



**EPHRAIM MOGALE LOCAL MUNICIPALITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

General Information

Executive Mayor	Me MY Mmakola
Executive Committee	Cllr. KN Kekana Cllr. MF Ratau Cllr. EM Monyamane Cllr. LJ Mphahlele Cllr. WM Mabaso Cllr. MG Phefadi Cllr. LJ Shalang Cllr. LB Modisha Cllr. MR Seono Cllr. ST Mohlobogwane Cllr. SC Mamogobo Cllr. MK Selamolela Cllr. MJ Nchabeleng Cllr. JS Motsepe Cllr. B Esson Cllr. MF Maibelo Cllr. HSM Bokaba Cllr. MM Kekana Cllr. P Ranoto Cllr. OE Sebothoma Cllr. EM Tshiguvhu Cllr. MF Matlala Cllr. GN Makanyane Cllr. NR Ndobeni Cllr. ME Moraswi Cllr. K Seoka Cllr. MG Phala Cllr. BG Mashego Cllr. MS Chauke Cllr. JH Bogopa Cllr. ET Sehlola
Councillors	Low Capacity Municipality
Grading of local authority	
Accounting Officer	Mr PJ Phahlamohlaka (Acting)
Chief Finance Officer (CFO)	Mr R Mohaud (Acting)
Registered office	No 13 Ficus street Civic Centre Marble Hall 0450

Ephraim Mogale Local Municipality

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General Information

Business address	Ficus Street Civic Centre Marble Hall 0450
Postal address	PO Box 111 Marble Hall 0450
Bankers	Absa Bank First National Bank
Auditors	Auditor General South Africa

Ephraim Mogale Local Municipality

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Abbreviations

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

Ephraim Mogale Local Municipality

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the 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 acknowledge 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, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act. The financial statements set out on pages 7 to 74, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2013 and were signed on its behalf by:

Mr PJ Phahlamohlaka
Acting Accounting Officer

31 August 2013

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2013.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 5 number of meetings were held.

Name of member	Number of meetings attended
Adv.M J Ralefalane (Chairperson)	5
Adv M O Nemogumoni	5
Mr VK Chuene	5
Mr Z Fihlani	5
Mrs MJ Ramataboe	4

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

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

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditor, the Audit Report on the financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

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

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

Evaluation of financial statements

The audit committee has:

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

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

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Audit Committee Report

Internal audit

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

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa in its meeting of the 26th April 2013 to ensure that there are no unresolved issues.

Chairperson of the Audit Committee

Date: _____

Ephraim Mogale 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

Net surplus of the municipality was R 53 001 212 (2012: deficit R 9 337 609).

The municipality performed the debtor administration of water and sanitation services on an agency basis in terms of a service level agreement. The current period of the water and sanitation services contract expires on 30 June 2013. The Sekhukhune District Municipality has extended the current contract up to 31 December 2013. This change is not expected to have a major effect on the financial position and performance of the municipality for the period under review or future financial periods.

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. Subsequent events

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

4. Accounting Officers' interest in contracts

The accounting officer had no interest in contracts.

5. Accounting policies

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

6. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year is set out in the notes to the financial statements.

7. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mr MJ Lekola (Acting)	South African	Resigned 31 October 2012
Mr RD Rankwe (Acting)	South African	Appointed 01 November 2012, resigned 30 November 2012
Mr BP Marais (Acting)	South African	Appointed 01 December 2012, resigned 01 August 2013
Mr L Makopo (Acting)	South African	Appointed 02 July 2013, resigned 16 August 2013
Mr PJ Phahlamohlaka (Acting)	South African	Appointed 16 August 2013

8. Corporate governance

General

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

Councillors

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Officer's Report

The Councillors:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising:
 - non-executive councillors, all of whom are independent directors as defined in the Code; and
 - executive councillors.

Audit committee

Adv MJ Ralefatane was the chairperson of the audit committee. The committee met 5 times during the financial year to review matters necessary to fulfil its role.

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

Internal audit

The municipality has an internal audit division.

9. Bankers

The municipality banks primarily with Absa bank.

'The primary bank account in the previous financial year was with FNB Bank.

10. Auditors

Auditor General South Africa.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Inventories	10	644 660	691 443
Receivables from exchange transactions	11	2 606 326	5 638 797
Consumer debtors from exchange transactions	12	2 317 063	2 318 563
Consumer debtors from non exchange transactions	12	5 353 794	2 117 756
Deposit (Security held in advance)	9	100 926	-
Cash and cash equivalents	13	32 429 817	13 229 714
		43 452 586	23 996 273
Non-Current Assets			
Investment property	4	107 329 000	63 917 414
Property, plant and equipment	5	776 725 074	779 947 312
Intangible assets	6	371 171	-
		884 425 245	843 864 726
Total Assets		927 877 831	867 860 999
Liabilities			
Current Liabilities			
Operating lease liability	7	104 657	142 889
Payables from exchange transactions	16	20 037 029	14 092 491
VAT payable	17	4 308 571	873 785
Consumer deposits	18	1 688 933	1 657 168
Retirement benefit obligation	8	10 780 162	7 409 162
Unspent conditional grants and receipts	14	-	5 728 238
		36 919 352	29 903 733
Total Liabilities		36 919 352	29 903 733
Net Assets		890 958 479	837 957 266
Accumulated surplus		890 958 479	837 957 266

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Revenue from exchange transactions			
Service charges	21	38 606 685	33 149 311
Rendering of services	22	1 884 172	1 789 351
Rental of facilities and equipment	19	107 456	155 437
Licences and permits	19	3 803 419	4 331 498
Recoveries	19	-	31 961
Other revenue	24	742 132	1 058 333
Interest received - investment	32	5 432 876	4 115 578
Total revenue from exchange transactions		50 576 740	44 631 469
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	12 251 691	11 215 705
Transfer revenue			
Government grants & subsidies	23	103 546 286	80 291 425
Fines	19	162 321	223 424
Total revenue from non-exchange transactions		115 960 298	91 730 554
Total revenue	19	166 537 038	136 362 023
Expenditure			
Personnel	28	(41 721 140)	(37 787 558)
Remuneration of councillors	29	(9 739 948)	(8 867 091)
Administration	30	(97 596)	(94 486)
Depreciation and amortisation	34	(37 802 336)	(34 079 216)
Finance costs	35	-	(1 012 062)
Debt impairment	31	(1 803 120)	(2 612 637)
Repairs and maintenance		(6 245 234)	(6 993 698)
Bulk purchases	39	(20 324 237)	(17 671 187)
Grants and subsidies paid	38	(825 267)	(624 409)
General Expenses	25	(35 672 534)	(34 159 727)
Total expenditure		(154 231 412)	(143 902 071)
Operating surplus (deficit)	27	12 305 626	(7 540 048)
Loss on disposal of assets and liabilities		(18 758 000)	(461 561)
Actuarial gains / (losses)	33	(2 716 000)	(1 336 000)
Fair value adjustment on investment properties		62 169 586	-
Surplus (deficit) for the year		40 695 586	(1 797 561)
Surplus (deficit) for the year		53 001 212	(9 337 609)

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2011	847 294 875	847 294 875
Changes in net assets		
Surplus / (Deficit) for the year	(9 337 609)	(9 337 609)
Total changes	(9 337 609)	(9 337 609)
Opening balance as previously reported	835 580 760	835 580 760
Adjustments		
Prior year adjustments - Note 36	2 376 507	2 376 507
Balance at 01 July 2012 as restated - Note 36	837 957 267	837 957 267
Changes in net assets		
Surplus / (Deficit) for the year	53 001 212	53 001 212
Total changes	53 001 212	53 001 212
Balance at 30 June 2013	890 958 479	890 958 479

Note(s)

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Cash receipts from customers, grant and other sources of revenue		103 546 286	80 291 425
Sale of goods and services		40 490 857	34 984 161
Licenses and Permits		3 803 419	4 331 498
Interest income		5 432 876	4 115 578
Property rates		12 251 690	11 215 705
Other income		742 132	1 090 294
		166 267 260	136 028 661
Payments			
Employee costs		(51 342 680)	(47 364 115)
Cash payments for inventory, suppliers and employ related cost		(57 956 280)	(55 483 977)
Finance costs		-	(1 012 062)
		(109 298 960)	(103 860 154)
Net cash flows from operating activities	40	56 968 300	32 168 507
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(34 580 099)	(18 476 088)
Proceeds from sale of property, plant and equipment	5	-	318 929
Purchase of other intangible assets	6	(371 171)	-
Purchase of deposit (security held in advance)		(100 926)	-
Net cash flows from investing activities		(35 052 196)	(18 157 159)
Cash flows from financing activities			
Repayment of other financial liabilities		(2 716 000)	(8 829 725)
Net cash flows from financing activities		(2 716 000)	(8 829 725)
Net increase/(decrease) in cash and cash equivalents		19 200 104	5 181 623
Cash and cash equivalents at the beginning of the year		13 229 714	8 048 091
Cash and cash equivalents at the end of the year	13	32 429 818	13 229 714

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1. Presentation of Financial Statements

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.

1.1 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. .

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Investment property

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

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

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

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

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

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

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

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.2 Mergers (continued)

Fair value

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

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

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

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

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

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

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

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

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired at no cost, or for a nominal cost, 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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.3 Property, plant and equipment (continued)

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.

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.

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

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

Item	Average useful life
Land	Indefinite
Buildings	20 - 30 years
Other property plant and equipment	3 - 10 years
Office equipment	4 - 6 years
Motor vehicles	5 years
Community	5 - 25 years
Infrastructure	2 - 100 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.

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.3 Property, plant and equipment (continued)

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.

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

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

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

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.

Website	3 years
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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 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 uncollectability.

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 Financial instruments (continued)

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.

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 Financial instruments (continued)

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.

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
Investment property	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
VAT	Financial asset measured at amortised cost
Sundry debtors	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
Trade payables	Financial liability measured at amortised cost
Accruals	Financial liability measured at amortised cost

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 Financial instruments (continued)

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.

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 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 entity 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 uncollectability of financial assets

The entity assesses 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:

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.5 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.

1.6 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.

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.6 Leases (continued)

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.

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.

1.7 Inventories

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

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

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

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

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

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

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

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

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

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

1.8 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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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

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

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

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

Useful life is either:

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

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.

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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.

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.

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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.

1.9 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.

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.

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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 overdesigned or overcapacity asset. Overdesigned 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.

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.

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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.

1.10 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.

1.11 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
- 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.

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1.11 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the 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.

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1.11 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.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect 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 post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

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1.11 Employee benefits (continued)

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.

1.12 Provisions and Contingent liabilities

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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1.12 Provisions and Contingent liabilities (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes .

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.

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

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

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

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

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1.12 Provisions and Contingent liabilities (continued)

- 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 1.8 and 1.9.

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.

1.13 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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1.13 Revenue from exchange transactions (continued)

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

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.

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

1.14 Revenue from non-exchange transactions

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

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

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

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Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

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

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

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 transfers 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

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

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Government grants

Government grants are recognised as revenue when:

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

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

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

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

Other grants and donations

Other grants and donations are recognised as revenue when:

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

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

1.15 Turnover

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

1.16 Investment income

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

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.18 Comparative figures

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

1.19 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.

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1.19 Unauthorised expenditure (continued)

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.

1.20 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.

1.21 Irregular expenditure

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

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

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

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

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

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

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

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.22 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.

1.23 Presentation of currency

These financial statements are presented in South African Rand.

1.24 Offsetting

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

1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

Investments in derivative financial instruments

Derivative financial instruments are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the Statement of Financial Performance in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Statement of Financial Performance as they arise.

1.26 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. Conditional Grants and Receipt form part of Non-exchange revenue.

1.27 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 2012/07/01 to 2013/06/30.

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

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

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Accounting Policies

1.28 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.

1.29 Consumer Deposits

Consumer Deposits represents funds received by the municipality as security for payment of consumer accounts. The amount represent the actual cash received and can either be paid back or set off against an consumer account. The gross un utilised deposit amount is indicated. No interest is paid to the consumer on the deposits held by the municipality.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

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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 24 - Budget information in terms of note 54

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 103 - Heritage assets

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 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other 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 a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, 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.

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

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3. New standards and interpretations (continued)

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

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

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

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

The standard elaborates on the definitions and identification of:

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

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

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

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

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

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

Notes to the Financial Statements

3. New standards and interpretations (continued)

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

Amendments were made to Changes in Accounting Policies.

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.

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.

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.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals 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.

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

Ephraim Mogale Local Municipality

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3. New standards and interpretations (continued)

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.

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 issued by the IASB previously included in GRAP 102,
- 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.

Ephraim Mogale Local Municipality

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3. New standards and interpretations (continued)

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.

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.

4. Investment property

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	107 329 000	-	107 329 000	63 917 414	-	63 917 414

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4. Investment property (continued)

Reconciliation of investment property - 2013

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	63 917 414	(18 758 000)	62 169 586	107 329 000

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	63 917 414	63 917 414

Details of valuation

The effective date of the revaluations was 28 June 2013. Revaluations were performed by an independent valuer, Mr Lourens Nel (Professional Valuer - 4464/2)(SACPVP)(SAIV), of Uniqueco Properties (Pty) Ltd (Trading as UNIQUECO Property Valuers). UNIQUECO Property Valuers are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation were based on the land and improvement value methodology, referring to the costing approach i.e. the replacement values less provisional depreciation for improvements plus land value. Both the land and building costing were based on comparable data and statistical analyses.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal

The municipality does not have any contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements as at the end of the period under review

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the cost model (when fair value of investment property cannot be reliably determined), disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

Ephraim Mogale Local Municipality

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5. 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	3 755 019	-	3 755 019	3 755 019	-	3 755 019
Buildings	33 157 575	(4 664 566)	28 493 009	30 399 382	(3 559 313)	26 840 069
Motor vehicles	3 866 613	(1 554 616)	2 311 997	2 191 874	(986 817)	1 205 057
Office equipment	8 372 256	(6 004 793)	2 367 463	7 571 013	(5 160 742)	2 410 271
Infrastructure	837 280 394	(124 407 119)	712 873 275	811 458 888	(92 471 433)	718 987 455
Community	10 760 873	(1 085 819)	9 675 054	7 017 105	(604 051)	6 413 054
Other property, plant and equipment	32 634 499	(15 385 242)	17 249 257	32 349 787	(12 517 462)	19 832 325
Capital Work In Progress	-	-	-	504 062	-	504 062
Total	929 827 229	(153 102 155)	776 725 074	895 247 130	(115 299 818)	779 947 312

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Transfers	Depreciation	Total
Land	3 755 019	-	-	-	3 755 019
Buildings	26 840 069	2 758 193	-	(1 105 253)	28 493 009
Motor vehicles	1 205 057	1 674 739	-	(567 799)	2 311 997
Office equipment	2 410 271	801 243	-	(844 051)	2 367 463
Infrastructure	718 987 455	25 821 506	-	(31 935 686)	712 873 275
Community	6 413 054	3 743 768	-	(481 768)	9 675 054
Other property, plant and equipment	19 832 325	284 712	-	(2 867 780)	17 249 257
Capital Work In Progress	504 062	-	(504 062)	-	-
Total	779 947 312	35 084 161	(504 062)	(37 802 337)	776 725 074

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Cost on disposed assets	Capital work in progress	Depreciation	Depreciation on sold assets	Total
Land	3 755 019	-	-	-	-	-	3 755 019
Buildings	26 159 479	1 642 870	-	-	(962 280)	-	26 840 069
Motor vehicles	915 742	686 347	-	-	(397 032)	-	1 205 057
Office equipment	2 855 322	795 121	(6 967 144)	-	(787 078)	6 514 050	2 410 271
Infrastructure	739 401 773	9 383 939	(133 455)	-	(29 678 148)	13 346	718 987 455
Community	1 150 874	5 427 626	-	-	(165 446)	-	6 413 054
Other property, plant and equipment	21 588 664	540 185	(1 777 346)	-	(2 089 232)	1 570 054	19 832 325
Capital Work In Progress	-	-	-	504 062	-	-	504 062
Total	795 826 873	18 476 088	(8 877 945)	504 062	(34 079 216)	8 097 450	779 947 312

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.

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

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6. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	371 171	-	371 171	-	-	-

Reconciliation of intangible assets - 2013

Intangible assets	Opening balance	Additions	Total
	-	371 171	371 171

Transitional provisions

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

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7. Operating lease liability

Current liabilities	(104 657)	(142 889)
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The municipality entered into an operating lease to lease a number of small buildings utilised for community facilities. The lease escalate at 10% per annum and the lease is straight lined over the remaining timeframe of the lease. The accumulated accrual for future lease payments straightlining amounts to R (104 657), (2012) R (142 889).

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.

8. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-partially or wholly funded	(10 780 162)	(7 409 162)

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

Opening balance	2 587 036	463 036
Benefits paid	215 000	199 000
Net expense recognised in the statement of financial performance	3 586 000	1 925 000
Closing balance	6 388 036	2 587 036

Net expense recognised in the statement of financial performance

Current service cost	383 000	303 000
Interest cost	602 000	483 000
Actuarial (gains) losses	2 601 000	1 139 000
Total included in employee related costs	3 586 000	1 925 000

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	2 601 000	1 139 000
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Changes in the fair value of plan assets are as follows:

The municipality expects to contribute R 214 000 to its defined benefit plans in the following financial year.

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.25 %	8.25 %
Consumer price inflation	6.25 %	6.00 %
Health care cost inflation	6.75 %	7.31 %

Ephraim Mogale Local Municipality

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8. Employee benefit obligations (continued)

The basis on which the discount rate has been determined is as follow:

Accounting Standard IAS19 defines the determination of the investment return assumption to be used as the rate that can “be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.” As such a discount rate of 7.25% per annum has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 15 May 2013.

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percent age point increase	One percent age point decrease
Effect on the aggregate of the service cost and interest cost	775 000	484 000
Effect on defined benefit obligation	12 916 000	9 086 000

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

	2013	2012	2011	2010
Defined benefit obligation	10 780 162	7 409 162	5 863 162	4 706 708

9. Deposit (Security held in advance)

A security deposit is held by Escom who is the bulk electricity supplier of the municipality. The Municipality occasionally pays additional deposits as required by the supplier. The deposit attracts interest at rates determined by the supplier on an annual basis. The annual interest is accounted for in the additional deposit amounts held and the relevant interest earned amount on the statement of financial performance.

10. Inventories

Stores, materials and fuels	644 660	691 443
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11. Receivables from exchange transactions

Trade debtors	448 374	489 985
Sekhukhune Debtor	1 642 039	4 632 899
Debtor from prior year corrections	515 913	515 913
	2 606 326	5 638 797

Ephraim Mogale Local Municipality

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12. Consumer debtors

Gross balances

Rates	10 625 074	8 668 974
Electricity	2 939 062	3 174 032
Refuse	1 946 014	1 486 561
Other - (Interest and other major items)	11 342 101	8 485 028
	26 852 251	21 814 595

Less: Allowance for impairment

Rates	(6 888 190)	(6 960 201)
Electricity	(1 032 673)	(1 065 663)
Refuse	(1 535 340)	(1 276 366)
Other - (Interest and other major items)	(9 725 192)	(8 076 045)
	(19 181 395)	(17 378 275)

Net balance

Rates	3 736 884	1 708 773
Electricity	1 906 389	2 108 369
Refuse	410 674	210 195
Other - (Interest and other major items)	1 616 909	408 983
	7 670 856	4 436 320

Rates from non exchange transactions

Current (0 -30 days)	1 008 580	603 213
31 - 60 days	152 944	117 685
61 - 90 days	139 668	60 373
91 - 120 days	91 608	47 761
121 - 150 days	75 751	38 447
150 days plus	2 268 333	841 294
	3 736 884	1 708 773

Electricity from exchange transactions

Current (0 -30 days)	1 622 440	1 793 805
31 - 60 days	46 178	124 973
61 - 90 days	22 968	29 997
91 - 120 days	17 745	23 920
121 - 150 days	5 416	6 553
150 days plus	191 642	129 121
	1 906 389	2 108 369

Refuse from Exchange transactions

Current (0 -30 days)	107 895	115 871
31 - 60 days	13 952	12 505
61 - 90 days	10 221	5 194
91 - 120 days	8 681	3 383
121 - 150 days	8 196	3 164
150 Days plus	261 729	70 078
	410 674	210 195

Ephraim Mogale Local Municipality

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12. Consumer debtors (continued)

Other from Non exchange transactions

Current (0 -30 days)	155 788	158 900
31 - 60 days	47 840	25 037
61 - 90 days	2 836	10 169
91 - 120 days	19 268	(10 556)
121 - 150 days	46 667	7 311
150 Days plus	1 344 510	218 122
	1 616 909	408 983

Reconciliation of allowance for impairment

Balance at beginning of the year	(17 378 275)	(14 765 638)
Additional contribution for the year to debt impairment provision	(1 803 120)	(2 612 637)
	(19 181 395)	(17 378 275)

Consumer debtors impaired

The amount of the provision was R 19 181 395 as of 30 June 2013 (2012: R (17 378 275)).

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	32 429 817	13 229 714
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The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
First National Bank Limited - Cheque Account (Acc No 52950020208)	8 928 282	16 399 596	6 455 290	13 196 447
First National Bank Limited - Cheque Account (PHP) (Acc No 62057590393)	32 885	33 266	32 503	33 267
Absa Bank	44 153 205	-	25 942 024	-
Total	53 114 372	16 432 862	32 429 817	13 229 714

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	5 728 238
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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 23 for reconciliation of grants from Provincial and National Government.

Ephraim Mogale Local Municipality

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15. Provisions

Reconciliation of provisions - 2012

Transitional provisions

Provisions recognised at provisional amounts

16. Payables from exchange transactions

Trade payables	12 777 777	7 152 829
Accrued leave pay - Normal Leave	2 963 153	3 383 434
Accrued bonus	1 417 923	1 082 103
Accrued leave pay - Long Service Leave	2 129 118	1 895 118
Operating lease payables	436 404	398 173
Other creditors	312 654	180 834
	20 037 029	14 092 491

17. VAT payable

VAT	4 308 571	873 785
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18. Consumer deposits

Deposits held	1 688 933	1 657 168
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The Municipality also has consumer Guarantees amounting to R810 095 on 30 June 2013 (2012: R811 595)

Ephraim Mogale Local Municipality

Financial Statements for the year ended 30 June 2013

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19. Revenue		
Rendering of services	1 884 172	1 789 351
Service charges	38 606 685	33 149 311
Rental of facilities and equipment	107 456	155 437
Licences and permits	3 803 419	4 331 498
Recoveries	-	31 961
Other revenue	742 132	1 058 333
Interest received - investment	5 432 876	4 115 578
Property rates	12 251 691	11 215 705
Government grants & subsidies	103 546 286	80 291 425
Fines	162 321	223 424
	166 537 038	136 362 023

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

Service charges	38 606 685	33 149 311
Rendering of services	1 884 172	1 789 351
Rental of facilities and equipment	107 456	155 437
Licences and permits	3 803 419	4 331 498
Recoveries	-	31 961
Other income	742 132	1 058 333
Interest received - investment	5 432 876	4 115 578
	50 576 740	44 631 469

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

Taxation revenue		
Property rates	12 251 691	11 215 705
Transfer revenue		
Government grants & subsidies	103 546 286	80 291 425
Fines	162 321	223 424
	115 960 298	91 730 554

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20. Property rates

Rates received

Residential	4 219 786	3 813 677
Commercial	3 671 175	3 312 500
State	112 567	146 234
Municipal	1 186 331	1 051 014
Small holdings and farms	3 061 832	2 892 280
	12 251 691	11 215 705

Valuations

Residential	987 447 000	11 215 705
Commercial	450 399 200	-
State	43 406 000	-
Municipal	28 453 230	-
Small holdings and farms	2 015 747 160	-
	3 525 452 590	11 215 705

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2007. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

An application for extension was applied for and approved by the MEC. The new general valuation will be implemented from the 1 July 2013.

21. Service charges

Sale of electricity	35 666 165	30 418 654
Refuse removal	2 940 520	2 730 657
	38 606 685	33 149 311

22. Rendering of services

Commission on water	1 268 147	1 212 767
Services revenue	616 025	576 409
	1 884 172	1 789 176

23. Government grants and subsidies

Equitable share	68 729 000	60 529 513
Municipal Infrastructure Grant	27 406 238	12 142 762
Municipal System Improvement Program Grant	800 000	790 000
Finance Management Grant	1 500 000	1 250 000
D.T.I. Grant	4 301 000	-
Grant Horticultural Program	-	5 579 150
EPWP Project	810 048	-
	103 546 286	80 291 425

Equitable Share

Ephraim Mogale Local Municipality

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23. Government grants and subsidies (continued)

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	5 728 238	-
Current-year receipts	20 913 000	17 871 000
Conditions met - transferred to revenue	(26 641 238)	(12 142 762)
	-	5 728 238

Municipal Systems Improvement Program Grant

Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(790 000)
	-	-

Financial Management Grant

Current-year receipts	1 500 000	1 250 000
Conditions met - transferred to revenue	(1 500 000)	(1 250 000)
	-	-

All conditions have been met during the year.

DTI Organic Farming Grant

Current-year receipts	4 301 000	5 579 150
Conditions met - transferred to revenue	(4 301 000)	(5 579 150)
	-	-

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Other revenue

Insurance Refund	-	31 961
Sundry Income	742 132	1 058 333
	742 132	1 090 294

Ephraim Mogale Local Municipality

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25. General expenses		
Advertising	327 407	368 493
Auditors remuneration	1 817 328	1 944 500
Bank charges	292 113	250 549
Cleaning	93 571	66 747
Consulting and professional fees	6 785 561	7 210 106
Consumables	126 303	112 013
Donations	34 550	31 465
Entertainment	128 118	55 933
Delegates expenditure	531 247	378 372
Community development and training	4 825 446	5 882 876
Conferences and seminars	41 382	38 650
Rentals	911 730	1 006 934
Marketing	491 347	605 139
Provision Post employment Medical expenses - Note 6	383 000	303 000
Motor vehicle expenses	2 451 203	1 829 508
Postage and courier	140 111	126 231
Rentals	545 845	797 481
Protective clothing	222 660	96 740
Security (Guarding of municipal property)	3 587 739	2 340 344
Occupational health and safety expenses	130 499	267 390
Subscriptions and membership fees	799 561	670 378
Telephone and fax	748 450	1 004 026
Training	589 275	606 042
Travel - local	1 631 017	1 875 397
Municipal Consumption - Electricity	1 766 674	1 821 379
Sewerage and waste disposal	18 268	19 938
Municipal Consumption - Water	104 543	102 794
Refuse	178 375	168 866
Uniforms	6 000	5 500
Other expenses	3 603 380	2 901 416
Roads & Stormwater Master Plan	833 333	-
Financial Management Grant Expense	1 447 199	1 250 000
Town planning	27 152	13 184
Inventory adjustments - stock losses	52 147	8 336
	35 672 534	34 159 727

26. Repairs and Maintenance

Repairs and maintenance	6 245 234	6 993 698
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27. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Operating lease charges

Premises

• Contractual amounts	363 332	403 794
Equipment	548 398	603 140
• Contractual amounts	911 730	1 006 934

Loss on sale of property, plant and equipment

(18 758 000)

(461 561)

Surplus on revaluation of investment property

(62 169 586)

-

Depreciation on property, plant and equipment

37 802 336

34 079 216

Employee costs

51 461 088

46 654 649

28. Employee related costs

Basic	26 928 936	23 543 337
Bonus	2 159 328	1 025 170
Medical aid - company contributions	1 436 052	1 313 653
UIF	243 048	207 734
Other payroll levies	14 689	9 291
Short term benefit	62 124	59 713
Post-employment benefits - Pension - Defined contribution plan	5 021 177	4 760 956
Overtime payments	1 703 683	1 614 803
Long-service awards finance charges	147 000	112 000
Car allowance	1 063 921	779 714
Housing benefits and allowances	65 118	54 024
Provision Service Cost Long Service Leave	191 000	226 000
Post retirement contributions	602 000	483 000
	39 638 076	34 189 395

Remuneration of Municipal Manager

Salary	-	548 171
Car Allowance	-	108 460
Bonus	-	31 493
Contributions to UIF, Medical and Pension Funds	-	114 053
Reimbursive allowances	-	38 702
Acting allowances	145 106	-
Cellphone allowance	-	14 520
	145 106	855 399

Remuneration of Chief Financial Officer

Salary	-	611 082
Car Allowance	-	34 641
Contributions to UIF, Medical and Pension Funds	-	56 808
Reimbursive allowances	-	5 558
Acting allowances	126 096	-
Cellphone allowance	-	11 110
	126 096	719 199

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28. Employee related costs (continued)

Director Corporate Services

Salary	574 254	517 608
Car Allowance	22 805	14 872
Bonus	29 572	27 629
Contributions to UIF, Medical and Pension Funds	112 002	90 821
Reimbursive allowances	6 180	16 181
	744 813	667 111

Director Community Services

Salary	470 293	435 000
Car Allowance	70 000	70 000
Bonus	30 656	30 000
Contributions to UIF, Medical and Pension Funds	87 138	81 702
Reimbursive allowances	8 613	7 189
	666 700	623 891

Director Technical Services

Salary	266 809	475 366
Car Allowance	52 500	114 000
Contributions to UIF, Medical and Pension Funds	47 361	107 877
Reimbursive allowances	33 679	35 320
	400 349	732 563

Total Employee Costs

Total	29 712 316	27 731 522
Car Allowance	1 186 421	1 072 174
Annual Bonuses	2 219 556	1 876 011
Contributions to UIF, Medical and Pension Funds	8 602 847	7 107 851
	40 879 320	(32 734 502)

Ephraim Mogale Local Municipality

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29. Remuneration of councillors		
Mayor	690 189	712 011
Chief Whip	525 259	508 568
Mayoral Committee Members	2 760 006	2 457 239
Speaker	553 031	516 108
Councillors	5 211 463	4 673 165
	9 739 948	8 867 091

In-kind benefits

The Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

Remuneration of mayor

Salary	305 366	352 648
Car Allowance	157 882	120 172
Contributions to Medical and Pension Funds	75 858	70 226
Public Office allowances	120 000	141 563
Cellphone allowance	31 083	27 402
	690 189	712 011

Remuneration of speaker

Salary	213 726	370 037
Car Allowance	126 305	96 118
Contributions to Medical and Pension Funds	60 480	28 354
Reinbursive allowances	13 078	3 203
Public Office allowance	120 000	-
Cellphone allowance	19 442	18 396
	553 031	516 108

Remuneration of chief whip

Salary	311 397	377 670
Car Allowance	-	54 633
Contributions to Medical and Pension Funds	74 420	57 869
Public office allowance	120 000	-
Cellphone allowance	19 442	18 396
	525 259	508 568

Remuneration of executive councillors

Salary	1 646 158	1 697 215
Car Allowance	600 635	417 977
Contributions to Medical and Pension Funds	295 618	249 074
Reinbursive allowances	98 465	-
Cellphone allowance	119 130	92 973
	2 760 006	2 457 239

Remuneration of ordinary councillors

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29. Remuneration of councillors (continued)		
Salary	226 505	
Bonus	795 725	
Contributions to Pension funds and skills	559 674	
Other allowances	2 738 485	
Travel allowance	66 373	
Cellphone allowances	267 212	
	4 653 974	
30. Administrative expenditure		
Administration and management fees - third party	97 596	94 486
The amounts in the note relates to payments for charges on cash in transit.		
31. Debt impairment		
Contributions to debt impairment provision	1 803 120	2 612 637
Refer to note 12 Consumer debtors.		
32. Interest revenue		
Interest on Investment	995 920	158 415
Interest on current account	419 856	764 200
Interest received on outstanding consumer debtors	4 017 100	3 192 963
	5 432 876	4 115 578
33. Fair value adjustments		
Other financial liabilities		
• Held for trading	(2 716 000)	(1 336 000)
34. Depreciation and amortisation		
Property, plant and equipment	37 802 336	34 079 216
35. Finance costs		
Other interest paid	-	1 012 062
36. Auditors' remuneration		
Fees	1 817 328	1 944 500
37. Operating lease		
The operating leases are in respect of photocopiers and two properties utilised in the operations of the Municipality. The leases are structured as pure operating equipment not machine specific and based on the current load and requirements of the Municipality. The leases are short term leases and for future leases not subject to escalation. The business equipment are tested annually for capitalisation requirements but does not qualify to be capitalised at this stage.		

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37. Operating lease (continued)		
2013 Statement of Financial Performance	521 986	782 560
The following is a schedule by years of minimum future rentals on non-cancelable operating leases as of 30 June 2013:		
< than 1 year until 30 June 2013 or 2012	912 265	538 540
> than One year < 5 years	1 513 946	291 612
	2 426 211	830 152
38. Grants and subsidies paid		
Other subsidies		
Indigent grants	201 572	54 394
Upgrading Indigent Register	13 200	-
Services: Free & Subsidised	610 495	570 015
	825 267	624 409
39. Bulk purchases		
Electricity	20 324 237	17 671 187
40. Cash generated from operations		
Surplus (deficit)	53 001 212	(9 337 609)
Adjustments for:		
Depreciation and amortisation	37 802 336	34 079 216
Gain on sale of assets and liabilities	18 758 000	461 561
Surplus on revaluation of investment property	(62 169 586)	-
Fair value adjustment - Medical aid actuarial loss	2 716 000	1 336 000
Debt impairment	1 803 120	2 612 637
Movements in operating lease assets and accruals	(38 232)	(22 489)
Movements in retirement benefit assets and liabilities	3 371 000	1 726 000
Changes in working capital:		
Inventories	46 783	(214 636)
Receivables from exchange transactions	3 032 471	(802 802)
Consumer debtors	(5 037 656)	(2 143 197)
Capital Work in Process Transferred - non cash	-	(504 061)
Payables from exchange transactions	5 944 538	(3 076 920)
VAT	3 434 786	2 405 026
Unspent conditional grants and receipts	(5 728 238)	5 613 725
Consumer deposits	31 766	36 056
	56 968 300	32 168 507
41. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	9 237 944	5 728 238

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

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42. Related parties

Relationships

Councillors - Refer to note 25

Post employment benefit plan for employees of entity and/or other related parties - Refer to note 6 - Municipal Gratuity Fund

7 329 678

8 867 091

7 409 162

7 409 162

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43. Prior period errors

The following prior year errors were identified and adjusted retrospectively:

Corrected in the 2012/2013 financial year

- An adjustment was processed in the current year for the capital work in progress on capital expenditure.
- Depreciation was recalculated and corrected before audit report was submitted to the municipality as well as the separation of land and buildings.
- Leave provision was recalculated and an adjustment was made in order to correct it.
- Additional creditors were raised and correction of vat on sundry creditors were also corrected.

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

Statement of financial position

Accumulated surplus - Prior year adjustment(SDM Debtor)	-	(2 376 507)
Property, plant and equipment - Accumulated amortization	-	1 803 545
Property, plant and equipment - Cost	-	(167 232)

Statement of Financial Performance

Other expenses - MSIG Grant 2008	-	114 513
Employee costs	-	(709 468)
Travel and accommodation	-	21 994
Depreciation	-	(1 803 545)
		(2 376 506)

44. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes , cash and cash equivalents disclosed in note 13, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to members, return capital to members, issue new shares or sell assets to reduce debt.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

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44. Risk management (continued)

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

The municipality analyses the 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 are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. All financial liabilities were settled in the current financial year

Interest rate risk

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.

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.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

45. 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.

46. Events after the reporting date

No significant events have occurred since the reporting date requiring disclosure in the financial statements.

47. Unauthorised expenditure

Opening Balance	60 839 604	25 218 264
Current year	35 346 276	35 621 340
Expenditure authorised by council relating to 2011	(25 072 105)	-
Expenditure authorised by council relating to 2012	(35 174 223)	-
	35 939 552	60 839 604

48. Fruitless and wasteful expenditure

Opening Balance	186 257	165 735
Current year	-	20 522
	186 257	186 257

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49. Irregular expenditure		
Opening balance	2 425 644	2 315 644
Add: Irregular Expenditure - current year	95 800	110 000
Less: Amounts condoned	(849 149)	-
Add: Non compliance with SCM regulations	31 485 713	-
	33 158 008	2 425 644

Analysis of expenditure awaiting condonation per age classification

Current year	31 581 513	110 000
Prior years	-	2 315 644
	31 581 513	2 425 644

Details of irregular expenditure – current year

Non Compliance with SCM Regulations	Tender requirements not met	31 485 713
Amounts overpaid to Ordinary Councillor as	Contravention of Public Office Bearers Act	95 800
Executive Committee Member		
31 581 513		

Details of irregular expenditure not recoverable (not condoned)

Non-compliance with section 38 of the DORA act, resulting in irregular expenditure	2 425 644
Non Compliance with SCM Policy	31 485 713
Contravention of Public Office Bearers Act	95 800
34 007 157	

Incident

1. Contravention of Public Office Bearers Act

An amount of R95 800.02 was overpaid to an ordinary councillor previously member of mayoral executive committee in contravention of the Public Office Bearers Act.

2. Non-compliance with SCM policy

Included in the amount of R31 485 713 is an amount of R739 149 condoned in the current year. The difference of R30 754 564 is being investigated by Council appointed committee remain on the irregular expenditure register until such time as the disciplinary actions have been finalised.

50. Additional disclosure in terms of the Municipal Finance Management Act

SALGA Fees

Current year subscription / fee	407 750	334 404
Amount paid - current year	(407 750)	(334 404)
	-	-

PAYE and UIF

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

Current year subscription / fee	5 616 533	5 710 261
Amount paid - current year	(5 616 533)	(5 710 261)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	10 696 360	10 296 308
Amount paid - current year	(10 696 360)	(10 296 308)
	-	-

VAT

VAT receivable	(25 615 853)	(11 762 322)
VAT payable	21 307 281	10 888 537
	(4 308 572)	(873 785)

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

All VAT returns have been submitted by the due date throughout the year. The municipality is registered on the cash basis and the timing of payments to/from SARS is at the end of each month.

Councillors' arrear consumer accounts

There were no Councillors accounts in arrears for the 2011/12 and 2012/13 financial years.

51. Utilisation of Long-term liabilities reconciliation

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

52. 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 council and includes a note to the financial statements.

The following deviations were made during the period ended 30 June 2013 and were approved in terms of Council Supply Chain Management and Preferential Procurement Policy and the Supply Chain Management Regulations.

Purchase of Property, Plant and Equipment resulting from emergency procurement approved in terms of council approved policy.

Rental, Accommodation, Conference Facilities and other procurements minor breaches of scm policy:-

Conference venue including accommodation for Strategic Planning workshop

Advertising made through local newspapers and radio stations

Accommodation facilities for workshops and trainings were training and workshop were offered at the same venue

Professional Services:-

Procurement of Performance Management System and services was done in accordance with regulation 32 of the supply chain management regulations

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53. Contingent Liabilities

Civil Matters against the Municipality:

1. **Kwana's Business Enterprise** -The Plaintiff instituted a civil action demanding an amount of R 585 709.45 from the Municipality. The salient facts of the matter are that during 2006, the company tendered for the upgrading of the Marble Hall bulk storm water drainage system. The company commenced with construction of the storm water drainage system in 2006. On or about the 12 April 2007, the Municipality instructed the Plaintiff to suspend all the works in regard to the project.

2. **Iland Africa & Vince Homes JV** - The company is suing the municipality for the payment of R 1 509 010.50 for an outstanding payments for the job done.

3. **Rebecca Matsetela and five others** - The company is suing the municipality for the payment of R 42 500 for an outstanding payment for calendars delivered to the Municipality.

4. **SAMWU** - There is an arbitration award in favour of SAMWU for the municipality to implement travel allowances for employees beginning 01 July 2012.

Contingent Liabilities

Kwana's Business Enterprise	585 709	585 709
Iland Africa & Vince Homes JV	1 509 011	1 509 011
Rebecca Matsetela and five others	42 500	42 500
	2 137 220	2 137 220

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54. Statement of comparative and actual information

2013

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Property rates	12 953 802	-	12 953 802	-		12 953 802	12 251 691		(702 111)	95 %	95 %
Service charges	41 025 740	(85 648)	40 940 092	-		40 940 092	38 606 685		(2 333 407)	94 %	94 %
Investment revenue	3 508 267	449 999	3 958 266	-		3 958 266	5 432 876		1 474 610	137 %	155 %
Other own revenue	11 011 128	-	11 011 128	-		11 011 128	6 537 179		(4 473 949)	59 %	59 %
Total revenue (excluding capital transfers and contributions)	68 498 937	364 351	68 863 288	-		68 863 288	62 828 431		(6 034 857)	91 %	92 %
Employee costs	(44 490 022)	-	(44 490 022)	-	-	(44 490 022)	(41 721 140)	-	2 768 882	94 %	94 %
Remuneration of councillors	(8 993 437)	-	(8 993 437)	-	-	(8 993 437)	(9 739 948)	-	(746 511)	108 %	108 %
Debt impairment	-	-	-			-	(1 803 120)	-	(1 803 120)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(2 456 060)	-	(2 456 060)			(2 456 060)	(37 802 336)	(35 346 276)	(35 346 276)	1 539 %	1 539 %
Finance charges	(1 698 424)	1 478 000	(220 424)	-	-	(220 424)	-	-	220 424	- %	- %
Materials and bulk purchases	(22 106 456)	-	(22 106 456)	-	-	(22 106 456)	(20 376 384)	-	1 730 072	92 %	92 %
Transfers and grants	(1 413 000)	92 000	(1 321 000)	-	-	(1 321 000)	(825 267)	-	495 733	62 %	58 %
Other expenditure	(48 637 205)	(1 063 000)	(49 700 205)	-	-	(49 700 205)	(63 437 217)	-	(13 737 012)	128 %	130 %
Total expenditure	(129 794 604)	507 000	(129 287 604)	-		(129 287 604)	(175 705 412)	(35 346 276)	(46 417 808)	136 %	135 %

Ephraim Mogale Local Municipality

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54. Statement of comparative and actual information (continued)

Surplus/(Deficit)	(61 295 667)	871 351	(60 424 316)	-	(60 424 316)	(112 876 981)	(52 452 665)	187 %	184 %
for the year									

Ephraim Mogale Local Municipality

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54. Statement of comparative and actual information (continued)

Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources										
Total capital expenditure	37 975 000	5 761 238	43 736 238	-	43 736 238	-	(43 736 238)	- %	- %	- %

Ephraim Mogale Local Municipality

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54. Statement of comparative and actual information (continued)

2012

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Financial Performance				
Property rates				11 215 705
Service charges				33 149 311
Investment revenue				4 115 578
Other own revenue				7 366 580
Total revenue (excluding capital transfers and contributions)				55 847 174
Employee costs	(42 027 777)	(41 721 211)	(306 566)	(37 787 558)
Remuneration of councillors	(8 398 831)	(8 398 830)	(1)	(8 867 091)
Debt impairment	-	-	-	(2 612 637)
Depreciation and asset impairment	(2 317 038)	(2 317 038)	-	(34 079 216)
Finance charges	-	-	-	(1 012 062)
Materials and bulk purchases	(19 220 000)	(19 220 000)	-	(17 679 523)
Transfers and grants	-	-	-	(624 409)
Other expenditure	(34 784 221)	11 613 778	(46 397 999)	(43 037 136)
Total expenditure	(106 747 867)	(60 043 301)	(46 704 566)	(145 699 632)
Surplus/(Deficit) for the year				(89 852 458)

Ephraim Mogale Local Municipality

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2012

54. Statement of comparative and actual information (continued)

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Capital expenditure and funds sources				
Cash flows				
Net cash from (used) operating				32 168 507
Net cash from (used) investing				(18 157 159)
Net cash from (used) financing				(8 829 725)
Net increase/(decrease) in cash and cash equivalents			5 181 623	
Cash and cash equivalents at the beginning of the year			8 048 089	
Cash and cash equivalents at year end			13 229 712	