |
|  | 1 048 766        | 974 820          |
| Less: Allowance for impairment                       | -                | (13 202)         |
|  | <b>1 048 766</b> | <b>961 618</b>   |
| <b>Total debtor past due but not impaired</b>        |                  |                  |
| 31 - 60 days   | 221 997          | 270 001          |
| 61 - 90 days   | 180 103          | 175 335          |
| 91 - 120 days  | 110 129          | 93 756           |
| 121 - 365 days                                       | 1 338 740        | 1 189 250        |
|  | <b>1 850 969</b> | <b>1 728 342</b> |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

### 13. Consumer debtors disclosure (continued)

#### Reconciliation of allowance for impairment

|                                  |                     |                     |
|----------------------------------|---------------------|---------------------|
| Balance at beginning of the year | (43 859 572)        | (39 376 253)        |
| Contributions to allowance       | (2 436 401)         | (4 483 319)         |
|                                  | <b>(46 295 973)</b> | <b>(43 859 572)</b> |

### 14. Cash and cash equivalents

Cash and cash equivalents consist of:

|               |                |                  |
|---------------|----------------|------------------|
| Cash on hand  | 97 686         | 1 784            |
| Bank balances | 624 853        | 8 861 014        |
|               | <b>722 539</b> | <b>8 862 798</b> |

The Municipality has a Fleet card facility of R20 000 with ABSA bank.

#### 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     |
| ABSA Bank - Current Account -<br>(Account No. 40-7030-7030) | 346 607                 | -                | 149 428          | 344 929            | -                | 608 858          |
| ABSA Bank - Current Account -<br>(Account No. 92-2871-4535) | 1 350                   | 62 671           | 6 411 951        | 1 350              | 62 671           | 5 834 351        |
| ABSA Bank - Current Account -<br>(Account No. 40-7512-6489) | -                       | 96 948           | 104 789          | -                  | 96 948           | 104 789          |
| ABSA Bank - Current Account -<br>(Account No. 40-7722-5487) | -                       | 140 415          | 110 098          | -                  | 140 415          | 110 098          |
| Standard Bank - 048873772-<br>001                           | 4 801                   | 5 014 476        | -                | 4 801              | 5 014 476        | -                |
| Standard Bank - 041879171                                   | 222 639                 | 3 542 437        | -                | 238 757            | 3 572 732        | -                |
| Traffic Bank Account -<br>063362309                         | 35 013                  | -                | -                | 35 013             | -                | 2 507            |
| Petty Cash & Float  | 97 686                  | 1 784            | -                | 97 689             | 1 784            | 1 724            |
| Traffic Account   | -                       | -                | -                | -                  | (26 228)         | -                |
| <b>Total</b>  | <b>708 096</b>          | <b>8 858 731</b> | <b>6 776 266</b> | <b>722 539</b>     | <b>8 862 798</b> | <b>6 662 327</b> |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand                                    | 2015                  | 2014                    |
|--|-----------------------|-------------------------|
| <b>15. Finance lease obligation</b>                |                       |                         |
| <b>Minimum lease payments due</b>                  |                       |                         |
| - within one year                                  | 702 431               | 724 070                 |
| - in second to fifth year inclusive                | 20 296                | 669 290                 |
|  | <u>722 727</u>        | <u>1 393 360</u>        |
| less: future finance charges                       | (28 868)              | (110 981)               |
| <b>Present value of minimum lease payments</b>     | <b><u>693 859</u></b> | <b><u>1 282 379</u></b> |
| <b>Present value of minimum lease payments due</b> |                       |                         |
| - within one year                                  | 674 495               | 637 720                 |
| - in second to fifth year inclusive                | 19 364                | 644 659                 |
|  | <u>693 859</u>        | <u>1 282 379</u>        |
| Non-current liabilities                            | 19 364                | 644 659                 |
| Current liabilities                                | 674 495               | 637 720                 |
|  | <b><u>693 859</u></b> | <b><u>1 282 379</u></b> |

It is municipality policy to lease certain office equipment under finance leases.

The average lease term was 3 years and the prime interest rate was 9% (2014: 9%).

Interest rates are fixed at the contract date. Certain leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

### Market risk

The carrying amounts of finance lease liabilities are denominated in Rand:

|      |         |           |
|------|---------|-----------|
| Rand | 693 859 | 1 282 379 |
|------|---------|-----------|

The fair value of finance lease liabilities approximates their carrying amounts.

### 16. Unspent conditional grants and receipts

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

| <b>Unspent conditional grants and receipts</b> |                         |                          |
|--|-------------------------|--------------------------|
| Municipal Infrastructure Grant                 | 5 507 503               | 10 954 624               |
| Library Grant                                  | 846 435                 | 249 870                  |
| Expanded Public Works Programme                | 431 480                 | 251 610                  |
| Municipal Systems Infrastructure Grant         | -                       | 59                       |
| Integrated National Electricity Programme      | 38                      | 164 038                  |
|  | <b><u>6 785 456</u></b> | <b><u>11 620 201</u></b> |

### Movement during the year

|                                      |                         |                          |
|--------------------------------------|-------------------------|--------------------------|
| Balance at the beginning of the year | 11 620 200              | 7 269 148                |
| Additions during the year            | 18 647 878              | 20 218 528               |
| Income recognition during the year   | (23 482 622)            | (15 867 475)             |
|                                      | <b><u>6 785 456</u></b> | <b><u>11 620 201</u></b> |

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

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### 16. Unspent conditional grants and receipts (continued)

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

See note 31 for reconciliation of grants from National/Provincial Government.

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

### 17. Other financial liabilities

#### At amortised cost

|                        |                  |                  |
|------------------------|------------------|------------------|
| DBSA Loans Non Current | 4 729 714        | 5 537 753        |
| DBSA Loans Current     | 412 671          | 60 552           |
|                        | <b>5 142 385</b> | <b>5 598 305</b> |

#### Total other financial liabilities

|  |                  |                  |
|--|------------------|------------------|
|  | <b>5 142 385</b> | <b>5 598 305</b> |
|--|------------------|------------------|

DBSA Loans are repayable on a quarterly basis at R178 663 with an interest charge of 14.76% per year. The loan will be fully repaid in March 2024.

#### Non-current liabilities

|                   |           |           |
|-------------------|-----------|-----------|
| At amortised cost | 4 729 714 | 5 537 753 |
|-------------------|-----------|-----------|

#### Current liabilities

|                   |         |        |
|-------------------|---------|--------|
| At amortised cost | 412 671 | 60 552 |
|-------------------|---------|--------|

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# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 18. Provisions

#### Reconciliation of provisions - 2015

|                              | <b>Opening<br/>Balance</b> | <b>Additions</b> | <b>Total</b> |
|------------------------------|----------------------------|------------------|--------------|
| Environmental rehabilitation | 6 373 026                  | 1 159 073        | 7 532 099    |

---

#### Reconciliation of provisions - 2014

|                              | <b>Opening<br/>Balance</b> | <b>Additions</b> | <b>Total</b>     |
|------------------------------|----------------------------|------------------|------------------|
| Environmental rehabilitation | 5 956 100                  | 416 926          | 6 373 026        |
| Non-current liabilities      |                            | -                | 743 000          |
| Current liabilities          |                            | 7 532 099        | 5 630 026        |
|                              |                            | <b>7 532 099</b> | <b>6 373 026</b> |

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#### Environmental rehabilitation provision

Council operates two disposal sites. In terms of the Environmental Conservation Act (Act No 73 of 1989), the municipality is responsible to perform a rehabilitation of the land upon closure of the landfill site.

Neither one of the two Landfill sites are registered as official dumping sites and are therefore operated without a permit. As disclosed in the Government Gazette no 10747 dated 24 July 2015, the maximum fine applicable for operating a waste disposal site under section 24G Fine Regulations of NEMA, rounds up to R10 million per site and a contingent liability has been disclosed.

Section 24G (1) of the NEMA also stipulates that the landfill site be closed with immediate effect if no objection has been made by the municipality, therefore the provision for rehabilitation has been calculated as a current liability at 30 June 2015.

The calculation was based on cost to close and rehabilitate the site within 12 months after 30 June 2015. As the closure date is estimated to be at year end, no discount rates were applied.

A new Landfill site is under construction at 30 June 2015 and remains unused as the site has not yet been licensed.

### 19. Third Party Collections

The Liability is due to collections on behalf of the Department of safety on which the Municipality earns a 12% commission. During previous financial periods the balances, 88% of the collections, were not paid over to the Department of safety. The balance payable to the Department of safety due to these non-payments is R1 261 378 (2014: R1 139 914)

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 20. Long Service Awards

The Municipality offers employees long service awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.

|                           |                 |
|---------------------------|-----------------|
| Opening Balance           | 865 000         |
| Current-service cost      | 95 000          |
| Interest cost             | 69 000          |
| Actuarial (Gain)/Loss     | 90 672          |
| Employee Benefit vestings | <u>-122 000</u> |
| Closing Balance           | 997 672         |
| Current Portion           | 108 722         |
| Non-Current Portion       | 888 950         |

#### Key Financial Assumptions:

|                              |           |
|------------------------------|-----------|
| Discount rate:               | 8.07% p.a |
| General Salary Inflation:    | 7.11% p.a |
| Net effective discount rate: | 0.89% p.a |

The discount rate used is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability weighted index-linked yield is 1.37%. These rates do not reflect any adjustment for taxation. These rates were deducted from the Johannesburg Stock Exchange (JSE) Zero Coupon bond yield after the market close on 30 June 2015.

Salary inflation rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee's salary at the date of the award. The assumption is traditionally split into two components, namely General Salary Inflation and Promotional Salary Escalation. The latter is considered under demographic assumptions.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 6.11% was obtained from the differential between market yields on index-linked bonds (1.37%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.07%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+8.07\%-0.50\%)/(1+1.37\%))-1$

Thus, a general salary inflation rate of 7.11% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 0.89%.

It has been assumed that the next salary increase will take place on 1 July 2016.

#### Key Demographic assumptions:

|                              |          |
|------------------------------|----------|
| Average retirement age:      | 63 years |
| Mortality during employment: | SA 85-90 |

| Withdrawal from service (Sample annual rates) | Age | Rate<br>Female | Rate<br>Male |
|---|-----|----------------|--------------|
|   | 20  | 24%            | 16%          |
|   | 30  | 15%            | 10%          |
|   | 40  | 6%             | 6%           |
|   | 50  | 2%             | 2%           |
|   | 55  | 1%             | 1%           |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 20. Long Service Awards (continued)

Demographic assumptions are required about the future characteristics of current employees who are eligible for LSA.

Promotional Salary Scale: The annual inflation rates below are in addition to the General Salary Inflation assumption of 7.11% per annum for all employees.

#### Promotional salary scale

| Age band | Additional promotional scale |
|----------|------------------------------|
| 20 – 25  | 5.0%                         |
| 25 – 30  | 4.0%                         |
| 30 – 35  | 3.0%                         |
| 35 – 40  | 2.0%                         |
| 40 – 45  | 1.0%                         |
| > 45     | 0.0%                         |

Pre-retirement Mortality:

SA85-90 ultimate table, adjusted down for female lives.

Average Retirement Age:

The normal retirement age is 65. It has been assumed that employees will retire at age 63 on average, which implicitly makes an allowance for expected rates of early and ill-health retirement.

**Withdrawal from Service:** If an in-service member leaves, the employer's liability in respect of that member ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

#### Sample withdrawal rates

| Age  | Females | Males |
|------|---------|-------|
| 20   | 24%     | 16%   |
| 25   | 18%     | 12%   |
| 30   | 15%     | 10%   |
| 35   | 10%     | 8%    |
| 40   | 6%      | 6%    |
| 45   | 4%      | 4%    |
| 50   | 2%      | 2%    |
| > 55 | 1%      | 1%    |

The liability at the Valuation Date was recalculated to show the effect of:

- (i) A 1% increase and decrease in the assumed general salary inflation rate;
- (ii) A 1% increase and decrease in the discount rate;
- (iii) A two-year decrease and increase in the assumed average retirement age of employees; and
- (iv) A 50% decrease in the assumed withdrawal rates from service.

#### Sensitivity Analysis on the Unfunded Accrued Liability (in R Millions)

| Assumption               | Change | Liability | % change |
|--------------------------|--------|-----------|----------|
| Central assumptions      |        | 0.998     |          |
| General salary inflation | +1%    | 1.068     | 7%       |
|                          | -1%    | 0.934     | -6%      |
| Discount Rate            | +1%    | 0.931     | -7%      |
|                          | -1%    | 1.074     | 8%       |
| Average retirement age   | -2 yrs | 0.927     | -7%      |
|                          | +2 yrs | 1.072     | 7%       |
| Withdrawal rates         | -50%   | 1.193     | 20%      |

The table above indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 7% higher than the results shown.

#### Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2015

| Assumption               | Change | Current-service Cost | Interest Cost | Total   | % change |
|--------------------------|--------|----------------------|---------------|---------|----------|
| Central assumptions      |        | 95,000               | 69,000        | 164,000 |          |
| General salary inflation | +1%    | 104,000              | 75,000        | 179,000 | 9%       |
|                          | -1%    | 87,000               | 64,000        | 151,000 | -8%      |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 20. Long Service Awards (continued)

|                 |      |         |        |         |     |
|-----------------|------|---------|--------|---------|-----|
| Withdrawal rate | +20% | 87,000  | 65,000 | 152,000 | -7% |
|                 | -20% | 103,000 | 74,000 | 177,000 | 8%  |

### Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2016

| Assumption               | Change | Current-service Cost | Interest Cost | Total   | % change |
|--------------------------|--------|----------------------|---------------|---------|----------|
| Central assumptions      |        | 118,500              | 76,200        | 194,700 |          |
| General salary inflation | +1%    | 129,100              | 81,800        | 210,900 | 8%       |
|                          | -1%    | 109,000              | 71,100        | 180,100 | -7%      |
| Discount Rate            | +1%    | 109,600              | 79,600        | 189,200 | -3%      |
|                          | -1%    | 128,500              | 72,100        | 200,600 | 3%       |
| Average retirement age   | -2 yrs | 110,500              | 70,500        | 181,000 | -7%      |
|                          | +2 yrs | 125,100              | 82,200        | 207,300 | 6%       |
| Withdrawal rates         | -50%   | 154,200              | 91,900        | 246,100 | 26%      |

### History of liabilities and assets

|                          | 30/06/2013 | 30/06/2014 | 30/06/2015 |
|--------------------------|------------|------------|------------|
| Accrued Liability        | 468,331    | 865,000    | 997,672    |
| Fair value of plan asset | 0          | 0          | 0          |
| Surplus / (Deficit)      | (468,331)  | (865,000)  | (997,672)  |

### Past year and future projected Liability

|                           | Year ending<br>30/06/2015 | Year ending<br>30/06/2016 | Year ending<br>30/06/2017 |
|---------------------------|---------------------------|---------------------------|---------------------------|
| Opening Accrued Liability | 865,000                   | 997,672                   | 1,083,586                 |
| Current-service Cost      | 95,000                    | 118,458                   | 128,013                   |
| Interest Cost             | 69,000                    | 76,178                    | 82,179                    |
| Expected Benefit Vestings | *(122,000)                | (108,722)                 | (132,215)                 |
| Total Annual Expense      | 42,000                    | 85,914                    | 77,977                    |
| Actuarial Loss / (Gain)   | 90,672                    |                           |                           |
| Closing Accrued Liability | 997,672                   | 1,083,586                 | 1,161,563                 |

### 21. Payables from exchange transactions

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Trade payables                | 28 181 746        | 18 086 182        |
| Payments received in advanced | 278 097           | 479 166           |
| Staff Overpaid                | 17 187            | 17 187            |
| Rental Deposits               | 2 770             | 4 989             |
| Accrued leave pay             | 1 239 274         | 952 715           |
| Accrued bonus                 | 493 731           | 399 588           |
| Unallocated deposits received | 156 722           | 118 287           |
| Other payables                | 4 115             | 187 206           |
| Retention fees                | 2 888 971         | 3 096 196         |
|                               | <b>33 262 613</b> | <b>23 341 516</b> |

### 22. VAT payable

|                      |         |           |
|----------------------|---------|-----------|
| Tax refunds payables | 111 760 | 2 490 894 |
|----------------------|---------|-----------|

The Municipality reports to SARS on the cashflow basis and accounts for VAT on the accrual basis as required by GRAP. Therefore deferred VAT balances are as follow:

|  |                                 |
|--|---------------------------------|
| VAT receivable from SARS:                  | R1 589 062 (2014: R239 657)     |
| Deferred VAT Claimable:                    | R3 402 577 (2014: R2 355 390)   |
| Deferred VAT Payable:                      | -R5 183 256 (2014: -R5 085 942) |
| VAT incorrectly declared on Traffic fines: | R 79 857 (2014: R0)             |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand   | 2015              | 2014              |
|---|-------------------|-------------------|
| <b>23. Consumer deposits</b>  |                   |                   |
| Rates   | 474 099           | 476 128           |
| <b>24. Revenue</b>  |                   |                   |
| Service charges   | 16 230 103        | 15 174 507        |
| Rental of facilities and equipment  | 433 232           | 304 422           |
| Interest received (trading)   | 807 643           | 785 471           |
| Licences and permits  | 20 358            | 21 773            |
| Administration and management fees received   | 1                 | 79                |
| Commissions received  | 391 317           | 263 969           |
| Discount received   | 458 676           | -                 |
| Other income - (rollup)   | 602 695           | 381 383           |
| Connection fees   | 74 796            | 28 283            |
| Interest received - investment  | 390 984           | 662 951           |
| Property rates  | 2 486 124         | 2 093 143         |
| Informal Settlement Rates   | 112 539           | 195 706           |
| Government grants & subsidies   | 45 592 233        | 33 842 715        |
| Fines, Penalties and Forfeits   | 3 879 093         | 923 798           |
|   | <b>71 479 794</b> | <b>54 678 200</b> |
| <b>The amount included in revenue arising from exchanges of goods or services are as follows:</b> |                   |                   |
| Service charges   | 16 230 103        | 15 174 507        |
| Rental of facilities and equipment  | 433 232           | 304 422           |
| Interest received (trading)   | 807 643           | 785 471           |
| Licences and permits  | 20 358            | 21 773            |
| Administration and management fees received   | 1                 | 79                |
| Commissions received  | 391 317           | 263 969           |
| Discount received   | 458 676           | -                 |
| Other income - (rollup)   | 602 695           | 381 383           |
| Connection fees   | 74 796            | 28 283            |
| Interest received - investment  | 390 984           | 662 951           |
|   | <b>19 409 805</b> | <b>17 622 838</b> |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b>       |                   |                   |
| <b>Taxation revenue</b>   |                   |                   |
| Property rates  | 2 486 124         | 2 093 143         |
| Informal Settlement Rates   | 112 539           | 195 706           |
| <b>Transfer revenue</b>   |                   |                   |
| Government grants & subsidies   | 45 592 233        | 33 842 715        |
| Fines, Penalties and Forfeits   | 3 879 093         | 923 798           |
|   | <b>52 069 989</b> | <b>37 055 362</b> |
| <b>25. Service charges</b>  |                   |                   |
| Sale of electricity   | 10 795 362        | 8 729 140         |
| Sale of water   | 2 069 661         | 3 007 067         |
| Sewerage and sanitation charges   | 2 249 844         | 2 244 953         |
| Refuse removal  | 1 115 236         | 1 193 347         |
|   | <b>16 230 103</b> | <b>15 174 507</b> |

During the current year an electricity tariff was incorrectly applied to a group of consumers. This resulted in an estimated loss of Revenue to an amount of R382 155. The Municipality has no intention of back-dating the billing of these consumers and the loss will be carried by the Municipality.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand   | 2015             | 2014           |
|---|------------------|----------------|
| <b>26. Rental of facilities and equipment</b>             |                  |                |
| <b>Premises</b>   |                  |                |
| Premises  | 402 175          | 286 738        |
| Venue hire  | 27 545           | 17 684         |
|   | <b>429 720</b>   | <b>304 422</b> |
| <b>Facilities and equipment</b>                           |                  |                |
| Rental of equipment                                       | 3 512            | -              |
|   | <b>433 232</b>   | <b>304 422</b> |
| <b>27. Other revenue</b>                                  |                  |                |
| Administration and management fees received - third party | 1                | 79             |
| Commissions received                                      | 391 317          | 263 969        |
| Discount received   | 458 676          | -              |
| Other income - (rollup)                                   | 602 695          | 381 383        |
| Connection Fees   | 74 796           | 28 283         |
|   | <b>1 527 485</b> | <b>673 714</b> |
| <b>28. Other income</b>                                   |                  |                |
| Garden & Sale of Gravel                                   | 70 271           | 12 353         |
| Building Plans  | 73 100           | 19 796         |
| Advertising   | 3 849            | 4 870          |
| Enchroachments  | 103              | 71             |
| Grave Plots   | 7 687            | 7 991          |
| Insurance payouts   | 130 027          | 63 858         |
| Diverse repayments from employees                         | 283 869          | 178 992        |
| Photostats & faxes  | 3 004            | 2 347          |
| Sewerage obstructions                                     | 6 107            | 7 935          |
| Tender Fees   | 14 650           | 73 543         |
| Testing of meters   | 2 589            | 505            |
| Valuation Certificates Issued                             | 7 439            | 9 122          |
|   | <b>602 695</b>   | <b>381 383</b> |
| <b>29. Investment revenue</b>                             |                  |                |
| <b>Interest revenue</b>                                   |                  |                |
| Bank  | 390 984          | 662 951        |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand           | 2015             | 2014             |
|---------------------------|------------------|------------------|
| <b>30. Property rates</b> |                  |                  |
| <b>Rates received</b>     |                  |                  |
| Residential               | 2 862 513        | 2 689 183        |
| Less: Income forgone      | (376 389)        | (596 040)        |
|                           | <b>2 486 124</b> | <b>2 093 143</b> |

Property Rates are levied on the value of land and improvements, which valuation is performed every four years. The valuation came into effect on July 2011. During the financial period ended 30 June 2015 a new valuation roll has been compiled which will come into effect in July 2015

Interim valuations are processed on a continuous basis taking into account changes in individual property values due to alterations and subdivisions. During the 2014/15 financial period no alterations or subdivisions were noted.

Rates are levied monthly on property owners and are payable at the end of each month. Interest is levied at a rate determined by council on outstanding rates amounts.

### Valuations

|                          |                      |                      |
|--------------------------|----------------------|----------------------|
| Residential              | 109 408 523          | 109 408 523          |
| Commercial               | 27 067 500           | 27 067 500           |
| State                    | 19 210 450           | 19 210 450           |
| Small holdings and farms | 1 155 708 143        | 1 155 708 143        |
| Released                 | 32 531 350           | 32 531 350           |
|                          | <b>1 343 925 966</b> | <b>1 343 925 966</b> |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2011. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an annual basis with the final date for payment being 30 September 2015 (30 September 2014). Interest at prime plus 1% per annum (2014: 10%)

The new general valuation will be implemented on 01 July 2015.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand   | 2015              | 2014              |
|---|-------------------|-------------------|
| <b>31. Government grants and subsidies</b>                  |                   |                   |
| <b>Operating grants</b>                                     |                   |                   |
| Equitable share   | 16 735 000        | 15 565 001        |
| Finance Management Grant (FMG)                              | 1 496 403         | 1 650 000         |
| National ACIP   | -                 | 3 350 849         |
| Municipal System Implementation Grant (MSIG)                | 934 059           | 889 941           |
| Expanded Public Works Programme (EPWP)                      | 607 930           | 749 431           |
| Library Grant   | 185 435           | 353 130           |
| LG SETA Grant   | 33 878            | 38 827            |
| Municipal Infrastructure Grant (MIG) Operating Portion      | 570 246           | -                 |
| Regional Bulk Infrastructure Grant (RBIG) Operating portion | 12 164            | -                 |
| Treasury's contribution towards Audit Fees                  | 1 848 954         | 1 617 900         |
|   | <b>22 424 069</b> | <b>24 215 079</b> |
| <b>Capital grants</b>                                       |                   |                   |
| Municipal Infrastructure Grant (MIG)                        | 16 170 874        | 4 681 724         |
| Integrated National Electricity Programme (INEP)            | -                 | 269 643           |
| Regional Bulk Infrastructure Grant (RBIG)                   | 6 481 493         | 4 676 269         |
| Expanded Public Works Programme (EPWP)                      | 212 200           | -                 |
| Finance Management Grant (FMG)                              | 303 597           | -                 |
|   | <b>23 168 164</b> | <b>9 627 636</b>  |
|   | <b>45 592 233</b> | <b>33 842 715</b> |

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

|                               |                   |                   |
|-------------------------------|-------------------|-------------------|
| Conditional grants received   | 27 008 279        | 16 659 814        |
| Unconditional grants received | 18 583 954        | 15 565 001        |
|                               | <b>45 592 233</b> | <b>32 224 815</b> |

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. In terms of the allocation made by DPLG the funds are also utilised to enable the municipality to execute its functions as a local municipality. During the financial period an amount of R2 804 000 (2014: R2 651 000) was utilised as a refund on the unspent Municipal Infrastructure Grant balance.

All registered indigents receive a monthly subsidy of R 130 (2014: R 130), which is funded from the grant.

### Municipal Infrastructure Grant (MIG)

|   |                  |                   |
|---|------------------|-------------------|
| Balance unspent at beginning of year    | 10 954 624       | 6 705 347         |
| Current-year receipts                   | 14 098 000       | 11 582 000        |
| Conditions met - transferred to revenue | (16 741 121)     | (4 681 723)       |
| Refunded                                | (2 804 000)      | (2 651 000)       |
|   | <b>5 507 503</b> | <b>10 954 624</b> |

Conditions still to be met - remain liabilities (see note 16).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of Highmast lights, sewer and water purification infrastructure as part of the upgrading of previously disadvantaged areas. No funds have been withheld.

An amount of R2 804 000 (2014: R2 651 000) was withheld from the allocated Equitable share as a refund of unspent MIG funds from previous financial periods.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

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

All current year allocations were fully spent during the year and allocated to revenue under votes C311/N708/M001 and C540/N708/R001.

#### Library Grant

|   |                |                |
|---|----------------|----------------|
| Balance unspent at beginning of year    | 249 870        | 603 000        |
| Current-year receipts                   | 782 000        | -              |
| Conditions met - transferred to revenue | (185 435)      | (353 130)      |
|   | <b>846 435</b> | <b>249 870</b> |

Conditions still to be met - remain liabilities (see note 16).

The grant was as part of a contribution towards the running of libraries i.e to cover operational costs.

The expenditure votes utilised during the financial period were 0303/4503/0000, 0403/3811/0000, 0403/4460/0000, 0403/4479/0000, 0403/4511/0000 and 0431/4503/0000.

#### Expanded Public Works Programme (EPWP)

|   |                |                |
|---|----------------|----------------|
| Balance unspent at beginning of year    | 251 610        | 130 120        |
| Current-year receipts                   | 1 000 000      | 1 000 000      |
| Conditions met - transferred to revenue | (820 130)      | (749 431)      |
| Refunded                                | -              | (129 079)      |
|   | <b>431 480</b> | <b>251 610</b> |

Conditions still to be met - remain liabilities (see note 16).

The grants was received for the purpose of creating job opportunities. No funds have been withheld.

The expenditure votes utilised during the financial period included 0311/4371/0000 and 0501/4444/0000.

#### Finance Management Grant (FMG)

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 1 800 000   | 1 650 000   |
| Conditions met - transferred to revenue | (1 800 000) | (1 650 000) |
|   | -           | -           |

Conditions still to be met - remain liabilities (see note 16).

The Financial Management Grant is paid by National Treasury to municipalities to assist the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003. No funds have been withheld.

The expenditure votes utilised during the financial period included 0201/4351/0000, 0203/4401/0000, 0301/4231/0000, 0301/4493/0000, 0431/4417/0000 and 8001/8005/8001.

#### Municipal Systems Improvement Grant (MSIG)

|   |           |           |
|---|-----------|-----------|
| Balance unspent at beginning of year    | 59        | -         |
| Current-year receipts                   | 934 000   | 890 000   |
| Conditions met - transferred to revenue | (934 059) | (889 941) |
|   | -         | <b>59</b> |

Conditions still to be met - remain liabilities (see note 16).

The Municipal Systems Improvement Grant is allocated to municipalities to assist in building in-house capacity to perform their functions and to improve and stabilise municipal systems. No funds have been withheld.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

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

The expenditure votes utilised during the financial period included 0201/4355/0000, 0301/4231/0000 and 0540/4523/0000.

#### Integrated National Electricity Programme (INEP)

|   |           |                |
|---|-----------|----------------|
| Balance unspent at beginning of year    | 164 038   | 433 681        |
| Conditions met - transferred to revenue | -         | (269 643)      |
| Refunded from Equitable Share           | (164 000) | -              |
|   | <b>38</b> | <b>164 038</b> |

Conditions still to be met - remain liabilities (see note 16).

The grants was paid to the municipality to promote rural development and upgrade the electricity infrastructure.

#### Regional Bulk Infrastructure Grant (RBIG)

|   |                    |                    |
|---|--------------------|--------------------|
| Balance Receivable at beginning of year | (1 136 908)        | -                  |
| Current-year receipts                   | 5 121 420          | 3 539 361          |
| Conditions met - transferred to revenue | (6 493 657)        | (4 676 269)        |
|   | <b>(2 509 145)</b> | <b>(1 136 908)</b> |

Conditions still to be met - remain liabilities (see note 16).

This Grant was used for the operation and maintenance of sewerage and water schemes transferred from RBIG to the municipality and the refurbishment of infrastructure. The balance of expenditures meeting the conditions and will be claimable in the 2015-16 financial period totals R2 509 145.

The expenditure votes utilised during the financial period included C311/N708/M001 and C540/N708/R001.

#### Treasury's contribution towards Audit Fees

|   |             |             |
|---|-------------|-------------|
| Treasury contribution                   | 1 794 208   | 1 617 900   |
| Conditions met - transferred to revenue | (1 794 208) | (1 617 900) |
|   | -           | -           |

According to the Public Audit Act the Municipality is only responsible for an audit fee from the offices of the Auditor General equal to 1% of their total expenditures per annum. The balance of the audit fees are payable by Treasury.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand  | 2015              | 2014              |
|--|-------------------|-------------------|
| <b>32. Employee related costs</b>  |                   |                   |
| Basic  | 12 273 243        | 9 979 874         |
| Commissions  | 526               | -                 |
| Medical aid - company contributions  | 619 396           | 573 013           |
| UIF  | 112 224           | 83 454            |
| SDL  | 201 739           | 170 384           |
| Other payroll levies   | 12 719            | -                 |
| Leave pay provision charge   | 444 359           | 359 995           |
| Defined contribution plans   | 629 000           | 703 000           |
| Overtime payments  | 1 705 614         | 1 096 730         |
| Long-service awards  | 22 903            | 396 669           |
| 13th Cheques   | 1 050 716         | 824 190           |
| Car allowance  | 94 157            | 82 565            |
| Housing benefits and allowances  | 29 103            | 18 451            |
| Telephone Allowances   | 66 881            | 24 456            |
| Pension fund contributions   | 1 919 625         | 1 572 866         |
| Provident fund contributions   | 60 865            | 64 957            |
| Stipends   | 163 500           | 128 500           |
| Wages  | 557 572           | 324 518           |
| Long-term benefits - incentive scheme  | -                 | 20                |
|  | <b>19 964 142</b> | <b>16 403 642</b> |
| <b>Remuneration of municipal manager</b>   |                   |                   |
| Annual Remuneration  | 575 318           | 540 984           |
| Travel Allowance   | 152 344           | 140 128           |
| Contributions to UIF, Medical and Pension Funds  | 112 006           | 105 779           |
|  | <b>839 668</b>    | <b>786 891</b>    |
| <b>Remuneration of chief finance officer</b>   |                   |                   |
| Annual Remuneration  | 554 288           | 137 063           |
| Travel Allowance   | 106 617           | 25 575            |
| Contributions to UIF, Medical and Pension Funds  | 108 142           | 26 806            |
| Acting Allowance (Paid to manager in acting capacity)  | -                 | 169 506           |
|  | <b>769 047</b>    | <b>358 950</b>    |
| <b>Remuneration of corporate services director</b>   |                   |                   |
| Annual Remuneration  | 394 148           | 334 777           |
| Travel Allowance   | -                 | 64 200            |
| Contributions to UIF, Medical and Pension Funds  | 1 337             | 64 715            |
| Leave pay-out  | 29 585            | -                 |
|  | <b>425 070</b>    | <b>463 692</b>    |
| <p>The Position of Corporate Services Director was vacant from 1 July 2014 to 30 November 2014. No acting allowance was paid during this time.</p> |                   |                   |
| <b>Remuneration of technical services director</b>   |                   |                   |
| Annual Remuneration  | 116 990           | 465 463           |
| Travel Allowance   | 52 875            | 210 372           |
| Telephone allowance  | 3 750             | 14 920            |
| Contributions to UIF, Medical and Pension Funds  | 2 190             | 8 347             |
| Leave pay-out  | 13 889            | -                 |
|  | <b>189 694</b>    | <b>699 102</b>    |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand  | 2015              | 2014             |
|--|-------------------|------------------|
| <b>32. Employee related costs (continued)</b>  |                   |                  |
| The position of Technical Services Director has been vacant since 1 October 2014. The roll of technical services director has been contracted out to OJM Construction services at a monthly fee of R60 000 since January 2015. |                   |                  |
| <b>33. Remuneration of councillors</b>   |                   |                  |
| Executive Mayor (Total Package)  | 673 386           | 624 474          |
| Councillors (Total Packages)   | 1 824 667         | 1 324 322        |
|  | <b>2 498 053</b>  | <b>1 948 796</b> |
| <b>34. Administrative expenditure</b>  |                   |                  |
| Administration and management fees   | 14 587            | 34 836           |
| <b>35. Depreciation and amortisation</b>   |                   |                  |
| Property, plant and equipment  | 8 778 309         | 8 085 926        |
| Intangible assets  | 157 986           | 135 004          |
|  | <b>8 936 295</b>  | <b>8 220 930</b> |
| <b>36. Finance costs</b>   |                   |                  |
| Non-current borrowings   | 140 069           | 9 772            |
| Trade and other payables   | 2 078 288         | 940 174          |
| Finance leases   | 98 637            | 136 432          |
| Increase in Rehabilitation Provision   | 1 159 073         | -                |
|  | <b>3 476 067</b>  | <b>1 086 378</b> |
| <b>37. Debt impairment</b>   |                   |                  |
| Debt Impairment  | 6 689 570         | 4 483 320        |
| The debt impairment indicated above includes both the impairments on Current and Non-Current Debtors.  |                   |                  |
| The Impairment movement is made up as follow:  |                   |                  |
| Opening Balance (Current & Non-Current):   | R 45 165 213      |                  |
| Bad debt written off (Consumers)   | R -357 919        |                  |
| Bad debt written off (Traffic fines)   | R -13 100         |                  |
| Provision on Non-Current Debtors   | R 1 323 654       |                  |
| Provision on Current Debtors   | R 2 435 763       |                  |
| Provision on Traffic fines   | R 2 930 153       |                  |
| Closing balance (Current & Non-Current):   | R 51 483 764      |                  |
| <b>38. Bulk purchases</b>  |                   |                  |
| Electricity  | 10 031 367        | 9 203 138        |
| Water  | 340 642           | 368 648          |
|  | <b>10 372 009</b> | <b>9 571 786</b> |
| <b>39. Contracted services</b>   |                   |                  |
| Specialist Services  | 18 346            | 38 168           |
| Other Contractors  | 73 185            | 25 643           |
|  | <b>91 531</b>     | <b>63 811</b>    |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand                        | 2015              | 2014              |
|--|-------------------|-------------------|
| <b>40. General expenses</b>            |                   |                   |
| Advertising                            | 160 128           | 154 617           |
| Auditors remuneration                  | 2 481 291         | 1 284 284         |
| Bank charges                           | 74 057            | 90 130            |
| Consulting and professional fees       | 2 617 432         | 1 835 415         |
| Consumables                            | 106 123           | 56 843            |
| Debt collection                        | 146 140           | -                 |
| Delivery expenses                      | 18 598            | 5 284             |
| Donations                              | 3 253             | 15 555            |
| Entertainment                          | 3 146             | 9 601             |
| Flowers                                | 289               | -                 |
| Insurance                              | 252 646           | 488 479           |
| Motor vehicle expenses                 | 523 792           | 734 169           |
| Fuel and oil                           | 492 122           | 589 030           |
| Postage and courier                    | 66 056            | 79 615            |
| Printing and stationery                | 379 414           | 330 200           |
| Protective clothing                    | 26 713            | 56 992            |
| Project maintenance costs              | 65 206            | 501 652           |
| Royalties and license fees             | 600 958           | 290 046           |
| Staff welfare                          | 8 560             | 10 997            |
| Subscriptions and membership fees      | 588 672           | 386 151           |
| Telephone and fax                      | 312 863           | 231 715           |
| Training                               | 67 000            | 277 751           |
| Electricity                            | 690 016           | 618 509           |
| Refuse                                 | 5 407             | 4 825             |
| Free Basic Services                    | 1 420 991         | 1 041 926         |
| Special Programs                       | 233 415           | 198 479           |
| Subsistence and Traveling              | 1 544 549         | 1 357 730         |
| TVS                                    | 279 118           | 764 347           |
| Chemicals                              | 364 082           | 683 936           |
|  | <b>13 532 037</b> | <b>12 098 278</b> |
| <b>41. Fair value adjustments</b>      |                   |                   |
| Investment property (Fair value model) | 651 910           | 576 890           |
| <b>42. Auditors' remuneration</b>      |                   |                   |
| Fees                                   | 2 481 291         | 1 284 284         |
| <b>43. Operating lease</b>             |                   |                   |

The Municipality rents equipment used in bathroom facilities on an operating lease basis. The contract commenced in December 2014 and is renewable on an annual basis.

- The rent payable on a monthly basis amounts to R2 190.
- No escalation clauses exists and the contract is renewable after a year.
- Future rent payable:

Amount payable within 1 year: R10 950

Amount payable from 2 to 5 years: R 0

Amount payable after 5 years: R 0

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand  | 2015              | 2014              |
|--|-------------------|-------------------|
| <b>44. Cash generated from operations</b>              |                   |                   |
| Surplus  | 3 039 896         | 1 120 031         |
| <b>Adjustments for:</b>                                |                   |                   |
| Depreciation and amortisation                          | 8 936 295         | 8 220 930         |
| Gain (loss) on sale of assets and liabilities          | 192 531           | (182 907)         |
| Fair value adjustments                                 | (651 910)         | (576 890)         |
| Finance costs  | 392 525           | 136 432           |
| Debt impairment  | 6 689 570         | 4 483 320         |
| Fines & Other Income Received                          | -                 | 465 797           |
| Movements in retirement benefit assets and liabilities | 259 582           | (2 809 000)       |
| Donations & Discounts                                  | (2 307 630)       | (1 617 900)       |
| Amortisation   | -                 | 135 004           |
| Finance costs  | -                 | 60 722            |
| Movement in Provisions                                 | 1 286 640         | 813 595           |
| Equitable share withheld                               | (2 804 000)       | (2 651 000)       |
| Interest on Receivables                                | (390 985)         | (662 951)         |
| <b>Changes in working capital:</b>                     |                   |                   |
| Inventories  | 143 298           | (13 994)          |
| Receivables from exchange transactions                 | (8 685 607)       | (6 409 993)       |
| Consumer debtors                                       | (503 416)         | 869 799           |
| Payables from exchange transactions                    | 12 350 189        | 3 981 017         |
| VAT  | (2 379 134)       | (1 748 469)       |
| Unspent conditional grants and receipts                | (2 030 744)       | 7 002 053         |
| Consumer deposits                                      | (2 029)           | (102 896)         |
| Movement in Provisions                                 | -                 | 721 891           |
|  | <b>13 535 071</b> | <b>11 234 591</b> |

## 45. Financial instruments disclosure

### Categories of financial instruments

#### 2015

#### Financial assets

|  | At cost          | Total            |
|--|------------------|------------------|
| Trade and other receivables from exchange transactions | 2 880 371        | 2 880 371        |
| Other receivables from non-exchange transactions       | 3 543 284        | 3 543 284        |
| Cash and cash equivalents                              | 722 539          | 722 539          |
| Payments made in advance                               | 17 460           | 17 460           |
| Other Receivables                                      | 671 117          | 671 117          |
|  | <b>7 834 771</b> | <b>7 834 771</b> |

#### Financial liabilities

|   | At amortised cost | At cost           | Total             |
|---|-------------------|-------------------|-------------------|
| Finance Leases                                      | 693 859           | -                 | 693 859           |
| Other financial liabilities                         | 5 142 385         | -                 | 5 142 385         |
| Trade and other payables from exchange transactions | -                 | 33 262 613        | 33 262 613        |
| VAT payable   | -                 | 111 760           | 111 760           |
| Consumer Deposits                                   | -                 | 474 099           | 474 099           |
| Unspent Grants                                      | -                 | 6 785 456         | 6 785 456         |
| Third Party Collections                             | -                 | 1 261 378         | 1 261 378         |
|   | <b>5 836 244</b>  | <b>41 895 306</b> | <b>47 731 550</b> |

#### 2014

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

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### Financial instruments disclosure (continued)

#### Financial assets

|  | At cost           | Total             |
|--|-------------------|-------------------|
| Trade and other receivables from exchange transactions | 2 726 093         | 2 726 093         |
| Other receivables from non-exchange transactions       | 1 597 879         | 1 597 879         |
| Other Receivables                                      | 167 701           | 167 701           |
| Cash and cash equivalents                              | 8 862 798         | 8 862 798         |
| Payments made in advance                               | 104 548           | 104 548           |
|  | <b>13 459 019</b> | <b>13 459 019</b> |

#### Financial liabilities

|   | At amortised<br>cost | At cost           | Total             |
|---|----------------------|-------------------|-------------------|
| Finance Leases                                      | 1 282 379            | -                 | 1 282 379         |
| Other financial liabilities                         | 5 598 305            | -                 | 5 598 305         |
| Trade and other payables from exchange transactions | -                    | 23 341 516        | 23 341 516        |
| VAT payable   | -                    | 2 490 894         | 2 490 894         |
| Consumer Deposits                                   | -                    | 476 128           | 476 128           |
| Unspent Grants                                      | -                    | 11 620 201        | 11 620 201        |
| Third Party Collections                             | -                    | 1 139 914         | 1 139 914         |
|   | <b>6 880 684</b>     | <b>39 068 653</b> | <b>45 949 337</b> |

### 46. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

|                                 |            |            |
|---------------------------------|------------|------------|
| • Property, plant and equipment | 15 536 567 | 24 120 214 |
|---------------------------------|------------|------------|

##### Not yet contracted for and authorised by accounting officer

|                                 |            |            |
|---------------------------------|------------|------------|
| • Property, plant and equipment | 79 558 609 | 91 877 260 |
|---------------------------------|------------|------------|

#### Total capital commitments

|   |                   |                    |
|---|-------------------|--------------------|
| Already contracted for but not provided for                 | 15 536 567        | 24 120 214         |
| Not yet contracted for and authorised by accounting officer | 79 558 609        | 91 877 260         |
|   | <b>95 095 176</b> | <b>115 997 474</b> |

#### Total commitments

#### Total commitments

|                                |            |             |
|--------------------------------|------------|-------------|
| Authorised capital expenditure | 95 095 176 | 115 997 474 |
|--------------------------------|------------|-------------|

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, government grants, funds internally generated, etc.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 47. Contingencies

#### Contingent Liabilities

##### Landfill sites

The Municipality currently have two active landfill sites. It has been identified that the landfill sites situated in Hopetown and Strydenburg are not licensed as required by the National Environmental Management Waste Act, 2008, (Act no 59 of 2008).

In accordance with section 68(1) of the National Environmental Management Waste Act, 2008, (Act no 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 year, or to both such fine and imprisonment, in addition to any other penalty or award that may be imposed or made.

##### Environmental Act -

In terms of the Environmental Act, the municipality is responsible for a number of environmental related transactions that may take place in its jurisdiction. This gives rise to contingent liabilities. However, the nature of such transactions cannot be estimated both financially and the number of occurrences, if any are to occur. Whilst the municipality is not aware of such liabilities, the following are the key transactions:

- contingent liabilities relating to fines that may be imposed by the department of environmental affairs as a result of illegal dumping by municipal employees.
- penalties relating to raw sewerage or sewerage not properly treated being released to nearby rivers or dams.
- penalties relating to lack of proper security at the municipality's dumping site or lack of monitoring waste being dumped there as some waste should be dumped in a certain specific way so as to avoid related health hazards e.g. medical waste.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand   | 2015  | 2014                   |
|---|---|------------------------|
| <b>48. Related parties</b>  |   |                        |
| <b>Relationships</b>  |   |                        |
| Accounting Officer  | Maikaelelo mining, Lorabi 23, Ledig Investments, Mahlasedi Investment Holdings, Mosogoli Trading and Investments, Meriting Investments, Squires Kimberley, JMPLC Investment Holdings, City Square Trading, Swanvest, Leitlho Investments, Theta Mining and Samber trading |                        |
| Members of key management   | NE Mguye - NM Vegetation<br>G Butterworth - Angelfish Investments<br>DA Jonas - Thembelihle Bricks<br>B Mpamba - Thembelihle Bricks   |                        |
| <b>Related party balances</b>   |   |                        |
| <b>Accounts included in Trade Receivables regarding related parties</b> |   |                        |
| Jonas DA  | 45 005  | 58 646                 |
| De Bruin E  | -   | 672                    |
| Louw P  | 319   | (369)                  |
| Humphreys MA  | 113 244   | 108 400                |
| Mpamba B  | 218   | -                      |
| Madekane SE   | 45  | (609)                  |
| <b>Rent received from related parties</b>                               |   |                        |
| Lidia Walters   | 19 670  | 16 619                 |
| Linda van Wyk   | 19 670  | 18 130                 |
| Solly Dwango  | 8 783   | 8 095                  |
| NP Mqokosa  | 2 218   | 18 692                 |
| Tania Gorrah  | 15 518  | 14 302                 |
| SF Yekani   | 10 811  | 13 320                 |
| SK Burger   | 3 844   | -                      |
| N Sindelo   | 1 108   | -                      |
| T Mzuzu   | 1 108   | -                      |
| R Goaya   | 671   | -                      |
| <b>Provision for bad debt</b>   |   |                        |
| Jonas DA  | 13 726  | 4 290                  |
| Humphreys MA  | 97 676  | 108 430                |
| Mpamba B  | 219   | -                      |
| De Bruin E  | -   | 39 293                 |
| Louw P  | -   | 39 656                 |
| <b>Compensation to Council Members</b>                                  |   |                        |
|   | <b>Total Package</b>  | <b>Closing balance</b> |
| SE Madekane   | 293 731   | 293 731                |
| B Mpamba  | 289 774   | 289 774                |
| E De Bruin  | 295 218   | 295 218                |
| P Louw  | 292 780   | 292 780                |
| A Kywe  | 298 180   | 298 180                |
| MA Humphreys  | 298 461   | 298 461                |
|   | <b>1 768 144</b>  | <b>1 768 144</b>       |
| <b>Compensation to accounting officer and other key management</b>      |   |                        |
| Accounting Officer - M Mogale   | 839 668   | 786 891                |
| Chief Financial Officer - G Butterworth                                 | 769 047   | 358 950                |
| Corporate Services Director - NE Mguye                                  | 425 070   | 463 692                |
| Technical Services Director - ER Painting                               | 189 694   | 699 102                |
| Mayor - DA Jonas  | 673 386   | 624 474                |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand                        | 2015             | 2014             |
|--|------------------|------------------|
| <b>48. Related parties (continued)</b> | <b>2 896 865</b> | <b>2 933 109</b> |

### 49. Change in accounting policy

#### Property, plant and equipment

The accounting policy relating to land and buildings has been changed to account for land at historical cost with no depreciation as it is deemed to have an indefinite useful life and buildings at historical cost less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The useful life of certain items of property plant and equipment have been revised (Change in Estimate) as follow:

| <b>Infrastructure</b>    | <b>2013/14</b>  | <b>2014/15</b>      |
|--------------------------|-----------------|---------------------|
| Roads & Paving           | 45 to 50 years  | 5 to 80 years       |
| Electricity              | 45 to 50 years  | 5 to 50 years       |
| Water                    | 15 to 100 years | 10 to 100 years     |
| Sewerage & Solid waste   | 15 to 100 years | 10 to 60 years      |
| Sanitation               | n/a             | 1 to 100 years.     |
| <b>Community</b>         |                 |                     |
| Community facilities     | 30 to 100 years | 30 years            |
| Recreational facilities  | 15 to 60 years  | 15 to 30 years      |
| Security                 | 5 years         | n/a                 |
| <b>Other assets</b>      |                 |                     |
| Computer Equipment       | n/a             | 5 to 10 years       |
| Emergency Equipment      | n/a             | 10 years            |
| Furniture & Fittings     | 7 to 10 years   | 5 to 15 years       |
| Motor vehicles           | 5 to 20 years   | 7 to 15 years       |
| Office equipment         | 3 to 7 years    | 5 to 15 years       |
| Pant & Equipment         | 2 to 15 years   | 5 to 15 years       |
| Landfill sites           | 10 to 65 years  | n/a - decomissioned |
| Water craft              | 15 years        | n/a                 |
| Bins & Containers        | 5 years         | n/a                 |
| <b>Intangible assets</b> |                 |                     |
| Computer Software        | 3 to 7 years    | 3 years             |

The effect of this revision has increased the depreciation charges for the current and future periods by R 104 375

#### Revaluation Reserve

The revaluation of Investment properties are accounted for through the Statement of Financial performance and no Revaluation reserve is accumulated.

The impact is that the Revaluation Reserve, has been written down to zero.

The Revaluation Reserve written off amounts to R31 453 356

#### Rehabilitation of landfill sites

The provision on the rehabilitation of landfill sites were re-assessed and it was found that the sites were operated illegally. The change in estimate was to adjust the expected lifetime of remaining usage to zero. A fully licensed Landfill site was constructed and only needs licensing before it will be used instead of the illegal dumping site. Therefore the provision was calculated to determine the closure costs as at 30 June 2015.

The effect of the change in estimate was to increase the provision in the current year by R1 159 073

### 50. Prior period errors

A number of of accounts were re-stated in the comparative amounts of the financial statements due to prior period errors. Where applicable, the corrections and/or changes were adjusted retrospectively, unless otherwise stated.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 50. Prior period errors (continued)

|   |  |            |            |               |            |            |            |
|---|--|------------|------------|---------------|------------|------------|------------|
| <b>Grants Receivable:</b>               | Expenditures incurred during the 2013/14 financial period, that met the conditions of the RBIG grant, were not accounted for as revenue and the receivable was also not accounted for.   |            |            |               |            |            |            |
| <b>Receivables from Non-Exchange:</b>   | The bad debt provision for the 2013/14 financial period was recalculated and the adjustment made in the comparatives. There was also a reclassification from current to the non-current receivables.   |            |            |               |            |            |            |
| <b>VAT Payable/Receivable:</b>          | A reconciliation was done on the VAT balance for both financial periods and adjustments made. The Municipality had accumulated accounts for VAT claimable and VAT payable from previous years that were not accounted for to the VAT control account. VAT pay-outs received from SARS were also not accounted for to the VAT control account. After the reconciliation it was ensured that the deferred VAT claimable balance agrees to the VAT included in the Creditors balances, the deferred VAT payable agrees to the VAT included in the Receivables balances and that the VAT control account agrees to the VAT statement of account at year end including any reconciling items. |            |            |               |            |            |            |
| <b>Pre-Payments:</b>                    | In the previous financial period a payment was made to a supplier in excess of an invoiced amount. The Pre-payment was not accounted for.  |            |            |               |            |            |            |
| <b>Other Receivables:</b>               | During the previous financial period a court order was made to receive an amount from a previous employee. The receivable amount was not accounted for.  |            |            |               |            |            |            |
| <b>Receivables from Exchange:</b>       | Differences were identified between the General Ledger and the Receivables reports from the previous financial period. These were corrected to ensure the Financial statements agree to the reports. The bad debt provision for the 2013/14 financial period was also re-calculated and the adjustments made. Receivables were also re-classified from current to non current receivables.   |            |            |               |            |            |            |
| <b>Cash and Cash Equivalents:</b>       | The cash & cash equivalents balance for the 2013/14 financial period included a suspense vote that did not relate to cash & cash equivalents. The vote was correctly mapped for the 2014/15 financial period. Revenue from Traffic fines were also incorrectly accounted for to Cash Suspense accounts.  |            |            |               |            |            |            |
| <b>Property, Plant &amp; Equipment:</b> | <p>The fixed asset register of the Municipality was completely overhauled retrospectively and the adjustments were made to the financial statements accordingly. Errors relating to the period prior to 30 June 2014 amounts to R18 084 740, changes to the 2013/14 movements were as follow:</p> <table><tr><td>Additions:</td><td>-R 748 293</td></tr><tr><td>Depreciation:</td><td>R2 532 370</td></tr><tr><td>Disposals:</td><td>-R 183 944</td></tr></table> <p>The total adjustment to the carrying value of Property, Plant and Equipment as at 30 June 2014 amounts to R19 684 873.</p>  | Additions: | -R 748 293 | Depreciation: | R2 532 370 | Disposals: | -R 183 944 |
| Additions:                              | -R 748 293   |            |            |               |            |            |            |
| Depreciation:                           | R2 532 370   |            |            |               |            |            |            |
| Disposals:                              | -R 183 944   |            |            |               |            |            |            |
| <b>Long term debtors:</b>               | The comparative amounts for the debtors included under the option1 and option2 settlement agreements with the municipality was incorrectly accounted for. The options relate to settlement agreements with Consumer receivables to settle outstanding accounts over a period of three years. The non-current portion was not accurately calculated.  |            |            |               |            |            |            |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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### 50. Prior period errors (continued)

|   |  |
|---|--|
| <b>Finance Lease obligation:</b>          | The starting date of a number of finance leases were incorrectly accounted for.  |
| <b>Trade and other payables:</b>          | The salary control account balance for the 2013/14 financial period was misstated and no support existed for a portion of the balance. The unsupported balance was corrected through accumulated surplus. Retention fees accumulated as at 30 June 2014 was also not accounted for as a payable. Accrued Bonuses and Leave was incorrectly disclosed as separate line items on the face of the statement of financial position, this was corrected to be included under the payables amount. |
| <b>Third Party collections:</b>           | A statement received from the department of safety indicated that the balance disclosed in the comparatives of the financial statements, was misstated. This was corrected to disclose the correct balance.  |
| <b>Accumulated surplus:</b>               | The corrections mentioned above affected the balance of the accumulated surplus.   |
| <b>Government Grants &amp; Subsidies:</b> | In the 2013/14 financial period Equitable share withheld as a refund to the unspent Municipal Infrastructure Grant balance was incorrectly accounted for directly to accumulated surplus. This was corrected to account for the Equitable share revenue. Expenditures meeting the conditions to the Regional Bulk Infrastructure Grant was not accounted for in the 2013/14 financial period.  |
| <b>Other Income:</b>                      | The adjustment to other income relate to the court order receivable as mentioned above under Other receivables.  |
| <b>Employee costs:</b>                    | An amount relating to employee costs was incorrectly included under the trade payables. The Actuarial gain was incorrectly accounted for against employee costs. This has been corrected in the comparative amounts.   |

Cash flow statement changes will directly relate to the changes made as mentioned above.

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

#### Statement of financial position

|                               |   |              |
|-------------------------------|---|--------------|
| Property, plant and equipment | - | 19 684 873   |
| Investment Property           | - | 1 644 387    |
| Receivables from Non-Exchange | - | 479 813      |
| Intangible assets             | - | (3 583)      |
| VAT Receivable                | - | (4 982 005)  |
| Pre-Payments                  | - | 104 548      |
| Other Receivables             | - | 167 701      |
| Receivables from Exchange     | - | 949 745      |
| Cash & Cash Equivalents       | - | 454 389      |
| Long-term Debtors             | - | 438 559      |
| Finance Lease Obligation      | - | (4 634)      |
| Trade and Other Payables      | - | (3 379 598)  |
| VAT Payable                   | - | 303 889      |
| Third Party Collections       | - | 250 087      |
| Consumer Deposits             | - | (85 309)     |
| Accumulated Surplus           | - | (47 476 221) |
| Revaluation Reserve           | - | 31 453 356   |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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|-----------------|------|------|

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### 50. Prior period errors (continued)

#### Statement of Financial Performance

|                                  |   |             |
|----------------------------------|---|-------------|
| Depreciation expense             | - | (2 535 559) |
| Government grants & subsidies    | - | (5 022 412) |
| Traffic fines                    | - | (458 001)   |
| Rental of facilities & equipment | - | 1 656       |
| Other Income                     | - | (167 701)   |
| Proceeds from scrapped assets    | - | 133 231     |
| Fair Value Adjustments           | - | (576 890)   |
| Employee cost                    | - | 23 745      |
| Bad Debt Provision               | - | (370 262)   |
| Repairs & Maintenance            | - | 7 765       |
| General Expenses                 | - | 178 943     |

### 51. Comparative figures

Certain comparative figures have been reclassified as a direct effect from the different outlay of the statement of financial performance.

The effects of the reclassification are as follows:

#### Statement of financial position

|                               |   |             |
|-------------------------------|---|-------------|
| Receivables from Non-Exchange | - | 933 252     |
| VAT Receivable                | - | 2 794 537   |
| Receivables from Exchange     | - | 8 023       |
| Cash & Cash Equivalents       | - | 2 376       |
| Long Term Debtors             | - | (941 031)   |
| Trade and other Payables      | - | (1 352 609) |
| VAT Payable                   | - | (2 794 783) |
| Accrued Bonus                 | - | 399 588     |
| Accrued Leave                 | - | 952 715     |
| Accumulated Surplus           | - | (2 068)     |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand                            | 2015 | 2014        |
|--|------|-------------|
| <b>51. Comparative figures (continued)</b> |      |             |
| <b>Statement of Financial Performance</b>  |      |             |
| Rendering of Services                      | -    | (827 603)   |
| Interest received on accounts              | -    | (116 429)   |
| Licenses & Permits                         | -    | 231 442     |
| Government grants & subsidies              | -    | (38 829)    |
| Building Plans                             | -    | 13 491      |
| Administration Income                      | -    | (79)        |
| Departmental Electricity                   | -    | 833 908     |
| Insurance Claims                           | -    | 63 858      |
| Graves                                     | -    | 7 991       |
| SETA                                       | -    | 38 827      |
| Other Income                               | -    | (174 403)   |
| Miscellaneous Income                       | -    | 9 294       |
| Tender Fees                                | -    | 73 543      |
| Proceeds from scrapped assets              | -    | (84 850)    |
| Interest Received                          | -    | (3 127)     |
| Actuarial Gains                            | -    | (2 809 000) |
| Employee Costs                             | -    | 1 168 902   |
| Councillors Remuneration                   | -    | 1 948 796   |
| Administration                             | -    | 34 836      |
| Depreciation, Impairments & Amortisation   | -    | (4 768 731) |
| Bad Debt Provision                         | -    | 4 853 581   |
| Bulk Purchases                             | -    | (217 158)   |
| Finance Costs                              | -    | 121 643     |
| Operating leases                           | -    | 48 501      |
| Repairs & Maintenance                      | -    | (820 129)   |
| Contracted Services                        | -    | 63 811      |
| General Expenditures                       | -    | 810 797     |

## 52. Risk management

### Financial risk management

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

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the council and the finance committee which has built an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risks by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Municipality also gets funding from National and Provincial government which helps to ease the pressure of any liquidity crisis.

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

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

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

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### 52. Risk management (continued)

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the policy. Trade Receivables are presented net of an allowance for impairment.

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

| Financial instrument                       | 2015      | 2014      |
|--|-----------|-----------|
| Receivables from exchange transactions     | 2 880 371 | 2 726 093 |
| Receivables from Non-exchange transactions | 3 519 861 | 1 597 897 |
| Other Receivables                          | 671 117   | 167 701   |
| Pre Payments                               | 17 460    | 104 548   |

#### Market risk

##### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2015 and 2014, the municipality's borrowings at variable rate were denominated in the Rand.

##### Cash flow interest rate risk

| Financial instrument                              | Current interest rate | Due in less than a year | Due in one to two years | Due in two to three years | Due in three to four years | Due after five years |
|---|-----------------------|-------------------------|-------------------------|---------------------------|----------------------------|----------------------|
| Trade and other receivables - normal credit terms | 10.00 %               | 3 459 392               | 455 117                 | -                         | -                          | -                    |
| Grant Receivable                                  | - %                   | 2 509 146               | -                       | -                         | -                          | -                    |
| Pre-Payments made                                 | - %                   | 17 460                  | -                       | -                         | -                          | -                    |
| Other Receivables                                 | - %                   | 671 117                 | -                       | -                         | -                          | -                    |
| Cash in current banking institutions              | - %                   | 722 539                 | -                       | -                         | -                          | -                    |
| Trade and other payables                          | - %                   | 33 262 613              | -                       | -                         | -                          | -                    |
| Loan from DBSA                                    | 15.00 %               | 412 671                 | 616 784                 | 521 369                   | 547 560                    | 3 000 955            |
| Finance leases                                    | 9.00 %                | 674 495                 | 19 364                  | -                         | -                          | -                    |
| Third party collections                           | - %                   | 1 261 378               | -                       | -                         | -                          | -                    |

### 53. Going concern

We draw attention to the fact that at 30 June 2015, the municipality had accumulated deficits of R 176 819 769 and that the municipality's total liabilities exceed its assets by R 176 819 769.

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.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

### 53. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality. The municipality currently survives on Grants received from National and Provincial government.

The following matters has been considered relating to the going concern:

- Council approved the budget for the 2015/16 to 2017/18 budget. This three year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the budget was cash backed over the three year period.
- The Municipality's budget is is subjected to a very rigorous independent assessment process to assess its cash backing status before it is ultimately approved by council.
- Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cashflow forecast supporting the budget. The cash management process is complemented by monthly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.
- As the municipality has power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services.
- The Municipality's cash management was under pressure during the 2014/15 financial period due to an amount of R2.8 million being withheld from the Equitable share receivable. R2.8 million was withheld due to Municipal Infrastructure Grants and Integrated National Electricity Grants that were not utilised in the past.

### 54. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2015.

### 55. Unauthorised expenditure

|                                       |                   |                   |
|---------------------------------------|-------------------|-------------------|
| Unauthorised expenditure              | 19 308 681        | 6 702 213         |
| Unauthorised expenditure current year | 14 904 549        | 12 606 468        |
|                                       | <b>34 213 230</b> | <b>19 308 681</b> |

### 56. Fruitless and wasteful expenditure

|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| Fruitless and wasteful expenditure | 2 585 057        | 1 614 555        |
| Current year                       | 2 197 714        | 970 502          |
|                                    | <b>4 782 771</b> | <b>2 585 057</b> |

Interest charges on overdue accounts: The Municipality was charged for interest on outstanding accounts. The main creditors that charged interest consist of:

Eskom: R1 379 077

Auditor General's office: R 678 373

### 57. Irregular expenditure

|   |                   |                   |
|---|-------------------|-------------------|
| Opening balance                           | 66 433 964        | 51 466 647        |
| Add: Irregular Expenditure - current year | 7 416 312         | 14 967 317        |
|   | <b>73 850 276</b> | <b>66 433 964</b> |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand  | 2015  | 2014             |
|--|---|------------------|
| <b>57. Irregular expenditure (continued)</b>   |   |                  |
| <b>Analysis of expenditure awaiting condonation per age classification</b>   |   |                  |
| Current year   | 7 416 312   | 14 967 317       |
| <b>Details of irregular expenditure – current year</b>   |   |                  |
|  | <b>Disciplinary steps taken/criminal proceedings</b>  |                  |
| SEBATA - No contractual agreement available  | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 481 600          |
| SIMLAB - No contractual agreement available  | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 117 789          |
| Explosive design - No contractual agreement available  | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 7 550            |
| Worley Parsons - No contractual agreement available  | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 2 388 794        |
| URSA Civils - No contractual agreement available   | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 1 490 604        |
| PCI Africa - No contractual agreement available  | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 341 392          |
| HT Peletona - No contractual agreement available   | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 772 729          |
| Dihlase Consulting - No contractual agreement available  | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 22 734           |
| Bright Idea - No contractual agreement available   | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 237 701          |
| Agriculture mining - No contractual agreement available  | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 2 620            |
| Subsistence & Traveling - During the audit of the 2013/14 financial period, it was found by the office of the Auditor General that subsistence and travelling allowances should be pre-approved before travelling for business purposes or other matters relating to the Municipality. The Municipality's procedures throughout the 2013-14 and 2014-15 financial period was to submit S&T claims to the Head of departments that was then approved for payment. Pre-authorisation is done verbally for travelling and no proof of such authorisation can therefore be obtained. Therefore post authorisation has been found to be non-effective by the office of the auditor general and therefore qualifies as Irregular expenditures. | No disciplinary actions have been taken. The transactions will be presented to Council for investigation. | 1 552 799        |
|  |   | <b>7 416 312</b> |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

| Figures in Rand   | 2015   | 2014             |
|---|--|------------------|
| <b>57. Irregular expenditure (continued)</b>                                  |  |                  |
| <b>Deviated expenditures</b>  |  |                  |
| Expenditures where deviations occurred  | Expenditures were incurred where the SCM regulations were not followed and a deviation was applied and approved. | 2 394 636        |
| <b>58. Additional disclosure in terms of Municipal Finance Management Act</b> |  |                  |
| <b>Audit fees</b>   |  |                  |
| Opening balance   | 6 599 287  | 7 008 644        |
| Current year subscription / fee   | 3 416 066  | 1 284 284        |
| Amount paid - current year  | (50 000)   | (75 741)         |
| Amount paid - Treasury Contribution   | (1 794 208)  | (1 617 900)      |
| <b>Closing Balance</b>  | <b>8 171 145</b>   | <b>6 599 287</b> |
| <b>PAYE and UIF</b>   |  |                  |
| Opening balance   | 38 345   | -                |
| Current year subscription / fee   | 2 778 032  | 1 792 665        |
| Amount paid - current year  | (2 778 032)  | (1 754 321)      |
| Amount paid - previous years  | (38 538)   | -                |
| <b>Closing Balance</b>  | <b>(193)</b>   | <b>38 344</b>    |
| <b>Pension and Medical Aid Deductions</b>                                     |  |                  |
| Current year subscription / fee   | 2 936 048  | 2 669 777        |
| Amount paid - current year  | (2 934 020)  | (2 669 777)      |
|   | <b>2 028</b>   | <b>-</b>         |
| <b>VAT</b>  |  |                  |
| VAT payable   | 111 760  | 2 490 894        |

VAT output payables and VAT input receivables are shown in note 22.

Not all VAT returns have been submitted by the due date throughout the year.

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

Figures in Rand 2015 2014

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

#### Councillors' arrear consumer accounts

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

| 30 June 2015            | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R     |
|-------------------------|--|--|----------------|
| Councillor Jonas DA     | 1 675                                    | 43 329                                   | 45 004         |
| Councillor Humphreys MA | 1 230                                    | 112 014                                  | 113 244        |
| Councillor Madikana SE  | 45                                       | -  | 45             |
| Councillor Louw P       | 319                                      | -  | 319            |
|                         | <b>3 269</b>                             | <b>155 343</b>                           | <b>158 612</b> |

| 30 June 2014            | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R     |
|-------------------------|--|--|----------------|
| Councillor Jonas DA     | 12 270                                   | 46 376                                   | 58 646         |
| Councillor Humphreys MA | 13 102                                   | 95 298                                   | 108 400        |
| Councillor De Bruin E   | 672                                      | -  | 672            |
| Councillor Louw P       | 3  | -  | 3              |
|                         | <b>26 047</b>                            | <b>141 674</b>                           | <b>167 721</b> |

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

| 30 June 2015            | Highest<br>outstanding<br>amount | Aging<br>(in days) |
|-------------------------|----------------------------------|--------------------|
| Councillor Jonas DA     | 43 329                           | 90                 |
| Councillor Humphreys MA | 112 014                          | 90                 |
|                         | <b>155 343</b>                   | <b>180</b>         |

| 30 June 2014            | Highest<br>outstanding<br>amount | Aging<br>(in days) |
|-------------------------|----------------------------------|--------------------|
| Councillor Humphreys MA | 95 945                           | 90                 |
| Councillor Jonas DA     | 46 478                           | 90                 |
|                         | <b>142 423</b>                   | <b>180</b>         |

### 59. Utilisation of Long-term liabilities reconciliation

|                              |           |           |
|------------------------------|-----------|-----------|
| Long-term liabilities raised | 5 142 385 | 5 598 305 |
|------------------------------|-----------|-----------|

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

### 60. Distribution Losses - Water

|                                     |           |           |
|-------------------------------------|-----------|-----------|
| Water units available for sale (KI) | 1 286 265 | 1 326 850 |
| Water units sold (kl)               | (541 937) | (643 038) |
| Units lost (KI)                     | 744 327   | 683 812   |
| Average cost per unit (R)           | 7.14      | 6.21      |
| Total loss in Rand Value            | 5 314 493 | 4 246 472 |

# Thembelihle Local Municipality

Financial Statements for the year ended 30 June 2015

## Notes to the Financial Statements

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

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### 60. Distribution Losses - Water (continued)

Distribution losses relates to unaccounted water distributed. The foregoing costs, which represents 58% (2014: 52%) of the water purchases for the year, has been included in bulk purchases. The level of the distribution losses are not within the acceptable norms.

### 61. Distribution Losses - Electricity

|                          |             |             |
|--------------------------|-------------|-------------|
| Units bought (kwh)       | 9 903 629   | 10 071 994  |
| Units sold (kwh)         | (6 070 724) | (5 871 595) |
| Units lost (kwh)         | 3 832 905   | 4 200 399   |
| Highest Rate (R)         | <u>1.69</u> | <u>1.57</u> |
| Total loss in Rand Value | 6 477 610   | 6 594 626   |

Distribution losses relates to unaccounted electricity distributions. This cost mainly arises from, inter alia, illegal connections to the electricity network and bridging of meters by consumers. The foregoing costs, which represented 39% (2014: 42%) of the electricity purchases for the year, has been included in bulk purchases. The level of the distribution losses are not within the acceptable norms.

**Thembelihle Local Municipality**

**Appendix A**

June 2015

**Un-audited Schedule of external loans as at 30 June 2015**

| <b>Loan Number</b>                      | <b>Redeemable</b>  | <b>Balance at 30 June 2014</b> | <b>Received during the period</b> | <b>Redeemed written off during the period</b> | <b>Balance at 30 June 2015</b> | <b>Carrying Value of Property, Plant &amp; Equip</b> | <b>Other Costs in accordance with the MFMA</b> |
|---|--------------------|--------------------------------|-----------------------------------|---|--------------------------------|--|--|
|   |                    | <b>Rand</b>                    | <b>Rand</b>                       | <b>Rand</b>                                   | <b>Rand</b>                    | <b>Rand</b>  | <b>Rand</b>                                    |
| <b>Development Bank of South Africa</b> |                    |                                |                                   |   |                                |  |  |
| DBSA Loan 1                             | 61000547           | March 2024                     | 1 761 589                         | 43 229  | 30 000                         | 1 774 818  | -  |
| DBSA Loan 2                             | 61000548           | March 2024                     | 3 776 164                         | 92 988  | 447 327                        | 3 421 825  | -  |
| DBSA Loan 3                             | 61002019           | Redeemed                       | 53 346                            | 2 449   | 113 249                        | (57 454)   | -  |
| DBSA Loan 4                             | 61002751           | Redeemed                       | 7 206                             | 1 403   | 5 414                          | 3 195  | -  |
|   |                    |                                | -                                 | -   | -                              | -  | -  |
|   |                    |                                | <b>5 598 305</b>                  | <b>140 069</b>                                | <b>595 990</b>                 | <b>5 142 384</b>                                     | <b>-</b>                                       |
| <b>Lease liability</b>                  |                    |                                |                                   |   |                                |  |  |
| Leases                                  | All Finance Leases |                                | 1 282 379                         | 177 317                                       | 763 451                        | 696 245  | 981 236  |
|   |                    |                                | -                                 | -   | -                              | -  | -  |
|   |                    |                                | -                                 | -   | -                              | -  | -  |
|   |                    |                                | -                                 | -   | -                              | -  | -  |
|   |                    |                                | <b>1 282 379</b>                  | <b>177 317</b>                                | <b>763 451</b>                 | <b>696 245</b>                                       | <b>981 236</b>                                 |
| Total external loans                    |                    |                                | <b>6 880 684</b>                  | <b>317 386</b>                                | <b>1 359 441</b>               | <b>5 838 629</b>                                     | <b>981 236</b>                                 |

**Thembelihle Local Municipality**  
**Thembelihle Local Municipality**

**Appendix B**

June 2015

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

|                                       | Opening Balance    | Additions         | Disposals | Transfers    | Revaluations | Closing Balance    | Opening Balance     | Disposals | Depreciation       | Closing Balance     | Carrying value     |
|---------------------------------------|--------------------|-------------------|-----------|--------------|--------------|--------------------|---------------------|-----------|--------------------|---------------------|--------------------|
|                                       | Rand               | Rand              | Rand      | Rand         | Rand         | Rand               | Rand                | Rand      | Rand               | Rand                | Rand               |
| <b>Land and buildings</b>             |                    |                   |           |              |              |                    |                     |           |                    |                     |                    |
| Land (Separate for AFS purposes)      | 7 227 066          | -                 | -         | -            | -            | 7 227 066          | -                   | -         | -                  | -                   | 7 227 066          |
| Buildings (Separate for AFS purposes) | 5 642 622          | -                 | -         | -            | -            | 5 642 622          | (2 689 959)         | -         | (188 087)          | (2 878 046)         | 2 764 576          |
|                                       | <b>12 869 688</b>  | -                 | -         | -            | -            | <b>12 869 688</b>  | <b>(2 689 959)</b>  | -         | <b>(188 087)</b>   | <b>(2 878 046)</b>  | <b>9 991 642</b>   |
| <b>Infrastructure</b>                 |                    |                   |           |              |              |                    |                     |           |                    |                     |                    |
| Electricity Buildings & Facilities    | 7 423 848          | -                 | -         | 801 427      | -            | 8 225 275          | (2 634 488)         | -         | (291 053)          | (2 925 541)         | 5 299 734          |
| Electricity Poles                     | 2 292 490          | -                 | -         | -            | -            | 2 292 490          | (1 062 534)         | -         | (91 700)           | (1 154 234)         | 1 138 256          |
| Electricity Mini Subs                 | 4 731 674          | -                 | -         | -            | -            | 4 731 674          | (1 135 727)         | -         | (101 667)          | (1 237 394)         | 3 494 280          |
| Electricity Transformers              | 6 983 294          | -                 | -         | 252 567      | -            | 7 235 861          | (1 212 115)         | -         | (143 790)          | (1 355 905)         | 5 879 956          |
| Other Buildings & Facilities          | 7 287 417          | -                 | -         | 386 500      | -            | 7 673 917          | (3 832 916)         | -         | (265 710)          | (4 098 626)         | 3 575 291          |
| Roads Stormwater                      | 102 824            | -                 | -         | -            | -            | 102 824            | (53 318)            | -         | (2 056)            | (55 374)            | 47 450             |
| Road Structures                       | 48 655 695         | -                 | -         | -            | -            | 48 655 695         | (17 371 216)        | -         | (2 319 838)        | (19 691 054)        | 28 964 641         |
| Traffic Management                    | 701 178            | -                 | -         | -            | -            | 701 178            | (359 116)           | -         | (24 457)           | (383 573)           | 317 605            |
| Bridges                               | 3 175 851          | -                 | -         | -            | -            | 3 175 851          | (1 707 020)         | -         | (39 698)           | (1 746 718)         | 1 429 133          |
| Roads - Buildings & Facilities        | 6 795 105          | -                 | -         | -            | -            | 6 795 105          | (3 413 740)         | -         | (174 265)          | (3 588 005)         | 3 207 100          |
| Waste Water Treatment                 | 45 344 113         | -                 | -         | -            | -            | 45 344 113         | (12 219 590)        | -         | (824 438)          | (13 044 028)        | 32 300 085         |
| Collection / Reticulation Network     | 3 254 080          | -                 | -         | 11 164       | -            | 3 265 244          | (1 286 245)         | -         | (108 252)          | (1 394 497)         | 1 870 747          |
| Boreholes                             | 45 210             | -                 | -         | -            | -            | 45 210             | (22 358)            | -         | (1 193)            | (23 551)            | 21 659             |
| Distribution Reticulation Network     | 35 954 140         | -                 | -         | -            | -            | 35 954 140         | (18 987 753)        | -         | (787 024)          | (19 774 777)        | 16 179 363         |
| Water Pump Station & Buildings        | 71 368 695         | -                 | -         | 27 568 975   | -            | 98 937 670         | (18 091 830)        | -         | (2 295 576)        | (20 387 406)        | 78 550 264         |
| Work in Progress                      | 33 818 374         | 19 828 872        | -         | (29 020 633) | -            | 24 626 613         | -                   | -         | -                  | -                   | 24 626 613         |
|                                       | <b>277 933 988</b> | <b>19 828 872</b> | -         | -            | -            | <b>297 762 860</b> | <b>(83 389 966)</b> | -         | <b>(7 470 717)</b> | <b>(90 860 683)</b> | <b>206 902 177</b> |

**Thembelihle Local Municipality**  
**Thembelihle Local Municipality**  
**Appendix B**

June 2015

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

|                             | <b>Opening<br/>Balance<br/>Rand</b> | <b>Additions<br/>Rand</b> | <b>Disposals<br/>Rand</b> | <b>Transfers<br/>Rand</b> | <b>Revaluations<br/>Rand</b> | <b>Closing<br/>Balance<br/>Rand</b> | <b>Opening<br/>Balance<br/>Rand</b> | <b>Disposals<br/>Rand</b> | <b>Depreciation<br/>Rand</b> | <b>Closing<br/>Balance<br/>Rand</b> | <b>Carrying<br/>value<br/>Rand</b> |
|-----------------------------|-------------------------------------|---------------------------|---------------------------|---------------------------|------------------------------|-------------------------------------|-------------------------------------|---------------------------|------------------------------|-------------------------------------|------------------------------------|
| <b>Leased assets</b>        |                                     |                           |                           |                           |                              |                                     |                                     |                           |                              |                                     |                                    |
| Office Equipment            | 2 583 867                           | 71 466                    | (313 284)                 | -                         | -                            | 2 342 049                           | (1 157 069)                         | 197 477                   | (403 536)                    | (1 363 128)                         | 978 921                            |
|                             | <b>2 583 867</b>                    | <b>71 466</b>             | <b>(313 284)</b>          | <b>-</b>                  | <b>-</b>                     | <b>2 342 049</b>                    | <b>(1 157 069)</b>                  | <b>197 477</b>            | <b>(403 536)</b>             | <b>(1 363 128)</b>                  | <b>978 921</b>                     |
| <b>Specialised vehicles</b> |                                     |                           |                           |                           |                              |                                     |                                     |                           |                              |                                     |                                    |
| <b>Other assets</b>         |                                     |                           |                           |                           |                              |                                     |                                     |                           |                              |                                     |                                    |
| General vehicles            | 1 171 600                           | -                         | (81 900)                  | -                         | -                            | 1 089 700                           | (205 889)                           | 8 795                     | (71 227)                     | (268 321)                           | 821 379                            |
| Plant & equipment           | 752 571                             | 166 126                   | -                         | -                         | -                            | 918 697                             | (178 516)                           | -                         | (158 186)                    | (336 702)                           | 581 995                            |
| Furniture & Fittings        | 915 255                             | 54 203                    | -                         | -                         | -                            | 969 458                             | (274 283)                           | -                         | (123 205)                    | (397 488)                           | 571 970                            |
| Office Equipment            | 1 668 288                           | 404 103                   | -                         | -                         | -                            | 2 072 391                           | (429 455)                           | -                         | (308 418)                    | (737 873)                           | 1 334 518                          |
| Emergency Equipment         | 302 908                             | 2 776                     | -                         | -                         | -                            | 305 684                             | (94 184)                            | -                         | (54 931)                     | (149 115)                           | 156 569                            |
|                             | <b>4 810 622</b>                    | <b>627 208</b>            | <b>(81 900)</b>           | <b>-</b>                  | <b>-</b>                     | <b>5 355 930</b>                    | <b>(1 182 327)</b>                  | <b>8 795</b>              | <b>(715 967)</b>             | <b>(1 889 499)</b>                  | <b>3 466 431</b>                   |

**Thembelihle Local Municipality**  
**Thembelihle Local Municipality**  
**Appendix B**

June 2015

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

|   | Opening Balance<br>Rand | Additions<br>Rand | Disposals<br>Rand | Transfers<br>Rand | Revaluations<br>Rand | Closing Balance<br>Rand | Opening Balance<br>Rand | Disposals<br>Rand | Depreciation<br>Rand | Closing Balance<br>Rand | Carrying value<br>Rand |
|---|-------------------------|-------------------|-------------------|-------------------|----------------------|-------------------------|-------------------------|-------------------|----------------------|-------------------------|------------------------|
| <b>Total property plant and equipment</b> |                         |                   |                   |                   |                      |                         |                         |                   |                      |                         |                        |
| Land and buildings                        | 12 869 688              | -                 | -                 | -                 | -                    | 12 869 688              | (2 689 959)             | -                 | (188 087)            | (2 878 046)             | 9 991 642              |
| Infrastructure                            | 277 933 988             | 19 828 872        | -                 | -                 | -                    | 297 762 860             | (83 389 966)            | -                 | (7 470 717)          | (90 860 683)            | 206 902 177            |
| Leased assets                             | 2 583 867               | 71 466            | (313 284)         | -                 | -                    | 2 342 049               | (1 157 069)             | 197 477           | (403 536)            | (1 363 128)             | 978 921                |
| Other assets                              | 4 810 622               | 627 208           | (81 900)          | -                 | -                    | 5 355 930               | (1 182 327)             | 8 795             | (715 967)            | (1 889 499)             | 3 466 431              |
|   | <b>298 198 165</b>      | <b>20 527 546</b> | <b>(395 184)</b>  | <b>-</b>          | <b>-</b>             | <b>318 330 527</b>      | <b>(88 419 321)</b>     | <b>206 272</b>    | <b>(8 778 307)</b>   | <b>(96 991 356)</b>     | <b>221 339 171</b>     |
| <b>Agricultural/Biological assets</b>     |                         |                   |                   |                   |                      |                         |                         |                   |                      |                         |                        |
| <b>Intangible assets</b>                  |                         |                   |                   |                   |                      |                         |                         |                   |                      |                         |                        |
| Computers - software & programming        | 417 338                 | 86 787            | (3 825)           | -                 | -                    | 500 300                 | (142 627)               | 206               | (157 986)            | (300 407)               | 199 893                |
|   | <b>417 338</b>          | <b>86 787</b>     | <b>(3 825)</b>    | <b>-</b>          | <b>-</b>             | <b>500 300</b>          | <b>(142 627)</b>        | <b>206</b>        | <b>(157 986)</b>     | <b>(300 407)</b>        | <b>199 893</b>         |
| <b>Investment properties</b>              |                         |                   |                   |                   |                      |                         |                         |                   |                      |                         |                        |
| Investment property                       | 7 077 190               | -                 | -                 | -                 | 651 910              | 7 729 100               | -                       | -                 | -                    | -                       | 7 729 100              |
|   | <b>7 077 190</b>        | <b>-</b>          | <b>-</b>          | <b>-</b>          | <b>651 910</b>       | <b>7 729 100</b>        | <b>-</b>                | <b>-</b>          | <b>-</b>             | <b>-</b>                | <b>7 729 100</b>       |
| <b>Total</b>                              |                         |                   |                   |                   |                      |                         |                         |                   |                      |                         |                        |
| Land and buildings                        | 12 869 688              | -                 | -                 | -                 | -                    | 12 869 688              | (2 689 959)             | -                 | (188 087)            | (2 878 046)             | 9 991 642              |
| Infrastructure                            | 277 933 988             | 19 828 872        | -                 | -                 | -                    | 297 762 860             | (83 389 966)            | -                 | (7 470 717)          | (90 860 683)            | 206 902 177            |
| Leased assets                             | 2 583 867               | 71 466            | (313 284)         | -                 | -                    | 2 342 049               | (1 157 069)             | 197 477           | (403 536)            | (1 363 128)             | 978 921                |
| Other assets                              | 4 810 622               | 627 208           | (81 900)          | -                 | -                    | 5 355 930               | (1 182 327)             | 8 795             | (715 967)            | (1 889 499)             | 3 466 431              |
| Intangible assets                         | 417 338                 | 86 787            | (3 825)           | -                 | -                    | 500 300                 | (142 627)               | 206               | (157 986)            | (300 407)               | 199 893                |
| Investment properties                     | 7 077 190               | -                 | -                 | -                 | 651 910              | 7 729 100               | -                       | -                 | -                    | -                       | 7 729 100              |
|   | <b>305 692 693</b>      | <b>20 614 333</b> | <b>(399 009)</b>  | <b>-</b>          | <b>651 910</b>       | <b>326 559 927</b>      | <b>(88 561 948)</b>     | <b>206 478</b>    | <b>(8 936 293)</b>   | <b>(97 291 763)</b>     | <b>229 268 164</b>     |



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

| <b>Opening<br/>Balance<br/>Rand</b> | <b>Additions<br/>Rand</b> | <b>Disposals<br/>Rand</b> | <b>Transfers<br/>Rand</b> | <b>Revaluations<br/>Rand</b> | <b>Closing<br/>Balance<br/>Rand</b> | <b>Opening<br/>Balance<br/>Rand</b> | <b>Disposals<br/>Rand</b> | <b>Depreciation<br/>Rand</b> | <b>Closing<br/>Balance<br/>Rand</b> | <b>Carrying<br/>value<br/>Rand</b> |
|-------------------------------------|---------------------------|---------------------------|---------------------------|------------------------------|-------------------------------------|-------------------------------------|---------------------------|------------------------------|-------------------------------------|------------------------------------|
|-------------------------------------|---------------------------|---------------------------|---------------------------|------------------------------|-------------------------------------|-------------------------------------|---------------------------|------------------------------|-------------------------------------|------------------------------------|

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

| <b>Cost/Revaluation</b>    |                   |                   |                   |                      | <b>Accumulated depreciation</b> |                            |                   |                      |                            |                           |
|----------------------------|-------------------|-------------------|-------------------|----------------------|---------------------------------|----------------------------|-------------------|----------------------|----------------------------|---------------------------|
| Opening<br>Balance<br>Rand | Additions<br>Rand | Disposals<br>Rand | Transfers<br>Rand | Revaluations<br>Rand | Closing<br>Balance<br>Rand      | Opening<br>Balance<br>Rand | Disposals<br>Rand | Depreciation<br>Rand | Closing<br>Balance<br>Rand | Carrying<br>value<br>Rand |
|                            |                   |                   |                   |                      |                                 |                            |                   |                      |                            |                           |

# Thembelihle Local Municipality

## Appendix C

June 2015

### Un-audited Segmental analysis of property, plant and equipment as at 30 June 2015 Cost/Revaluation Accumulated Depreciation

|                                       | Opening Balance<br>Rand | Additions<br>Rand | Disposals<br>Rand | Closing Balance<br>Rand | Opening Balance<br>Rand | Disposals<br>Rand | Depreciation<br>Rand | Closing Balance<br>Rand | Carrying value<br>Rand |
|---------------------------------------|-------------------------|-------------------|-------------------|-------------------------|-------------------------|-------------------|----------------------|-------------------------|------------------------|
| <b>Municipality</b>                   |                         |                   |                   |                         |                         |                   |                      |                         |                        |
| Executive & Council/Mayor and Council | 623 912                 | -                 | -                 | <b>623 912</b>          | (234 740)               | -                 | (121 545)            | <b>(356 285)</b>        | 267 627                |
| Finance & Admin/Finance               | 3 337 449               | 444 771           | (313 284)         | <b>3 468 936</b>        | (1 235 379)             | 197 479           | (535 829)            | <b>(1 573 729)</b>      | 1 895 207              |
| Planning and Development              | 9 967 431               | 415 231           | (81 900)          | <b>10 300 762</b>       | (4 507 194)             | 8 795             | (604 620)            | <b>(5 103 019)</b>      | 5 197 743              |
| Comm. & Social/Libraries and archives | 18 238 007              | 133 908           | -                 | <b>18 371 915</b>       | (2 847 349)             | -                 | (252 458)            | <b>(3 099 807)</b>      | 15 272 108             |
| Waste Water Management/Sewerage       | 48 598 193              | 11 164            | -                 | <b>48 609 357</b>       | (13 505 836)            | -                 | (932 691)            | <b>(14 438 527)</b>     | 34 170 830             |
| Road Transport/Roads                  | 59 476 756              | 2 656 403         | -                 | <b>62 133 159</b>       | (22 915 547)            | -                 | (2 566 521)          | <b>(25 482 068)</b>     | 36 651 091             |
| Water/Water Distribution              | 136 490 370             | 15 812 073        | -                 | <b>152 302 443</b>      | (37 119 243)            | -                 | (3 130 279)          | <b>(40 249 522)</b>     | 112 052 921            |
| Electricity /Electricity Distribution | 21 466 044              | 1 053 994         | -                 | <b>22 520 038</b>       | (6 054 034)             | -                 | (634 367)            | <b>(6 688 401)</b>      | 15 831 637             |
|                                       | <b>298 198 162</b>      | <b>20 527 544</b> | <b>(395 184)</b>  | <b>318 330 522</b>      | <b>(88 419 322)</b>     | <b>206 274</b>    | <b>(8 778 310)</b>   | <b>(96 991 358)</b>     | <b>221 339 164</b>     |
| Total                                 | <b>298 198 162</b>      | <b>20 527 544</b> | <b>(395 184)</b>  | <b>318 330 522</b>      | <b>(88 419 322)</b>     | <b>206 274</b>    | <b>(8 778 310)</b>   | <b>(96 991 358)</b>     | <b>221 339 164</b>     |

**Thembelihle Local Municipality**

**Un-audited Appendix D**

June 2015

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

| <b>Actual<br/>Income<br/>Rand</b> | <b>Actual<br/>Expenditure<br/>Rand</b> | <b>Surplus<br/>/(Deficit)<br/>Rand</b> |   | <b>Actual<br/>Income<br/>Rand</b> | <b>Actual<br/>Expenditure<br/>Rand</b> | <b>Surplus<br/>/(Deficit)<br/>Rand</b> |
|-----------------------------------|--|--|---|-----------------------------------|--|--|
|                                   |  |  | <b>Municipality</b>                                     |                                   |  |  |
| -                                 | -                                      | -                                      | - Executive & Council/Mayor and Council                 | 17 595 711                        | 7 301 161                              | 10 294 550                             |
| -                                 | -                                      | -                                      | - Finance & Admin/Finance                               | 5 966 857                         | 18 242 253                             | (12 275 396)                           |
| -                                 | -                                      | -                                      | - Planning and Development/Economic<br>Development/Plan | 17 587 121                        | 11 613 555                             | 5 973 566                              |
| -                                 | -                                      | -                                      | - Health/Clinics  | 1 915 605                         | 7 682 965                              | (5 767 360)                            |
| -                                 | -                                      | -                                      | - Comm. & Social/Libraries and archives                 | 1 319 507                         | 1 252 797                              | 66 710                                 |
| -                                 | -                                      | -                                      | - Public Safety/Police                                  | -                                 | 17 113                                 | (17 113)                               |
| -                                 | -                                      | -                                      | - Waste Water Management/Sewerage                       | 2 149 927                         | 2 008 905                              | 141 022                                |
| -                                 | -                                      | -                                      | - Road Transport/Roads                                  | 5 180 243                         | 1 546 729                              | 3 633 514                              |
| -                                 | -                                      | -                                      | - Water/Water Distribution                              | 8 816 602                         | 7 081 995                              | 1 734 607                              |
| -                                 | -                                      | -                                      | - Electricity /Electricity Distribution                 | 10 278 671                        | 10 803 524                             | (524 853)                              |
| -                                 | -                                      | -                                      | - Other/Air Transport                                   | 1 236 081                         | 1 455 432                              | (219 351)                              |
| -                                 | -                                      | -                                      |   | <b>72 046 325</b>                 | <b>69 006 429</b>                      | <b>3 039 896</b>                       |
|                                   |  |  | <b>Municipal Owned Entities<br/>Other charges</b>       |                                   |  |  |
| -                                 | -                                      | -                                      | - Municipality  | 72 046 325                        | 69 006 429                             | 3 039 896                              |
| -                                 | -                                      | -                                      | <b>Total</b>  | <b>72 046 325</b>                 | <b>69 006 429</b>                      | <b>3 039 896</b>                       |

# Thembelihle Local Municipality

## Appendix E(1)

June 2015

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

|  | Current year<br>2012<br>Act. Bal. | Current year<br>2012<br>Adjusted<br>budget<br>Rand | Variance<br>Rand   | Var         | Explanation of Significant Variances<br>greater than 10% versus Budget                                       |
|--|-----------------------------------|--|--------------------|-------------|--|
| <b>Revenue</b>                                     |                                   |  |                    |             |  |
| Property rates                                     | 2 598 663                         | 4 060 000  | (1 461 337)        | (36.0)      | Expected errors to be shown on the rates reconciliation that did not materialise.                            |
| Service charges                                    | 16 230 103                        | 18 491 000   | (2 260 897)        | (12.2)      | Load shedding had an effect on the Electricity billed for the year that was not considered in the budget.    |
| Rental of facilities and equipment                 | 433 231                           | 515 000  | (81 769)           | (15.9)      | When the budget was compiled an expected increase was taken into account that did not materialised           |
| Interest received (trading)                        | 807 642                           | 904 000  | (96 358)           | (10.7)      | More debtors receipts were obtained which meant less interest charges.                                       |
| Licences and permits                               | 213 078                           | 184 000  | 29 078             | 15.8        |  |
| Government Grants                                  | 45 592 233                        | 34 269 000   | 11 323 233         | 33.0        | Grants received were more than expected.   |
| Administration and management fees received        | 1                                 | -  | 1                  | -           |  |
| Fines & Penalties                                  | 3 879 093                         | 4 512 000  | (632 907)          | (14.0)      | Service provider for Traffic fines was appointed later than expected.  |
| Commissions received                               | 391 317                           | -  | 391 317            | -           |  |
| Discount received                                  | 458 676                           | -  | 458 676            | -           |  |
| Other income - (rollup)                            | 602 693                           | 486 000  | 116 693            | 24.0        | Unexpected increase in other services required.  |
| Connection fees                                    | 74 796                            | -  | 74 796             | -           |  |
| Interest received - investment                     | 390 984                           | 301 000  | 89 984             | 29.9        | Larger investments were used as what was expected.   |
|  | <b>71 672 510</b>                 | <b>63 722 000</b>                                  | <b>7 950 510</b>   | <b>12.5</b> |  |
| <b>Expenses</b>                                    |                                   |  |                    |             |  |
| Personnel  | (22 187 614)                      | (20 207 000)                                       | (1 980 614)        | 9.8         |  |
| Remuneration of councillors                        | (2 498 054)                       | (2 619 000)  | 120 946            | (4.6)       |  |
| Administration                                     | (14 588)                          | -  | (14 588)           | -           |  |
| Depreciation                                       | (8 778 310)                       | (10 107 000)                                       | 1 328 690          | (13.1)      | The asset register was completely re-stated after the budget was done.                                       |
| Amortisation                                       | (157 986)                         | -  | (157 986)          | -           |  |
| Finance costs                                      | (3 476 067)                       | (645 000)  | (2 831 067)        | 438.9       | Unexpected increase in the landfill site rehabilitation provision  |
| Bad debts written off                              | (6 689 570)                       | (8 749 000)  | 2 059 430          | (23.5)      | More debt were collected than expected.  |
| Repairs and maintenance - General                  | (1 191 139)                       | (796 000)  | (395 139)          | 49.6        | Budget was based on cashflow payments towards repairs & Maintenance. Actuals include creditors transactions. |
| Bulk purchases                                     | (10 372 009)                      | (9 378 000)  | (994 009)          | 10.6        | Budget was based on cashflow payments towards repairs & Maintenance. Actuals include creditors transactions. |
| Contracted Services                                | (91 531)                          | (161 000)  | 69 469             | (43.1)      | Budget was based on contracts to start on January 2015, but only started in May 2015.                        |
| General Expenses                                   | (13 432 627)                      | (12 318 000)                                       | (1 114 627)        | 9.0         |  |
| Operating leases                                   | (116 932)                         | -  | (116 932)          | -           |  |
|  | <b>(69 006 427)</b>               | <b>(64 980 000)</b>                                | <b>(4 026 427)</b> | <b>6.2</b>  |  |
| <b>Other revenue and costs</b>                     |                                   |  |                    |             |  |
| Gain or loss on disposal of assets and liabilities | (192 531)                         | -  | (192 531)          | -           |  |
| Fair value adjustments                             | 651 910                           | -  | 651 910            | -           |  |
| Actuarial Gains / Losses                           | (85 568)                          | -  | (85 568)           | -           |  |
|  | 373 811                           | -  | 373 811            | -           |  |
| Net surplus/ (deficit) for the year                | 3 039 894                         | (1 258 000)  | 4 297 894          | (341.6)     |  |

**Thembelihle Local Municipality**

**Appendix E(2)**

June 2015

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

|  | <b>Additions</b>  | <b>Revised Budget</b> | <b>Variance</b>    | <b>Variance</b> | <b>Explanation of significant</b>      |
|--|-------------------|-----------------------|--------------------|-----------------|--|
|  | <b>Rand</b>       | <b>Budget</b>         | <b>Rand</b>        | <b>%</b>        | <b>variances from budget</b>           |
|  |                   | <b>Rand</b>           |                    |                 |  |
| <b>Municipality</b>                                      |                   |                       |                    |                 |  |
| Budget & Treasury  | 2 252             | 70 000                | 67 748             | <b>97</b>       |  |
| Planning and<br>Development/Economic<br>Development/Plan | 7 268 100         | 7 268 000             | (100)              | -               |  |
| Water/Water Distribution                                 | 13 272 513        | 5 399 000             | (7 873 513)        | <b>(146)</b>    | Unexpected increase in capital grants. |
|  | <b>20 542 865</b> | <b>12 737 000</b>     | <b>(7 805 865)</b> | <b>(61)</b>     |  |

**Municipal Owned Entities**

**Other charges**

Thembelihle Local Municipality

Appendix F

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

June 2015

| Name of Grants  | Name of organ of state or municipal entity | Quarterly Receipts |       |       |       |       | Quarterly Expenditure |       |        |        |       | Grants and Subsidies delayed / withheld |     |     |     |     | Reason for delay/withholding of funds | Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act | Reason for noncompliance |
|-----------------|--|--------------------|-------|-------|-------|-------|-----------------------|-------|--------|--------|-------|---|-----|-----|-----|-----|---------------------------------------|--|--------------------------|
|                 |  | Jul                | Sep   | Dec   | Mar   | Jun   | Jul                   | Sep   | Dec    | Mar    | Jun   | Jul                                     | Sep | Dec | Mar | Jun |                                       |  |                          |
| Equitable Share | Treasury                                   | 6 623              | -     | 5 579 | 4 533 | -     | 6 623                 | -     | 5 579  | 4 533  | -     | 2 968                                   | -   | -   | -   | -   | Refund of Unspent MIG                 | Yes  |                          |
| MIG             | Treasury                                   | 3 598              | -     | 3 000 | -     | 7 500 | 153                   | 4 111 | 4 635  | 3 819  | 4 022 | (2 804)                                 | -   | -   | -   | -   | Refunded from Equitable Share         | Yes  |                          |
| RBIG            | Treasury                                   | 463                | 674   | 345   | 2 477 | 1 163 | -                     | 294   | 51     | 2 477  | 3 671 | -                                       | -   | -   | -   | -   |                                       | Yes  |                          |
| FMG             | Treasury                                   | 1 800              | -     | -     | -     | -     | 506                   | 323   | 196    | 533    | 242   | -                                       | -   | -   | -   | -   |                                       | Yes  |                          |
| MSIG            | Treasury                                   | -                  | 934   | -     | -     | -     | -                     | 41    | 351    | 205    | 338   | -                                       | -   | -   | -   | -   |                                       | Yes  |                          |
| EPWP            | Treasury                                   | 400                | 300   | 300   | -     | -     | -                     | 29    | 376    | 202    | 214   | -                                       | -   | -   | -   | -   |                                       | Yes  |                          |
| INEP            | Treasury                                   | -                  | -     | -     | -     | -     | -                     | -     | -      | -      | -     | (164)                                   | -   | -   | -   | -   | Refunded from Equitable Share         | Yes  |                          |
| Library         | Province                                   | -                  | -     | 391   | 391   | -     | 12                    | 37    | 49     | 45     | 44    | -                                       | -   | -   | -   | -   |                                       | Yes  |                          |
|                 |  | 12 884             | 1 908 | 9 615 | 7 401 | 8 663 | 7 294                 | 4 835 | 11 237 | 11 814 | 8 531 | -                                       | -   | -   | -   | -   |                                       |  |                          |

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