



Engcobo Local Municipality
Financial statements
for the year ended 30 June 2013

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

General Information

Legal form of entity

The entity functions as a local municipality, established under Paragraph 151 of the Constitution of the Republic of South Africa

Nature of business and principal activities

Engcobo Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998).

The municipalities operations are governed by:

- Municipal Finance Management Act (No 56 of 2003)
- Municipal Structures Act (No 117 of 1998)
- Municipal Systems Act (No 32 of 2000) and various other acts and regulations

The following is included in the scope of operation

The principal activities of the municipality are:

- Provide democratic and accountable government
- Ensure sustainable service delivery to communities
- Provide social and economic development
- Provide basic services to the community

Mayoral committee

Executive Mayor

Councillors

L Jiyose

N. Roskruge, Speaker

S. Mbolo, Chief Whip

S. Nkele, Finance

Z. Xuba, Corporate Services

Z. Jabanga, Infrastructure

N. Gedeni, Special Programmes Unit

N. Berana, Community Services

M. Mbhenyana, IPED

M. Tunce, Ward 1

T. Bizana, Ward 2

N. Noludwe, Ward 3

N. Macingwane, Ward 4

M. Hokwana, Ward 5

S. Mbutuma, Ward 6

M. Paliso, Ward 7

L. Sizani, Ward 8

S. Guma, Ward 9

P. Ntsibantu, Ward 10

N. Yalezo, Ward 11

S. Konile, Ward 12

M. Macozoma, Ward 13

B. Gqitiyeza, Ward 14

M. Zenani, Ward 15

N. Lumkwana, Ward 16

N. Bottoman, Ward 17

M. Saki, Ward 18

W. Mafufa, Ward 19

M. Singama, Ward 20

S. Mabadi

N. Mgudlwa

S. Ndude

N. Beta

T. Daniel

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

General Information

	S. Marenene N Tolbadi N. Nyudwane Z. Madyolo N. Nzabela
Grading of local authority	Grade 2
Accounting Officer	S. Mahlasela
Chief Finance Officer (CFO)	M. Matomane
Registered office	54 Union Street Engcobo 5050
Postal address	PO Box 24 Engcobo 5050
Bankers	First National Bank, ABSA Bank, Standard Bank
Auditors	Auditor General Registered Auditors
Preparer	The financial statements were independently compiled by: M. Matomane
Published	30 November 2013
Telephone number:	(047) 548 1221
Fax number	(047) 548 1078
E-mail address	matomanem@engcobolm.org.za

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Index

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

Index	Page
Accounting Officer's Responsibilities and Approval	4
Audit Report	5
Accounting Officer's Report	6
Statement of Financial Position	7
Statement of Changes in Net Assets	9
Statement of Financial Performance	8
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 12
Accounting Policies	13 - 44
Notes to the Financial Statements	45 - 86
Appendixes:	
Appendix C: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	87

Abbreviations

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (No 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 Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

The accounting officer acknowledges that 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 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Department of Local Government for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Department of Local Government 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 and their report is presented on page 5.

The financial statements set out on pages 6 to 86, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by:

Accounting Officer
Municipal Manager



Audit Report

To the Provincial Legislature of Engcobo Local Municipality

Report on the financial statements

Opinion

**Auditor General
Registered Auditors
Partner's name**

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2013.

1. Review of activities

Main business and operations

The municipality is engaged in service delivery 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.

2. Going concern

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

3. Events after the reporting period

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

4. Secretary

The municipality had no secretary during the year.

5. Auditors

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Statement of Financial Position

Figures in Rand	Note(s)	2013	2012 (Restated)
Assets			
Current Assets			
Inventories	8	1,093,566	906,669
Receivables from exchange transactions	9	580,806	2,745,035
Receivables from non-exchange transactions	10	796,420	2,183,481
VAT receivable	11	1,259,778	907,407
Cash and cash equivalents	12	61,479,948	56,709,920
		65,210,518	63,452,512
Non-Current Assets			
Property, plant and equipment	4	282,137,654	281,300,546
Intangible assets	5	173,820	270,846
		282,311,474	281,571,392
Non-Current Assets		282,311,474	281,571,392
Current Assets		65,210,518	63,452,512
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		347,521,992	345,023,904
Liabilities			
Current Liabilities			
Finance lease obligation	14	73,024	245,782
Payables from exchange transactions	17	10,992,187	7,536,778
Unspent conditional grants and receipts	15	30,521,323	38,974,576
Provisions	16	2,049,065	1,980,278
		43,635,599	48,737,414
Non-Current Liabilities		-	-
Current Liabilities		43,635,599	48,737,414
Liabilities of disposal groups		-	-
Total Liabilities		43,635,599	48,737,414
Assets		347,521,992	345,023,904
Liabilities		(43,635,599)	(48,737,414)
Net Assets		303,886,393	296,286,490
Net Assets			
Reserves			
Revaluation reserve	13	3,424,462	3,424,462
Accumulated surplus		300,461,931	292,862,028
Total Net Assets		303,886,393	296,286,490

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012 (Restated)
Revenue			
Revenue from exchange transactions			
Service charges	21	2,704,504	2,769,005
Rental of facilities and equipment		177,080	123,514
Licences and permits		3,623,860	3,415,326
Other income	24	432,776	863,785
Interest received - investment		2,267,282	2,231,005
Total revenue from exchange transactions		9,205,502	9,402,635
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	2,893,382	3,314,727
Transfer revenue			
Government grants & subsidies	22	159,839,798	147,548,397
Public contributions and donations		-	52,735,131
Fines		34,970	59,347
Total revenue from non-exchange transactions		162,768,150	203,657,602
		9,205,502	9,402,635
		162,768,150	203,657,602
Total revenue	19	171,973,652	213,060,237
Expenditure			
Personnel	27	(34,651,426)	(27,724,418)
Remuneration of councillors	28	(9,115,733)	(9,127,593)
Depreciation and amortisation	31	(29,809,884)	(24,632,751)
Impairment losses	32	-	(166,602)
Finance costs	33	(1,681)	(46,195)
Debt impairment	29	(3,527,800)	(1,243,728)
Repairs and maintenance		(6,632,294)	(7,350,719)
Grants and subsidies paid	35	(8,062,051)	(2,306,303)
General expenses	25	(73,347,975)	(79,590,363)
Total expenditure		(165,148,844)	(152,188,672)
Total revenue		171,973,652	213,060,237
Total expenditure		(165,148,844)	(152,188,672)
Operating surplus	26	6,824,808	60,871,565
Gain/(Loss) on disposal of property, plant and equipment		775,095	(95,249)
Surplus before taxation		7,599,903	60,776,316
Taxation		-	-
Surplus for the year		7,599,903	60,776,316

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	228,459,131	228,459,131
Adjustments			
Correction of errors	-	(3,310,091)	(3,310,091)
Change in accounting policy	-	5,711,599	5,711,599
Balance at 01 July 2011 as restated	-	230,860,639	230,860,639
Changes in net assets			
Surplus/(deficit) on revaluation of property, plant and equipment	3,424,462	-	3,424,462
Write-offs and other surplus accounts	-	1,225,073	1,225,073
Net income (losses) recognised directly in net assets	3,424,462	1,225,073	4,649,535
Surplus for the year	-	60,776,316	60,776,316
Total recognised income and expenses for the year	3,424,462	62,001,389	65,425,851
Total changes	3,424,462	62,001,389	65,425,851
Opening balance as previously reported	3,424,462	289,832,243	293,256,705
Adjustments			
Correction of errors	-	3,029,785	3,029,785
Balance at 01 July 2012 as restated	3,424,462	292,862,028	296,286,490
Changes in net assets			
Surplus for the year	-	7,599,903	7,599,903
Total changes	-	7,599,903	7,599,903
Balance at 30 June 2013	3,424,462	300,461,931	303,886,393
Note	13		

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012 (Restated)
Cash flows from operating activities			
Receipts			
Sale of goods and services		5,621,379	4,763,863
Grants		151,742,387	164,033,284
Interest income		2,267,282	2,231,005
Other receipts		3,915,315	7,813,501
		163,546,363	178,841,653
Payments			
Employee costs		(43,767,159)	(36,852,011)
Suppliers		(76,642,970)	(87,646,555)
Finance costs		(1,681)	(46,195)
		(120,411,810)	(124,544,761)
Total receipts		163,546,363	178,841,653
Total payments		(120,411,810)	(124,544,761)
Undefined difference compared to the cash generated from operations note		(354,844)	-
Net cash flows from operating activities	36	42,779,709	54,296,892
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(30,680,628)	(75,314,642)
Proceeds from sale of property, plant and equipment	4	979,710	255,289
Purchase of other intangible assets	5	(73,954)	(144,619)
Impairment of property, plant and equipment		-	(166,602)
Transfer of movable assets	35	(8,062,051)	50,428,828
Net cash flows from investing activities		(37,836,923)	(24,941,746)
Cash flows from financing activities			
Finance lease payments		(172,758)	(328,765)
Other non cash item		-	1,225,073
Net cash flows from financing activities		(172,758)	896,308
Net increase/(decrease) in cash and cash equivalents		4,770,028	30,251,454
Cash and cash equivalents at the beginning of the year		56,709,920	26,458,466
Cash and cash equivalents at the end of the year	12	61,479,948	56,709,920

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	3,020,334	-	3,020,334	2,704,504	(315,830)	
Rental of facilities and equipment	125,557	-	125,557	177,080	51,523	AB1
Licences and permits	3,150,000	-	3,150,000	3,623,860	473,860	AB2
Miscellaneous other revenue	279,508	-	279,508	432,776	153,268	AB3
Interest received - investment	1,650,000	-	1,650,000	2,267,282	617,282	AB4
Total revenue from exchange transactions	8,225,399	-	8,225,399	9,205,502	980,103	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	3,679,989	-	3,679,989	2,893,382	(786,607)	AB5
Government grants & subsidies	103,494,402	(19,672,208)	83,822,194	159,839,798	76,017,604	AB6
Transfer revenue						
Fines	30,000	-	30,000	34,970	4,970	AB7
Total revenue from non-exchange transactions	107,204,391	(19,672,208)	87,532,183	162,768,150	75,235,967	
'Total revenue from exchange transactions'	8,225,399	-	8,225,399	9,205,502	980,103	
'Total revenue from non-exchange transactions'	107,204,391	(19,672,208)	87,532,183	162,768,150	75,235,967	
Total revenue	115,429,790	(19,672,208)	95,757,582	171,973,652	76,216,070	
Expenditure						
Personnel	(34,756,809)	1,736,642	(33,020,167)	(34,651,426)	(1,631,259)	
Remuneration of councillors	(9,438,047)	(864,638)	(10,302,685)	(9,115,733)	1,186,952	
Depreciation and amortisation	(20,500,000)	15,500,000	(5,000,000)	(29,809,884)	(24,809,884)	AB8
Finance costs	-	-	-	(1,681)	(1,681)	AB9
Debt impairment	-	-	-	(3,527,800)	(3,527,800)	AB10
Repairs and maintenance	(12,967,805)	1,845,200	(11,122,605)	(6,632,294)	4,490,311	
Grants and subsidies paid	(1,568,352)	(600,000)	(2,168,352)	(8,062,051)	(5,893,699)	AB11
General Expenses	(42,793,324)	4,320,568	(38,472,756)	(73,347,975)	(34,875,219)	AB12
Total expenditure	(122,024,337)	21,937,772	(100,086,565)	(165,148,844)	(65,062,279)	
	115,429,790	(19,672,208)	95,757,582	171,973,652	76,216,070	
	(122,024,337)	21,937,772	(100,086,565)	(165,148,844)	(65,062,279)	
Operating surplus	(6,594,547)	2,265,564	(4,328,983)	6,824,808	11,153,791	
Gain on disposal of assets and liabilities	-	-	-	775,095	775,095	AB13
	(6,594,547)	2,265,564	(4,328,983)	6,824,808	11,153,791	
	-	-	-	775,095	775,095	
Surplus before taxation	(6,594,547)	2,265,564	(4,328,983)	7,599,903	11,928,886	
Deficit before taxation	(6,594,547)	2,265,564	(4,328,983)	7,599,903	11,928,886	
Taxation	-	-	-	-	-	

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

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						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(6,594,547)	2,265,564	(4,328,983)	7,599,903	11,928,886	

Reconciliation

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1. BASIS OF ACCOUNTING

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, are therefore as follows:

Standards Issued and Effective

- GRAP 1 - Presentation of Financial Statements (as revised in 2010)
- GRAP 2 - Cash Flow Statements (as revised in 2010)
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
- GRAP 4 - The Effects of changes in Foreign Exchange Rates (as revised in 2010)
- GRAP 5 - Borrowing Costs
- GRAP 9 - Revenue from Exchange Transactions (as revised in 2010)
- GRAP 10 - Financial Reporting in Hyperinflationary Economies (as revised in 2010)
- GRAP 11 - Construction Contracts (as revised in 2010)
- GRAP 12 - Inventories (as revised in 2010)
- GRAP 13 - Leases (as revised in 2010)
- GRAP 14 - Events After the Reporting Date (as revised in 2010)
- GRAP 16 - Investment Property (as revised in 2010)
- GRAP 17 - Property Plant and Equipment (as revised in 2010)
- GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
- GRAP 21 - Impairment of non-cash-generating assets
- GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
- GRAP 24 - Presentation of Budget Information in Financial Statements
- GRAP 26 - Impairment of cash-generating assets
- GRAP 100 - Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
- GRAP 101 - Agriculture
- GRAP 102 - Intangible Assets
- GRAP 103 - Heritage Assets
- GRAP 104 - Financial Instruments

Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

- GRAP 20 - Related Party Disclosures
- GRAP 25 - Employee Benefits
- GRAP 27 - Agriculture (replace GRAP 101)
- GRAP 31 - Intangible Assets (replace GRAP 102)
- Improvements to Standards of GRAP

Standards Issued, no Effective Date - can base accounting policy on, cannot early adopt

- GRAP 105 - Transfer of functions between entities under common control
- GRAP 106 - Transfer of functions between entities not under common control
- GRAP 107 - Mergers

Standards Issued, no Effective Date - cannot use

- GRAP 18 - Segmental Reporting

Interpretations

- IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
- IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease
- IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6 - Loyalty Programmes
- IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 - Distributions of Non-cash Assets to Owners
- IGRAP 10 - Assets Received from Customers
- IGRAP 13 - Operating Leases - Incentives
- IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
- IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.1 Critical judgements, estimates and assumptions

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:

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Allowance for doubtful debts

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

Impairment of receivables

The calculation in respect of the impairment of debtors 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 the history of payments made for municipal services over the last twelve months.

Provisions and contingencies

Management judgement is required when recognising and measuring provisions, and when measuring contingent liabilities, as set out in subsequent notes to the financial statements. Provisions are discounted where the effect of discounting is material using actuarial valuationst

Accounting Policies

1.1 Critical judgements, estimates and assumptions (continued)

Useful lives of property, plant and equipment

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time. It is a subjective estimate based on management's experience.

1.2 Property, plant and equipment

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

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.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

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

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

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

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

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

Item	Average useful life
Infrastructure	
• Roads and paving	3 - 50 years
Community	
• Buildings	25 - 50 years
• Recreational facilities	25 - 30 years
• Halls	25 - 50 years
• Libraries	25 - 30 years
• Other assets	25 - 30 years
Heritage	
• Memorials and statues	Indefinite life
• Museums	Indefinite life
• Heritage sites	Indefinite life
• Art works	Indefinite life
Finance lease assets	
• Office equipment	5 years
• Other assets	3 - 6 years

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.

Items of municipality 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.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.2 Property, plant and equipment (continued)

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. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the municipality.

1.3 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

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

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- 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, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

Accounting Policies

1.4 Intangible assets (continued)

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

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

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.

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

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

Item	Useful life
Computer software	3 years

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.

1.5 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Accounting Policies

1.5 Heritage assets (continued)

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

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.

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

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

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

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

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

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

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

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

Accounting Policies

1.6 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:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exchange transactions	Financial asset measured at amortised cost
Cash and bank	Financial asset measured at amortised cost
Short term deposits (call accounts)	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease liabilities	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

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

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

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.

Dividends or similar distributions 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.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.7 Leases

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

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

Finance leases - lessee

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

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

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

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

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.

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

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

Accounting Policies

1.7 Leases (continued)

Operating leases - lessee

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

1.8 Inventories

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

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

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

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

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

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

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

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

The cost of inventories is assigned using the 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.

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

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

Useful life is either:

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.11 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.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity 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 entity, 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 entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, 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 entity to reimburse it for employee benefits already paid.

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

- an entity's decision to terminate an employee's employment before the normal retirement date; or

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.12 Employee benefits (continued)

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

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 entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the 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 entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the 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 an entity provides post-employment benefits for one or more employees.

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

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

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.13 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.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.13 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating surplus.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

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

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

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.13 Provisions and contingencies (continued)

- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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

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

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:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

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;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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.

1.14 Revenue from exchange transactions

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

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

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends 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 their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

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

1.15 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.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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.

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.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

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

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

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

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.

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.

1.16 Borrowing costs

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.9 and 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Accounting Policies

1.16 Borrowing costs (continued)

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

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

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

1.17 Comparative figures

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

1.18 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.

1.19 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.

1.20 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.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.20 Irregular expenditure (continued)

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

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.

1.21 Use of estimates

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

1.22 Presentation of currency

These financial statements are presented in South African Rand.

1.23 Offsetting

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

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.25 Conditional grants and receipts

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

1.26 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 cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/04/2010 to 31/03/2011.

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.26 Budget information (continued)

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.

1.27 Related parties

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

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

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

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

1.28 Recovery of unauthorised, irregular, fruitless and wasteful expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income in the Statement of Financial Performance.

1.29 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Annual Financial Statements are authorised for issue. Two types of events can be identified:

- a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- b) those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality will adjust the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand

2013

2012
(Restated)

2. Changes in accounting policy

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 21 - Impairment of non cash generating assets
- GRAP 23 - Revenue from non-exchange transactions
- GRAP 24 - Presentation of budget information
- GRAP 26 - Impairment of cash generating assets
- GRAP 103 - Heritage assets
- GRAP 104 - Financial instruments

GRAP 104 - Financial instruments

During the year, the municipality changed its accounting policy with respect to the treatment of financial instruments in order to conform with the benchmark treatment in terms of GRAP 104. GRAP 104, para 87 states that the short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Based on the assessment made it was noted that the initial credit period granted by the municipality was consistent with the terms used in the public sector, through established practices. The municipality did not discount short-term receivables or payables in previous periods as the effect was immaterial. The change in accounting policy therefore had no impact on the financial statements.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity 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 will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

Notes to the Financial Statements

3. New standards and interpretations (continued)

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

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

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

Notes to the Financial Statements

3. New standards and interpretations (continued)

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

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

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 21: Impairment of non-cash-generating assets

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

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

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

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

Notes to the Financial Statements

3. New standards and interpretations (continued)

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an 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.

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

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

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

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

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

Notes to the Financial Statements

3. New standards and interpretations (continued)

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

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

Notes to the Financial Statements

3. New standards and interpretations (continued)

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

Notes to the Financial Statements

3. New standards and interpretations (continued)

3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as 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 municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as 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;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity'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;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;

Notes to the Financial Statements

3. New standards and interpretations (continued)

- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

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

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.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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

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

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

The standard elaborates on the definitions and identification of:

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

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

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

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

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

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

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

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

Notes to the Financial Statements

3. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

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

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

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

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

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

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

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

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:

- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

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

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annual reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website's development can be described as follows:

- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

Notes to the Financial Statements

3. New standards and interpretations (continued)

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

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

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

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

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

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

4. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	5,218,000	-	5,218,000	5,218,000	-	5,218,000
Buildings	3,005,707	(322,132)	2,683,575	2,567,700	(238,963)	2,328,737
Landfill sites	2,090,820	(245,652)	1,845,168	2,090,820	-	2,090,820
Plant and machinery	13,684,378	(7,757,907)	5,926,471	13,627,555	(6,577,140)	7,050,415
Furniture and fixtures	2,581,552	(1,618,096)	963,456	2,609,931	(1,453,864)	1,156,067
Motor vehicles	7,858,676	(3,409,820)	4,448,856	5,069,717	(3,262,784)	1,806,933
IT equipment	2,388,752	(1,736,720)	652,032	2,154,476	(1,545,809)	608,667
Leased assets	770,422	(706,614)	63,808	770,422	(577,378)	193,044
Infrastructure	283,080,025	(79,279,401)	203,800,624	261,695,363	(53,489,807)	208,205,556
Community	36,173,769	(3,061,650)	33,112,119	35,758,081	(2,127,156)	33,630,925
Under construction	23,423,545	-	23,423,545	19,011,382	-	19,011,382
Total	380,275,646	(98,137,992)	282,137,654	350,573,447	(69,272,901)	281,300,546

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand

2013

2012

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Total
Land	5,218,000	-	-	-	5,218,000
Buildings	2,328,737	438,007	-	(83,169)	2,683,575
Landfill sites	2,090,820	-	-	(245,652)	1,845,168
Plant and machinery	7,050,415	229,250	(66,236)	(1,286,958)	5,926,471
Furniture and fixtures	1,156,067	159,002	(69,599)	(282,014)	963,456
Motor vehicles	1,806,933	3,318,109	(52,916)	(623,270)	4,448,856
IT equipment	608,667	323,748	(15,864)	(264,519)	652,032
Leased assets	193,044	-	-	(129,236)	63,808
Infrastructure	208,205,556	21,384,662	-	(25,789,594)	203,800,624
Community halls	33,630,925	415,687	-	(934,493)	33,112,119
Under construction	19,011,382	4,412,163	-	-	23,423,545
	281,300,546	30,680,628	(204,615)	(29,638,905)	282,137,654

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
Land	3,934,335	1,283,665	-	-	-	5,218,000
Buildings	2,438,782	(33,667)	-	-	(76,378)	2,328,737
Landfill sites	-	2,090,820	-	-	-	2,090,820
Plant and machinery	3,402,040	4,616,190	(34,540)	-	(933,275)	7,050,415
Furniture and fixtures	772,855	684,125	(196,649)	-	(104,264)	1,156,067
Motor vehicles	1,978,207	177,802	-	-	(349,076)	1,806,933
IT equipment	628,916	462,476	(119,349)	-	(363,376)	608,667
Leased assets	511,205	-	-	-	(318,161)	193,044
Infrastructure	172,061,177	56,727,053	-	-	(20,582,674)	208,205,556
Community halls	21,732,959	9,234,634	-	3,424,462	(761,130)	33,630,925
Under construction	18,939,838	71,544	-	-	-	19,011,382
	226,400,314	75,314,642	(350,538)	3,424,462	(23,488,334)	281,300,546

Assets subject to finance lease (Net carrying amount)

Copiers	63,808	193,044
---------	--------	---------

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand 2013 2012

4. Property, plant and equipment (continued)

Details of valuation

Land and buildings

The effective date of the revaluations was 30 June 2010 and this was de-escalated based on market conditions to provide a value as at 1 July 2009. Revaluations were performed by Penny Lindstrom who is a Professional Valuer (Reg. NO 935/7) from Penny Lindstrom Valuations cc. Mrs Lindstrom is not connected to the entity.

Land and buildings are re-valued independently every 4 years.

The valuation was performed using the following methods:

- Direct Comparison Method was used for residential properties and vacant land. This was based on arms-length transactions which had taken place during the period.
- The Capitalization of Income Method was used for all properties from which an income was derived i.e. Investment Properties. Other.
- The Discounted Replacement Value Method was used for properties which were used by the Municipality in their enterprise and therefore do not generate any income. i.e. offices, workshops etc. Factors considered to determine the discount rate, using this method, are the condition and age of the improvement as well as it's functionality and position.

All assumptions were based on current market conditions.

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.

5. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	(133,987)	307,807	173,820	478,787	(207,941)	270,846

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	270,846	73,954	(170,980)	173,820

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	270,330	144,619	(144,103)	270,846

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand

2013

2012

6. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2013

	Amortised cost	Total
Receivables from exchange transactions	580,888	580,888
Receivables from non-exchange transactions	796,420	796,420
Cash and bank	2,563,225	2,563,225
Short term deposits (Call accounts)	57,860,317	57,860,317
	61,800,850	61,800,850

2012

	Amortised cost	Total
Receivable from exchange transactions	2,745,036	2,745,036
Receivables from non-exchange transactions	2,183,481	2,183,481
Cash and bank	3,305,994	3,305,994
Short term deposits (Call accounts)	53,403,926	53,403,926
	61,638,437	61,638,437

7. Retirement benefit obligations

Defined contribution plan

The following are defined contribution plans: SAMWU Provident Fund, Cape Joint Pension Fund and Councillors' Pension Fund. These contributions have been expensed. These funds have been registered and governed under the Pension Fund Act, 1956 as amended.

There are 155 employees that belong to the SAMWU Provident Fund (2012: 125), 50 employees that belong to the Cape Joint Pension Funds (2012: 43) and there are 2 councillors that belong to the Councillors' Pension Fund (2012: 2).

Amounts contributed to the plans are as follows:

SAMWU Provident Fund

- employer	1,777,383	2,066,192
- employee	888,692	859,469
	2,666,075	2,925,661

Cape Joint Pension Fund

- employer	1,058,482	686,594
- employee	531,243	344,974
	1,589,725	1,031,568

Councillors' Pension Fund

- employer	100,784	68,338
- employee	106,243	72,039
	207,027	140,377

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

7. Retirement benefit obligations (continued)

Defined benefit plan

The following are defined benefit plans: Cape Joint Pension Fund. These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan 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.

Certain employees of the municipality belong to the Cape Joint Pension Fund, a multi-employer plan. The most recent actuarial valuation was done on 30 June 2010.

An amount of R nil (2012: R 68,338) was contributed by Council in respect of Councillors and employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

8. Inventories

Stores - Stock on hand	990,150	815,886
Unsold Water Supply	103,416	90,783
	1,093,566	906,669

Carrying value of inventories carried at replacement cost	574,488	574,488
---	---------	---------

Inventories recognised as an expense during the year	415,662	241,398
--	---------	---------

9. Receivables from exchange transactions

Service debtors	577,382	2,741,611
SARS	3,424	3,424
	580,806	2,745,035

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
9. Receivables from exchange transactions (continued)		
Service debtors		
Sanitation		
Gross balance	914,444	1,142,886
Less: Provision for bad debts	(734,516)	(268,902)
	179,928	873,984
Sanitation: Ageing		
Current (0 - 30 days)	111,312	121,931
30 - 60 days	32,670	46,104
60 - 90 days	28,189	78,513
+ 90 days	742,273	896,338
	914,444	1,142,886
Water		
Gross balance	1,226,193	1,567,987
Less: Provision for bad debts	(961,153)	(351,352)
	265,040	1,216,635
Water: Ageing		
Current (0 - 30 days)	188,181	197,467
30 - 60 days	49,792	71,704
60 - 90 days	43,986	127,642
+ 90 days	944,234	1,171,175
	1,226,193	1,567,988
Refuse		
Gross balance	577,811	688,041
Less: Provision for bad debts	(453,889)	(144,714)
	123,922	543,327
Refuse: Ageing		
Current (0- 30 days)	105,178	106,035
30 - 60 days	26,843	38,174
60 - 90 days	22,322	61,452
+ 90 days	423,468	482,380
	577,811	688,041
Leases		
Gross balance	48,889	53,007
Less: Provision for bad debts	(40,396)	(14,102)
	8,493	38,905
Leases: Ageing		
Current (0 - 30 days)	2,882	6,000
+ 90 days	46,007	47,007
	48,889	53,007

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand 2013 2012

9. Receivables from exchange transactions (continued)

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade receivables

Counterparties without external credit rating

Government (A)	109,078	99,448
Business (B)	175,833	965,499
Other (C)	292,471	2,189,253
	577,382	3,254,200

Group A – These debtors are of good credit quality and no default as expected.

Group B - These debtors are usually good payers but there is a possibility that the debtor may not be able to pay on time.

Group C – These debtors usually pay, but have previously paid later and therefore there is a possibility that these debtors will not be recoverable.

Trade and other receivables past due but not impaired

At 30 June 2013, R 502,517 (2012: R 2,141,418) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	132,485	155,981
2 months past due	62,871	167,607
3 months past due	31,538	1,816,830
> 3 months past due	275,623	-

Reconciliation of doubtful debt provision

Opening balance	(779,070)	(229,939)
Contributions to provision	(2,215,036)	(1,209,824)
Amounts written off	805,151	660,693
	(2,188,955)	(779,070)

10. Receivables from non-exchange transactions

Rates	3,053,619	3,115,185
Less: Provision for doubtful debts	(2,257,199)	(931,704)
	796,420	2,183,481

Rates: Ageing

Current (0 - 30 days)	16,391	2,738
30 - 60 days	7,445	6,776
60 - 90 days	7,763	-
+ 90 days	3,022,020	3,105,660
	3,053,619	3,115,174

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand 2013 2012

10. Receivables from non-exchange transactions (continued)

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions

Counterparties without external credit rating

Government (A)	18,768	12,675
Business (B)	124,484	540,108
Other (C)	653,169	1,630,698
	796,421	2,183,481

Receivables from non-exchange transactions past due but not impaired

At 30 June 2013, R 693,155 (2012: R 2,180,751) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	182,745	6,776
2 months past due	86,723	-
3 months past due	43,503	2,173,976
> 3 months past due	380,185	-

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

Opening balance	(931,704)	(3,347,055)
Provision for impairment	(1,584,703)	-
Amounts written off as uncollectible	259,208	610,126
Reversal of provision	-	1,805,225
Balance at year end	(2,257,199)	(931,704)

11. VAT receivable

VAT receivable	1,259,778	907,407
----------------	-----------	---------

The municipality is registered for VAT on the payment basis.

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,825	2,825
Bank balances	5,064,953	4,971,918
Call accounts	56,412,170	51,735,177
	61,479,948	56,709,920

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand 2013 2012

12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
First National Bank - Engcobo Branch (Account number: 52171724061)	3,610,854	3,303,169	1,855,833	3,616,805	3,303,169	1,855,833
First National Bank - M.I.G. (Account number: 72095050523)	13,129,743	11,819,370	5,450,511	13,129,743	11,819,370	5,450,511
First National Bank - Municipal systems improvement grant - Account number: 62095030426	12,230	645,342	10,306	12,230	659,642	10,306
First National Bank - Self Insurance Fund (Account number: 62101651976)	-	270,335	259,984	-	270,335	259,984
First National Bank - Municipal Finance Management Grant (Account number: 62095026524)	10,283	1,382,869	10,564	10,283	1,382,869	10,564
Meeg Bank Investment (Account number: 9191868465)	194	661,224	660,561	185	661,224	660,561
First National Bank - Municipal admin programme (Account number: 62095023728)	-	103,484	99,600	-	103,484	99,600
First National Bank - Kwagcina Agri Fund (Account number: 62095029148)	1,990	57,188	56,476	1,990	57,188	56,476
First National Bank - 03 Account (Account number: 62024356570)	17,417,485	2,419,522	2,327,593	17,417,485	2,419,522	2,327,593
First National Bank - Pilot Housing (Account number: 61217013327)	395,311	2,008	1,988	395,311	2,008	1,988
First National Bank - Equitable Share No-02 (Account number: 62012728484)	2,638,014	33,832,372	15,206,361	2,638,014	33,832,372	15,206,361
Standard Bank - Employee Levy Fund (Account number: 287133591)	-	60,401	59,671	-	60,401	59,671
First National Bank - DBSA Investment (Account number: 61217016107)	-	429,133	418,939	-	429,133	418,939
First National Bank - CMIP (Account number: 62027299967)	22,806,928	37,629	37,256	22,806,928	37,629	37,256
First National Bank - External Bank Finance (Account number: 62286911146)	1,461,788	1,668,749	-	1,448,148	1,668,749	-
Total	61,484,820	56,692,795	26,455,643	61,477,122	56,707,095	26,455,643

13. Revaluation reserve

Opening balance	3,424,462	-
Change during the year	-	3,424,462
	3,424,462	3,424,462

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
14. Finance lease obligation		
Amounts payable under finance lease		
- within one year	75,945	256,397
- in second to fifth year inclusive	-	-
	75,945	256,397
less: future finance charges	(2,921)	(10,615)
Present value of minimum lease payments	73,024	245,782

It is municipality policy to lease certain equipment under finance leases. The municipality leases photo copiers from Tsolo Office Machinery and Nashua. The lease term is for 2 years commencing March 2011 for the Tsolo lease and 5 years for the Nashua lease which commenced in March 2008. Interest rates are fixed at the contract date. The Tsolo and Nashua leases have fixed repayment rates of R 24,800.00 and R 6,446.70 per month respectively. 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 the following currencies:

Rand	73,024	245,782
------	--------	---------

For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note .

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

15. Unspent conditional grants and receipts

Unspent conditional grants from other spheres of government

Unspent conditional grants and receipts		
Electrification Grant	22,570,616	26,595,067
Municipal Infrastructure Grant	5,178,425	10,555,158
Finance Municipal Grant	3,712	72,522
Charcoal and Small Town Revitalisation Grant	1,268,378	1,088,267
Mgwali Grant	388,187	388,187
EPWP Grant	-	97
Municipal Systems Improvement Grant	-	-
Chris Hani District Municipality Grant	631,179	-
Library Grant	473,401	-
Other Grants	7,425	275,278
	30,521,323	38,974,576

Movement during the year

Balance at the beginning of the year	38,974,577	22,489,687
Current year receipts	85,033,286	69,222,483
Conditions met - transferred to revenue	(93,144,656)	(52,737,594)
Undefined Difference	(341,884)	-
	30,521,323	38,974,576
Non-current liabilities	-	-
Current liabilities	30,521,323	38,974,576
	30,521,323	38,974,576

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand 2013 2012

15. Unspent conditional grants and receipts (continued)

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

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

See note 22 for reconciliation of grants from National/Provincial Government.

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

Electrification grant - Used solely on the electrification of households within Engcobo jurisdiction.

EPWP - This should be used on the employment of Engcobo residents.

Small Town revitalisation - Funds should only be spent on revitalizing Engcobo

Mgwali Projects - Funds to be spent on Mgwali projects alone.

Charcoal - Funds should only be spent on charcoal projects.

MIG - Funds should only be spent on infrastructure roads.

MSIG - Funds should be spent on systems improvement only by the municipality.

FMG - Funds should only be spent on improving the financial systems of the municipality.

The rollover for the following grant was disallowed by Treasury. Discussions with National Treasury are in progress regarding the disallowance. The amounts disallowed for rollover in prior years but only set off against amounts received in the current year are as follows: MIG (R 10,587,478). The municipality has underspent on grants amounting to R 30, 863,207. The underspent funds are committed.

16. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Provision for long services bonuses	62,916	49,871	112,787
Current portion of landfill site restoration provision	1,917,362	18,916	1,936,278
	1,980,278	68,787	2,049,065

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Provision for long services bonuses leave	-	62,916	-	-	62,916
Current portion of landfill site preparation provision	1,066,097	948,515	(128,000)	30,750	1,917,362
	1,066,097	1,011,431	(128,000)	30,750	1,980,278

Provision for long service bonus

This provision relates to expected outflows of economic benefits associated with paying employees that have completed a cycle of 5 years in the employ of the municipality .

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation using an interest rate of 0.8%. Improvements are being made to the site. The life expectancy as at the end of the financial year was 135 years.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
17. Payables from exchange transactions		
Trade payables	7,556,748	5,219,407
Salaries	1,165,586	7,683
Accrued leave pay	2,103,361	2,170,950
Deposits received	166,492	138,738
	10,992,187	7,536,778

18. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2013

	Financial liabilities at amortised cost	Total
Finance lease liabilities	73,024	73,024
Payables from exchange transactions	10,658,130	10,658,130
	10,731,154	10,731,154

2012

	Financial liabilities at amortised cost	Total
Finance lease liabilities	245,782	245,782
Payables from exchange transactions	8,076,301	8,076,301
	8,322,083	8,322,083

19. Revenue

Service charges	2,704,504	2,769,005
Rental of facilities and equipment	177,080	123,514
Licences and permits	3,623,860	3,415,326
Miscellaneous other revenue	432,776	863,785
Interest received - investment	2,267,282	2,231,005
Property rates	2,893,382	3,314,727
Government grants & subsidies	159,839,798	147,548,397
Public contributions and donations	-	52,735,131
Fines	34,970	59,347
	171,973,652	213,060,237

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

Service charges	2,704,504	2,769,005
Rental of facilities and equipment	177,080	123,514
Licences and permits	3,623,860	3,415,326
Other income	432,776	863,785
Interest received - investment	2,267,282	2,231,005
	9,205,502	9,402,635

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
19. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	2,893,382	3,314,727
Transfer revenue		
Other fees	159,839,798	147,548,397
Public contributions and donations	-	52,735,131
Fines	34,970	59,347
	162,768,150	203,657,602

20. Property rates

Rates received

Property rates	2,893,382	3,314,727
----------------	-----------	-----------

Valuations

Residential	102,708,011	108,467,780
Commercial	122,405,225	137,737,400
State	193,729,017	52,699,560
Municipal	36,121,449	13,517,423
	454,963,702	312,422,163

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 0.0132 (2012: R 0.0132) is applied to property valuations to determine assessment rates. Rebates of R15,000 and 20% (2012: R15,000 and 20%) are granted to residential and state property owners respectively.

Rates are levied on an annual basis with the final date for payment being 30 June 2013 (30 June 2012). Interest at prime plus 1% per annum (2012: 0%).

The new general valuation will be implemented on 01 July 2013.

21. Service charges

Sale of water	1,226,943	1,366,043
Sewerage and sanitation charges	777,795	740,813
Refuse removal	699,766	662,149
	2,704,504	2,769,005

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
22. Government grants and subsidies		
Equitable share	76,102,485	66,179,000
Electricification Grant	34,024,451	26,023,906
Municipal Infrastructure Grant	20,807,248	21,862,327
Finance Municipal Grant	1,568,810	1,388,042
Charcoal and Small Town Revitalisation Grants	2,092,522	520,662
Mgwali Grant	-	607,314
EPWP Grant	1,000,097	-
Municipal Systems Improvement Grant	800,000	803,922
Chris Hani District Municipality Grant	21,926,485	28,267,336
Library Grant	114,599	-
Other Grants	1,403,101	1,895,888
	159,839,798	147,548,397

Equitable Share

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

All registered indigents receive a monthly subsidy of 50% of basic charge for water and sanitation and 6 kilolitres of free water, which is funded from the grant.

Electrification Grant

Balance unspent at beginning of year	26,595,067	8,618,973
Current-year receipts	30,000,000	44,000,000
Conditions met - transferred to revenue	(34,024,451)	(26,023,906)
	22,570,616	26,595,067

Conditions still to be met - remain liabilities (see note 15).

Municipal Infrastructure Grant

Balance unspent at beginning of year	10,555,158	10,796,485
Current-year receipts	26,227,000	21,621,000
Conditions met - transferred to revenue	(28,484,078)	(21,862,327)
Amounts surrendered to National Treasury	(2,777,771)	-
Undefined Difference	(341,884)	-
	5,178,425	10,555,158

Conditions still to be met - remain liabilities (see note 15).

Finance Management Grant

Balance unspent at beginning of year	72,522	305,598
Current-year receipts	1,500,000	1,450,000
Conditions met - transferred to revenue	(1,568,810)	(1,388,042)
Amounts written off	-	(295,034)
	3,712	72,522

Conditions still to be met - remain liabilities (see note 15).

Charcoal and Small Town Revitalisation Grant

Balance unspent at beginning of year	1,088,267	1,483,930
--------------------------------------	-----------	-----------

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
22. Government grants and subsidies (continued)		
Current-year receipts	2,272,632	125,000
Conditions met - transferred to revenue	(2,092,521)	(520,663)
	1,268,378	1,088,267

Conditions still to be met - remain liabilities (see note 15).

Mgwali Grant

Balance unspent at beginning of year	388,187	995,501
Conditions met - transferred to revenue	-	(607,314)
	388,187	388,187

Conditions still to be met - remain liabilities (see note 15).

EPWP Grant

Balance unspent at beginning of year	97	-
Current-year receipts	1,000,000	951,000
Conditions met - transferred to revenue	(1,000,097)	(950,903)
	-	97

Conditions still to be met - remain liabilities (see note 15).

Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	13,922
Current-year receipts	800,000	790,000
Conditions met - transferred to revenue	(800,000)	(803,922)
	-	-

Conditions still to be met - remain liabilities (see note 15).

Chris Hani District Municipality Grant

Current-year receipts	22,557,664	28,267,336
Conditions met - transferred to revenue	(21,926,485)	(28,267,336)
	631,179	-

Conditions still to be met - remain liabilities (see note 15).

Library Grant

Current-year receipts	588,000	-
Conditions met - transferred to revenue	(114,599)	-
	473,401	-

Conditions still to be met - remain liabilities (see note 15).

Other grants

Balance unspent at beginning of year	275,278	275,278
Current-year receipts	1,135,248	1,895,888
Conditions met - transferred to revenue	(1,403,101)	(1,895,888)
	7,425	275,278

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
22. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 15).		
Changes in level of government grants		
Based on the allocations set out in the Division of Revenue Act, (Act 6 of 2011), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
23. Public contributions and donations		
Transfers/donations	-	52,735,131
Conditions still to be met - remain liabilities (see note 15)		
24. Other income		
Agricultural Fees	69,750	69,100
LG SETA	26,633	54,816
Cemetery Fees	2,418	3,052
Library Fees	20,867	1,257
Pound Fees	6,726	8,944
Swimming Pool Fees	1,939	1,633
VAT Claims	32,157	-
Tender Fees	2,500	-
Sundry Income	84,205	287,553
Reconnection Fees	18,590	2,763
Burial Fees	-	1,058
Clearance Certificates	238	-
Refunds	-	301,189
SANLAM - Shares	-	7,131
Blocked Drains Clearance	3,516	4,281
Entrance Fees - Toilets	9,503	4,344
Septic Tanks	2,575	5,343
Building Plan Fees	18,947	30,854
Tender Fees	125,572	97,066
Water Services Expenses	-	(22,662)
Connection Fees	4,003	1,922
Reconnection Fees	2,637	4,141
	432,776	863,785

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
25. General expenses		
Advertising	501,302	1,026,958
Membership fees	950	645,700
Auditors remuneration	3,255,632	2,625,591
Bank charges	239,447	197,956
Cleaning	224,102	461,459
Legal expenses	226,739	245,994
Consulting fees	439,912	1,717,774
Stock and material	616,743	1,961,273
Project management unit	295,006	463,364
Entertainment	223,202	529,662
Systems Improvement	40,000	344,879
Hire	(442)	(2,212)
Study of rural component	336,736	119,541
Study of rural component	42,285	463,918
Conferences and delegations	125,454	169,446
Lease rentals on operating lease	1,659,383	2,337,592
Levies paid	6,177	6,138
Skills development levies	143,237	165,797
Development of policies and bylaws	165,240	23,750
Charcoal projects	4,264,588	3,516,889
Charcoal projects	88,290	412,992
Postage	5,819	23,505
Special programmes unit	579,019	1,542,094
Special programmes unit	578,805	476,311
Uniforms and overalls	109,360	455,399
Fraud losses	-	2,781,428
Performance management systems	207,292	293,976
Security costs	1,343,453	969,747
Membership fees	6,000	2,195
Telephone and fax	1,001,187	1,076,275
Development of policies and bylaws	885,282	623,086
Travel and subsistence	2,553,873	1,746,393
Refuse bags and bins	712,906	980,401
Skills development & capacity building	28,184	676,322
Electricity purchases	674,461	157,762
Water reticulation	3,922,614	9,370,029
HIV/AIDS Programme	562,383	769,034
Electrification expenses - DME	29,846,003	17,809,458
Disaster support	236,841	357,610
Mayoral fund and mbizo	257,966	804,100
EPWP programs	2,095,642	2,915,718
Intergrated development plan	655,906	928,358
Special programmes unit	805,228	82,418
Professional fees	5,599,154	5,478,846
Marketing: LED Strategy	-	243,213
Mgwali Projects	-	598,022
Ward committee programmes	2,849,000	2,801,650
Rehabilitation of landfill sites	18,917	74,231
Fin managmt & mfma impl system	1,127,214	555,145
Financial Management & MFMA Implementation Systems	389,681	(16,229)
Other expenses	3,401,802	7,579,405
	73,347,975	79,590,363

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
26. Operating surplus		
Operating surplus for the year is stated after accounting for the following:		
Operating lease charges		
Equipment		
• Contractual amounts	1,659,383	2,337,592
Gain (loss) on sale of property, plant and equipment	775,095	(95,249)
Impairment on property, plant and equipment	-	166,602
Amortisation on intangible assets	170,980	-
Depreciation on property, plant and equipment	29,638,904	24,632,751
Employee costs	43,767,159	36,852,011

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
27. Employee related costs		
Basic	21,212,213	17,787,359
Medical aid - company contributions	3,821,719	3,557,331
Travel, motor car, accommodation, subsistence and other allowances	4,940,239	2,916,544
Overtime payments	917,876	556,507
Housing benefits and allowances	53,116	65,856
Other employee related costs	3,706,263	2,840,821
	34,651,426	27,724,418

Remuneration of municipal manager

Annual remuneration	703,854	152,638
Travel, motor car, accommodation, subsistence, and other allowances	156,423	49,567
Contributions to UIF, Medical and Insurance Funds	1,713	374
Remuneration paid	(861,990)	(202,579)
	-	-

The Corporate Services Manager occupied the position of acting Municipal Manager for the year ended 30 June 2012.

Remuneration of chief finance officer

Annual remuneration	557,740	278,638
Travel, motor car, accommodation, subsistence, and other allowances	199,803	165,025
Contributions to UIF, Medical and Insurance Funds	1,713	873
Remuneration paid	(759,256)	(444,536)
	-	-

Remuneration of director: technical services

Annual remuneration	602,095	513,763
Travel, motor car, accommodation, subsistence and other allowances	133,513	113,552
Contributions to UIF, Medical and Pension Funds	1,713	1,497
Remuneration paid	(737,321)	(628,812)
	-	-

Remuneration of director: corporate services

Annual remuneration	477,523	386,564
Acting allowance	-	44,036
Travel, motor car, accommodation, subsistence and other allowances	205,597	117,460
Contributions to UIF, Medical and Pension Funds	1,713	1,123
Remuneration paid	(684,833)	(549,183)
	-	-

Remuneration of director: community services

Annual remuneration	375,817	513,763
Travel, motor car, accommodation, subsistence and other allowances	78,362	106,267
Contributions to UIF, Medical and Pension Funds	1,118	63,837
Remuneration paid	(455,297)	(683,867)
	-	-

The director: community services' contract expired in January 2013.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
28. Remuneration of councillors		
Executive Major	624,332	561,580
Speaker	515,512	449,263
Councillors allowances	2,596,488	2,953,304
Councillors' pension and medical aid contributions	100,784	68,338
Councillors' salaries	5,278,617	5,095,108
	9,115,733	9,127,593
In-kind benefits		
The Executive Mayor, Speaker and one member of the Executive Council (Chief Whip) are full-time. The Executive Mayor and Speaker are provided with office and secretarial support at the cost of the Council.		
The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor pays for electricity, refuse and water on own account. The Executive Mayor and Speaker have use of a Council owned vehicle for official duties.		
29. Debt impairment		
Contributions to debt impairment provision	3,527,800	1,243,728
30. Investment revenue		
Interest revenue		
Bank	2,267,282	2,231,005
	-	-
	2,267,282	2,231,005
31. Depreciation and amortisation		
Property, plant and equipment	29,638,904	24,632,751
Intangible assets	170,980	-
	29,809,884	24,632,751
32. Impairment of assets		
Impairments		
Property, plant and equipment	-	166,602
	-	166,602
	-	-
33. Finance costs		
Finance lease obligation	1,681	46,195
34. Auditors' remuneration		
Fees	3,255,632	2,625,591
35. Grants and subsidies paid		
Transfer of movable assets	8,062,051	2,306,303
Grants paid to ME's	-	-
Other subsidies	8,062,051	2,306,303

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
35. Grants and subsidies paid (continued)		
Represents transfer of assets to Chris Hani District Municipality at cost.		
36. Cash generated from operations		
Surplus	7,599,903	60,776,316
Adjustments for:		
Depreciation and amortisation	29,809,884	24,632,751
Loss on sale of property, plant and equipment	(775,095)	95,249
Impairments of property, plant and equipment	-	166,602
Debt impairment	3,527,800	1,243,728
Other income from donated assets - (non-cash)	-	(52,735,131)
Contributions to provisions - current	68,787	914,181
CHDM write offs	8,062,051	2,306,303
Non-cash grant adjustment	-	2,781,428
Inventories	(186,897)	(332,181)
Receivables from exchange transactions	2,164,229	1,583,510
Other receivables from non-exchange transactions	1,387,061	(1,659,650)
Debt impairment	(3,527,800)	(1,243,728)
Non-cash movement in property, plant and equipment prior period corrections	-	(1,000,314)
Payables from exchange transactions	3,455,410	(3,068,590)
VAT	(352,371)	3,351,529
Unspent conditional grants and receipts	(8,453,253)	16,484,889
	42,779,709	54,296,892

37. Commitments

Authorised capital expenditure

Approved and contracted for

• Infrastructure	3,217,120	5,185,096
• Electrification	22,079,502	20,494,365
• CHDM Other	1,597,123	-
• Other	2,481,793	2,954,996
	29,375,538	28,634,457

This committed expenditure will be financed by government grants.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
38. Contingencies		
	2013	2012
Noxolo Palmer vs Engcobo Municipality - Noxolo Palmer is directing the municipality to reinstate and pay her an amount of R500.00 monthly for housing allowance with effect from the 25th of October 2009 till termination of contract. The applicant brought this to court after the municipality terminated her housing allowance of R500 monthly. The Municipality opposed and instituted counter claim against Noxolo Palmer. This matter is still pending before court.	150,000	150,000
Phumzile Kilwa vs Engcobo Municipality - Phumzile Kilwa has instituted action against Municipality for alleged unlawful suspension from work. The matter is at pleading stage.	30,000	-
Sibongiseni and Lusanda Grace Mpika vs Engcobo Municipality - The applicants brought the application before court against municipality for disclosure of the information in terms of Access of Information Act 2 of 2000. The heads of argument have been filed.	150,000	-
Vuyani Macingwane vs Engcobo Municipality - Vuyani Macingwane instituted action against Municipality for the alleged defamatory statements made publicly by the Municipal Manager. This pleadings in this matter have been closed.	30,000	-
Sithilanga Kupa vs Engcobo Municipality - Sithilanga Kupa is demanding the amount of R 1,500,000 from the municipality for bodily injuries allegedly sustained by him in a motor vehicle accident which occurred on the 18 December 2013 at the Gubenxa Administrative Area in the district of Engcobo due to negligence of the municipal employees or its contractor whilst constructing or maintaining the road.	150,000	-
Zamindawo Gqira vs Engcobo Municipality - Zamindawo Gqira brought an application against the Engcobo Municipality for the reconstruction of his buliding structure allegedly demolished by the municipality unlawfully.	150,000	-
Golden Rewards vs Engcobo Municipality - Golden Rewards is accusing the municipality for irregular awarding of the Mhlahlane Access Road tender.	50,000	-
Two close co-operations ELB & Civil Construction and New Image Construction entered into a verbal joint venture and the municipality awarded the tender of the construction of a road to the joint venture. The dispute arose between the two co-operations therefore ELB & Civil Construction is threatening to apply for an interdict stopping the construction of the road on the basis that the tender was awarded illegally.	50,000	-
Jehovah's Witness Congregation vs Engcobo Municipality - The municipality erroneously sold one piece of land, Erf 378 (now Erf 2215) to two different organisations namely the Jehovah's Witness Congregation and the Old Apostolic Church. The Old Apostolic Church produced the title deed but there was no proof of purchase of the land whereas the Jehovah's Witness Congregation produced proof of purchasing of the land but have no title deed. The issue is ownership of the land.	20,000	-
	780,000	150,000

39. Related parties

Relationships

Joint ventures	None identified
Associates	None identified
Members of key management	Refer to note 26
Close family member of key management	None identified
Post employment benefit plan for employees of entity and/or other related parties	None identified
Other related party relationships	None identified
Compensation to councillors and other key management	Refer to note 26

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
40. Prior period errors		
The correction of the error(s) results in adjustments as follows:		
Statement of financial position		
Cash and cash equivalents		
As previously stated	-	56,695,620
Increase in cash and cash equivalents due to reversal duplicate capturing of expenditure	-	14,300
	-	56,709,920

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012	
40. Prior period errors (continued)			
Current portion of unspent conditional grants and receipts			
As previously stated	-	(43,523,537)	
Decrease in unspent conditional grants due to conditional grant revenue previously recognised excluding VAT on conditional grant expenditure	-	32,320	
Increase in revenue due to grant revenue previously not recognised	-	4,516,641	
	-	(38,974,576)	
Provisions			
As previously stated	-	(1,923,596)	
Increase in the provision for landfill sites which was previously understated	-	(43,481)	
Increase in the provision for long service bonuses which was previously understated	-	(13,201)	
	-	(1,980,278)	
Property, plant and equipment			
	2013	2012	Previous years
As previously stated	-	280,845,233	224,958,064
Increase in property, plant and equipment due to property, plant and equipment which was erroneously recognised as repairs and maintenance	-	40,170	-
Decrease in property, plant and equipment due to understatement of depreciation	-	(1,079,079)	-
Increase in property, plant and equipment due to VAT erroneously claimed from non VAT vendors.	-	51,972	-
Increase due to incorrect calculation of depreciation on owned assets	-	1,439,879	1,439,879
Increase due to incorrect recording of depreciation on owned assets	-	21,434	21,434
Decrease due to incorrect recording of depreciation related to finance leased assets	-	(19,064)	(19,063)
	-	281,300,545	226,400,314
Trade and other receivables from exchange transactions			
	2013	2012	Previous years
As previously stated	-	4,521,605	4,259,785
Decrease in receivables due to write-off of expenses incurred for water services which were erroneously recognised as debt from Chris Hani District Municipality	-	(1,848,753)	-
Increase in receivables due to overstatement of PAYE and UIF	-	3,424	-
Increase in receivables due to the write-off debtors with credit balances	-	68,760	68,760
	-	2,745,036	4,328,545
Inventories			
	2013	2012	Previous years
As previously stated	-	332,181	-
Increase in inventory due to stock not recognised from prior periods	-	574,488	574,488
	-	906,669	574,488
VAT receivable			
	2013	2012	Previous years
As previously stated	-	4,499,341	8,696,220
Increase in VAT claimable to audit adjustment erroneously passed against VAT claimable instead of VAT provisional	-	1,389,975	-
Decrease in VAT expenditure provisional to audit adjustment erroneously passed against VAT claimable instead of VAT provisional	-	(1,389,975)	-
Decrease in VAT payable due to vat incorrectly claimed	-	1,056,564	-
Increase in VAT expenditure provisional due to VAT previously not accounted for on purchases from VAT vendors	-	48,702	-

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
40. Prior period errors (continued)		
Decrease in VAT expenditure provisional due to VAT previously accounted for on purchases from a non VAT vendors	- (3,645)	-
Decrease in VAT expenditure provisional due to VAT previously accounted for on purchases from a non VAT vendors	- (229,377)	-
Decrease in VAT expenditure provisional due to VAT previously accounted for on purchases from a non VAT vendors	- (51,972)	-
Increase in VAT expenditure provisional due to unrecorded accruals	- 25,078	-
Decrease in VAT expenditure provisional due to write-off of prior year VAT which could not be allocated to expenditure	- (4,538,108)	(4,538,108)
Increase in VAT due to VAT previously not recognised on retentions	- 100,824	100,824
	- 907,407	4,258,936

Payables from exchange transactions	2013	2012	Previous years
As previously stated	-	(4,979,462)	(6,865,634)
Increase in payables due to accruals previously unrecorded	-	(1,570,872)	-
Increase in payables due to overtime relating to 2011/12 incorrectly recognised 2012/13	-	(28,131)	-
Increase in payables due to PAYE, UIF and SDL incurred in prior periods not recognised	-	(1,497,836)	(1,497,834)
Write-back of accrual on grader incorrectly processed to accumulated surplus in the prior year	-	547,208	547,208
Reversal of medical aid overpayment received in prior years	-	(7,683)	(7,683)
	- (7,536,776)	(7,823,943)	

Accumulated surplus	2013	2012	Previous years
As previously stated	-	(295,251,467)	(234,170,733)
Decrease in accumulated surplus due to PAYE, UIF and SDL incurred in prior periods not recognised	-	1,497,834	1,497,834
Increase in accumulated surplus due to write-off of prior year VAT which could not be allocated to expenditure	-	4,538,108	4,538,108
Decrease in accumulated surplus due to stock not recognised from prior periods	-	(574,488)	(574,488)
Write-off of debtors with credit balances	-	(68,760)	(68,760)
Decrease due to incorrect calculation of depreciation on owned assets	-	19,064	19,064
Increase due to incorrect calculation of depreciation on leased assets	-	(21,434)	(21,434)
Increase due to incorrect calculation of depreciation on owned assets	-	(1,439,879)	(1,439,879)
Movement in Government grants and subsidies	-	(4,548,960)	-
Movement in Employee related costs	-	41,331	-
Movement in Remuneration of councillors	-	(3,424)	-
Movement in Repairs and maintenance	-	215,645	-
Movement in depreciation and amortisation expense	-	1,079,079	-
Movement in general expenses	-	446,916	-
Movement in debt impairment	-	1,848,753	-
Decrease in retentions due to VAT previously not recognised	-	(100,824)	(100,824)
Write-back of accrual on grader incorrectly processed to accumulated surplus in the prior year	-	(547,208)	(547,208)
Reversal of medical aid overpayment received in prior years	-	7,683	7,683
	- (292,862,031)	(230,860,637)	

Statement of financial performance

Government grants and subsidies

As previously stated	-	(142,999,436)
Increase in revenue due to conditional grant revenue erroneously recognised excluding VAT on conditional grant expenditure	-	(32,320)
Increase in revenue due to grant revenue previously not recognised	-	(4,516,641)

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
40. Prior period errors (continued)		
		- (147,548,397)
Employee related costs		
As previously stated	-	27,683,086
Increase in expenditure due to increase in provision for long service bonuses	-	13,201
Increase in expenditure due to overtime relating to 2011/12 incorrectly recognised 2012/13	-	28,131
		- 27,724,418
Depreciation and amortisation		
As previously stated	-	23,553,672
Increase in depreciation due to incorrect calculation	-	1,079,079
		- 24,632,751
Repairs and maintenance		
As previously stated	-	7,135,074
Increase in expenditure due to VAT erroneously accounted for on purchases from a non VAT vendors	-	145,314
Decrease in expenditure due to property, plant and equipment which was erroneously recognised as repairs and maintenance	-	(40,170)
Increase in expenditure due to unrecorded accruals	-	110,501
		- 7,350,719
Debt impairment		
As previously stated	-	(605,026)
Increase in expenditure due to write-off of expenses incurred for water services which were erroneously recognised as debt from Chris Hani District Municipality	-	1,848,753
		- 1,243,727
General expenses		
As previously stated	-	79,143,444
Decrease in expenditure due to VAT incorrectly claimed	-	(1,056,564)
Decrease in expenditure due to VAT previously not accounted for on purchases from VAT vendors	-	(48,702)
Increase in expenditure due to VAT previously accounted for on purchases from a non VAT vendors	-	3,645
Increase in expenditure due to increase of provision for the landfill sites	-	43,481
Increase in expenditure due to VAT erroneously accounted for on purchases from a non VAT vendors	-	84,064
Increase in expenditure due to unrecorded accruals	-	1,435,295
Decrease in expenditure due to reversal duplicate capturing of expenditure	-	(14,300)
		- 79,590,363
Remuneration of councillors		
As previously stated	-	9,131,017
Decrease in expenditure due to overstatement of PAYE and UIF	-	(3,424)
		- 9,127,593
Other disclosures		
Irregular expenditure		
As previously stated	-	34,057,696
Irregular expenditure incurred in prior year overstated	-	(11,733,857)
		- 22,323,839

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand 2013 2012

41. Prior periods and restatement of comparative information

Certain comparative figures have been reclassified.

Trainee wages of R 145,100 were incorrectly allocated to general expenditure instead of employee costs.

A reversal of provision for bad debts of R 605,026 was classified as other income in the prior year, however, this amount should have been an increase to the provision for bad debts of R 1,243,727.

The effects of the reclassification are as follows:

Statement of Financial Performance

Employee costs	-	145,100
General expenses	-	(145,100)
Other income	-	605,026
Debt impairment	-	(605,026)

42. Risk management

Liquidity risk

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

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

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	10,658,130	-	-	-
Current portion of unspent conditional grants and receipts	30,863,207	-	-	-
Finance lease liability	73,024	-	-	-

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	8,076,301	-	-	-
Current portion of unspent conditional grants and receipts	38,974,576	-	-	-
Finance lease liability	245,872	-	-	-

Interest rate sensitivity analysis

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand 2013 2012

42. 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 financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instrument	2013	2012
Cash and cash equivalents	60,420,717	56,707,095
Trade and other receivables from exchange transactions	580,888	2,745,036
Trade and other receivables from non-exchange transactions	796,420	2,183,481

43. Unauthorised expenditure

Opening balance	76,136,807	39,507,761
Unauthorised expenditure current year	60,408,124	36,629,046
Less amounts approved for write off	(53,103,920)	-
	83,441,011	76,136,807

44. Fruitless and wasteful expenditure

Opening balance	2,781,428	-
Fruitless and wasteful expenditure	13,306	2,781,428
	2,794,734	2,781,428

45. Irregular expenditure

Opening balance	22,323,839	8,346,650
Add: Irregular Expenditure - current year	3,477,097	32,651,180
Condoned or written off by Council	(3,477,097)	(18,673,991)
	22,323,839	22,323,839

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Irregular expenditure incurred relates to supply chain management processes not followed i.e. the required number of quotations were not obtained.	None taken	-

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
46. Additional disclosure in terms of Municipal Finance Management Act		
Audit fees		
Opening balance	-	-
Current year subscription / fee	3,255,632	2,625,591
Amount paid - current year	(3,255,632)	(2,625,591)
Amount paid - previous years	-	-
	-	-
PAYE and UIF		
Opening balance	-	-
Current year payroll deductions	3,902,724	3,350,895
Amount paid - current year	(3,902,724)	(3,350,895)
Amount paid - previous years	-	-
	-	-
Pension and Medical Aid Deductions		
Opening balance	-	-
Current year subscription / fee	5,830,966	3,476,614
Amount paid - current year	(5,830,966)	(3,476,614)
Amount paid - previous years	-	-
	-	-
VAT		
VAT receivable	1,259,778	907,407

VAT output payables and VAT input receivables are shown in note 11.

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

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand 2013 2012

46. 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 2013:

30 June 2013	Outstanding less than 90 days	Outstanding more than 90 days	Total
No councillors arrear for the year	-	-	-

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
No councillors arrear for the year	-	-	-

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

30 June 2013	Highest outstanding amount	Aging (in days)
No councillors arrear for the year	-	-

30 June 2012	Highest outstanding amount	Aging (in days)
No councillors arrear for the year	-	-

47. Deviation from supply chain management regulations

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

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

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

48. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

AB1 - 40% over budget due to increase in the demand of hall hire.

Engcobo Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

Figures in Rand	2013	2012
-----------------	------	------

AB2 - 15% over budget due to increase in drivers license applications.

AB3 - 55% over budget due to increase in the demand of sundry services provided by the municipality.

AB4 - 37% over budget due to refunds received from SARS on VAT deposited into investment accounts.

AB5 - 21% under budget due to indigents approved in the current year.

AB6 - 87% over budget due to commitments which were not allocated to budget.

AB7 - 16% over budget due to increase in offenders.

AB8 - Over budget due to increase additons in the current year.

AB9 - 100% over budget due to unforeseen delays in payment.

AB10 - 100% over budget as the item was not budgeted for.

AB11 - Over budget due to assets donated by Department of Sports, Arts & Culture which was not foreseen during budgeting.

AB12 - 46% over budget due to electrification expenses which were budgeted under capital expenses.

AB13 - 100% over budget due to unforeseen disposal of assets which resulted in profit.

49. Key sources of estimation uncertainty and judgements

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment

Recoverable amounts of property, plant and equipment

Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)

Present value of defined benefit obligation

Provision for doubtful debts

Impairment of assets

Provision for long-term service award

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

Provisions

50. Gains/(losses) on sale of assets

Property, plant and equipment	775,095	(95,249)
-------------------------------	---------	----------

51. Water distribution losses

The municipality incurred water distribution losses in the current year estimated at 47% (2012: 25%). This amounts to a loss of 163,757 kilolitres at a cost R 3, resulting in a total revenue loss for the current year of R 491,271 (R 225,918).

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

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		

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