

Description	2014/15 Audited Outcome	Budget Year 2015/16			YTD variance	YTD variance %
		Original Budget	Adjusted Budget	YearTD actual		
R thousands						
Revenue - Standard						
Governance and administration	131 109	154 115	154 637	153 235	(1 402)	-1%
Executive and council	-	8 168	7 832	7 526	(306)	-4%
Budget and treasury office	131 109	145 947	146 805	145 709	(1 096)	-1%
Corporate services	-	-	-	-	-	
Community and public safety	136	278	278	173	(105)	-38%
Community and social services	-	28	28	34	6	22%
Sport and recreation	-	-	-	-	-	
Public safety	-	-	-	-	-	
Housing	136	250	250	138	(111)	-45%
Health	-	-	-	-	-	
Economic and environmental services	46 522	46 182	64 591	59 128	(5 207)	-8%
Planning and development	183	930	930	674	-	
Road transport	46 339	45 252	63 661	58 454	(5 207)	-8%
Environmental protection	-	-	-	-	-	
Trading services	40 635	56 599	56 624	51 768	(4 856)	-9%
Electricity	36 983	52 441	52 466	47 076	(5 390)	-10%
Water	-	-	-	-	-	
Waste water management	-	-	-	-	-	
Waste management	3 652	4 158	4 158	4 692	534	13%
Other	-	-	-	-	-	
Total Revenue - Standard	218 402	257 174	276 130	264 304	(11 570)	-4%
Expenditure - Standard						
Governance and administration	100 172	114 608	135 545	102 594	(32 951)	-24%
Executive and council	22 461	31 436	29 700	25 027	(4 673)	-16%
Budget and treasury office	56 788	56 788	82 559	57 561	(24 997)	-30%
Corporate services	20 923	26 384	23 286	20 005	(3 281)	-14%
Community and public safety	15 923	19 920	18 566	13 272	(5 294)	-29%
Community and social services	9 499	9 542	8 489	4 810	(3 679)	-43%
Sport and recreation	319	1 573	1 508	1 121	(387)	-26%
Public safety	-	-	-	2 851	2 851	#DIV/0!
Housing	5 222	5 272	5 426	4 490	(936)	-17%
Health	883	3 533	3 142	-	(3 142)	-100%
Economic and environmental services	21 482	102 087	98 535	29 769	(68 766)	-70%
Planning and development	5 825	4 507	4 299	1 656	(2 643)	-61%
Road transport	15 657	97 580	94 236	28 113	(66 123)	-70%
Environmental protection	-	-	-	-	-	
Trading services	41 297	46 400	46 190	51 033	4 844	10%
Electricity	36 296	39 624	39 466	43 731	4 265	11%
Water	-	-	-	-	-	
Waste water management	-	-	-	-	-	
Waste management	5 001	6 776	6 724	7 302	579	9%
Other	-	-	-	-	-	
Total Expenditure - Standard	178 874	283 016	298 835	196 668	(102 167)	-34%
Surplus (Deficit) for the year	40 528	74 158	77 295	67 636	60 567	305%

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Comments on Financial Performance: Revenue

Property rates

The original budgeted for property rates for 2015/16 financial year was R26 million which remained the same in the adjustment budget. The actual revenue generated was R29 million. This was due to monthly property rates reconciliation which lead to a favorable adjustment during the year.

Service charges

This is made up of service charges for electricity and refuse removal and the budget thereof was R54 Million which remain the same in the adjustment budget. The actual revenue generated was R49 Million which reflect unfavorable variance which arises as a results of private businesses saving on electricity usage.

Investment revenue

The original budget for interest on investment was R2,4 million which was adjusted downward to R1.1 million. The actual on investment revenue was R4.6 Million and this resulted in to unfavorable variance of R3.5 Million. This is as a results of interest on generated on primary bank account which was not included in the budget.

Transfer recognized - operational

This is revenue realized from both conditional and unconditional operating grants and subsidies including equitable share. The original budget thereof was R122 Million and it was never adjusted during the 2015/16 financial year adjustments budget. All the operating grants were fully spent expect for MSIG which had an unspent balance of R347 000 at the end of financial year.

Other Income

Original budget for other income was R3.3 million and it was adjusted upwards to R8 million and R 913 000 was realised and this resulted in to unfavorable variance mainly as a results of over budgeting fees departmental on income

Comments on Financial Performance: Expenditure

Employee related cost

The original budget was R65.7 million and it was slightly adjusted downwards to R62.2 million. The actual expenditure incurred is R59 million and this resulted in a saving of R2.8 Million.

Depreciation and asset impairment

Provision was made in the budget for capital asset depreciation and impairment and the budget thereof was R42 which remain the same in the adjustment budget and the actual depreciation and impairment of assets is R41 million resulting in immaterial unfavorable variance of 2%.

Bulk purchases

The major portion of this line item was mainly for purchase of electricity. The original budget thereof was R27 million which remain the same during adjustment budget. The actual expenditure incurred was R27 million and this resulted in an immaterial variance of 2%.

Other expenditure

The original budget was R135 million and it was adjusted slightly upward to R 135.5 million and the actual expenditure incurred was R37 million and this resulted in under-spending variance as a result of incorrectly budgeting for separate line items inside other/general expenditure.

5.2 GRANTS

Description	2014/15		Budget Year 2015/16			YTD variance	YTD variance %
	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	YTD variance		
R thousands							
RECEIPTS:							
<u>Operating Transfers and Grants</u>							
National Government:	95 248	122 308	122 308	110 085	(12 223)	-10,0%	
Local Government Equitable Share	91 435	118 546	118 546	106 323	(12 223)	-10,3%	
Finance Management	1 600	1 675	1 675	1 675			
EPWP Incentive	1 279	1 157	1 157	1 157			
Municipal Systems Improvement	934	930	930	930			
Total Operating Transfers and Grants	95 248	122 308	122 308	110 085	(12 223)	-10,0%	

Comment on Operating Transfers and Grants

All grants gazetted for 2015/16 financial year were received except R12 Million variance on equitable share which was withheld by treasury as a result of rollover disapproved on unspent grants by the municipality. Cognisance should be taken that the above table does include capital grants. The total amount received on operational grants amounted to R 110 Million during the 2015/16 financial year. Nonetheless, gazetted capital grants were also received in full during the financial year.

Comment on Conditional Grants and Grants Received From Other Sources

No grants were received from other sources.

5.3 ASSET MANAGEMENT

Description	2014/15	Budget Year 2015/16				YTD variance	YTD variance	YTD variance
	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	%			
R thousands								
ASSET REGISTER SUMMARY - PPE (MDV)	793 218	763 915	796 282	803 339	(7 057)		-0,9%	
Depreciation & asset impairment	40 722	42 400	42 400	41 399	1 001		2,4%	
Capital budget	46 508	70 815	88 455	64 980	23 475		26,5%	
Repairs and maintenance	7 874	13 546	12 730	7 879	4 851		38%	

Comment on Asset Management:

The asset register value for 2014/15 was R793 million and the original budget thereof was R763 million that was adjusted upward to R796 million during the adjustments budget and the actual book value as at end of 2015/16 financial year is R833 million.

The movement that affect the asset register was with regards to Depreciation and asset impairment that had an actual amount R41 million. Cognizance should be taken that this from budget point of view is a non cash item (i.e. the movement did not have cash flow implication) and as a result it is pure financial accounting transaction.

In addition, capital expenditure amounting to R64 million and repairs and maintenance amounting to R7,8 million was incurred during the 2015/16 financial year.

Description	2014/15	Budget Year 2015/16				YTD variance	YTD variance	YTD variance
	Audited Outcome	Original Budget	Adjusted Budget	YearTD actual	%			
R thousands								
Repairs and maintenance	7 874	13 546	12 730	7 879	4 851		38%	

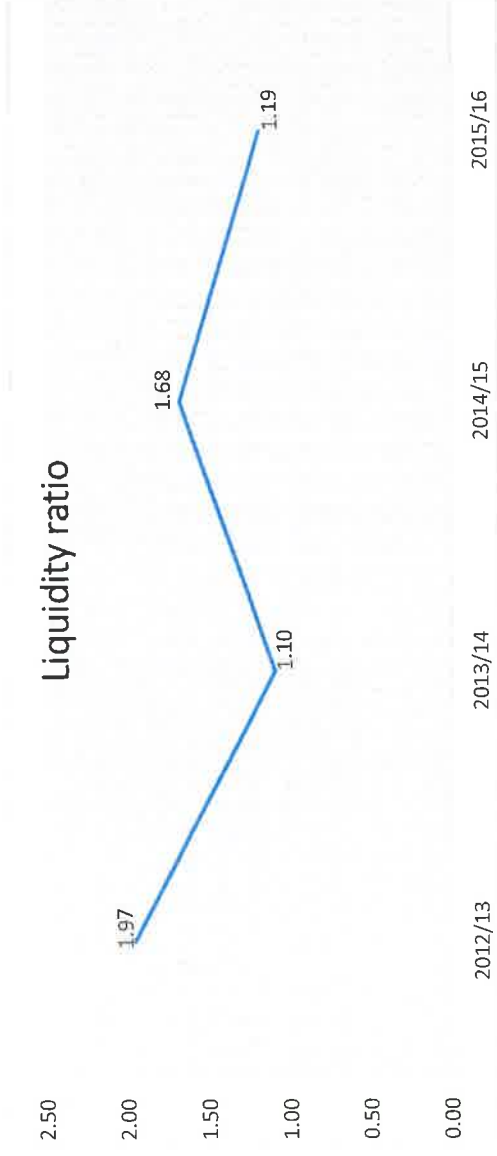
Comment on Repair and Maintenance Expenditure

The repairs and maintenance budget represent 3, 9% of the total operating budget. A total of R7.8 million was spent, reflecting an under-spending of 38% based on the adjusted budget.

5.4 FINANCIAL RATIOS

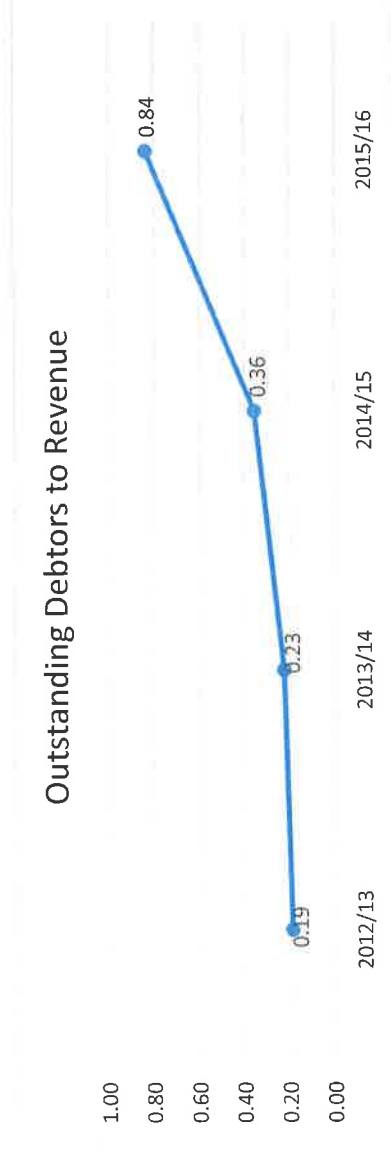
Graph 1: Liquidity ratio

Liquidity Ratio – Measures the municipality's ability to pay its bills, and is calculated by dividing the monetary assets by the municipality's current liabilities. A higher ratio is better.



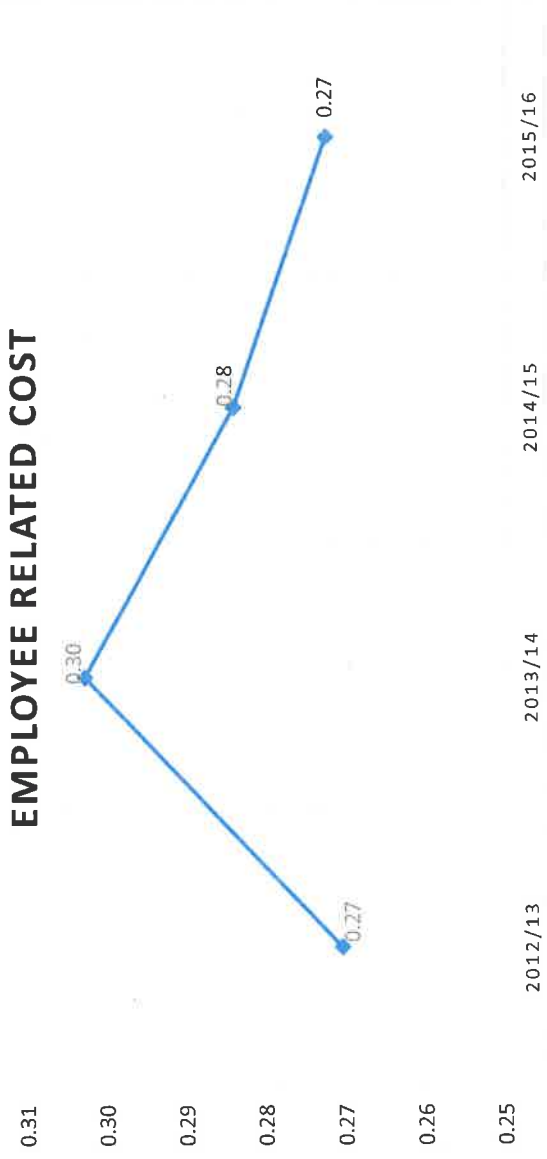
Graph 2: Outstanding Debtors to revenue

Outstanding Service Debtors to Revenue - Measures how much money is still owed by the community for electricity, waste removal and other services, compared to how much money has been paid for these services. It is calculated by dividing the total outstanding debtors, by the total annual revenue. A lower score is better.



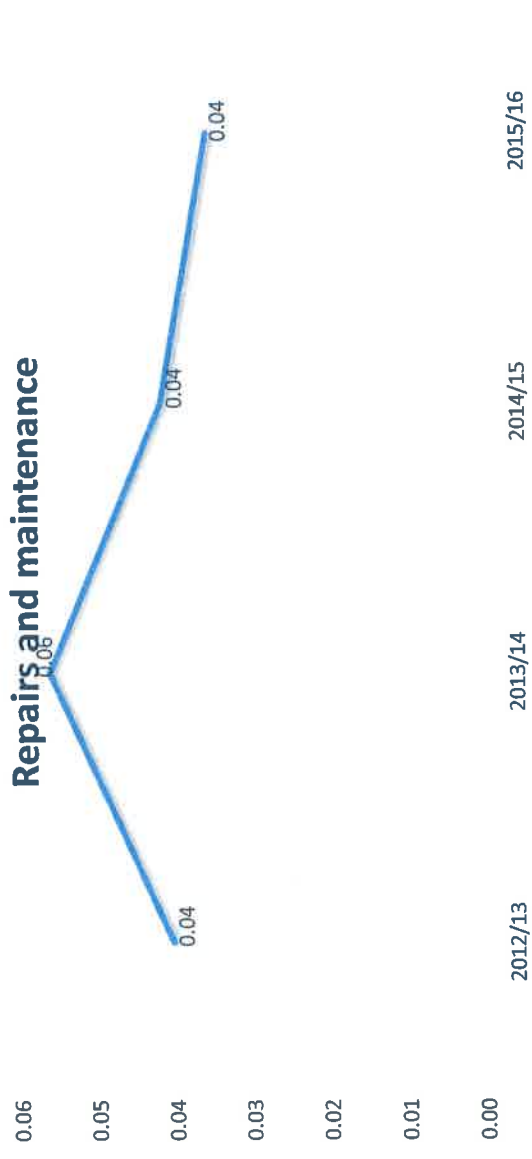
Graph 3: Employee cost

Employee related cost ratio measures what portion of revenue was spent on paying employee costs. It is calculated by dividing the total employee cost by the difference between total revenue and capital revenue



Graph 4: Repairs and maintenance

Repairs and Maintenance - This represent the proportion of operating expenditure spent, and is calculated by dividing the total repairs and maintenance by total revenue excluding capital revenue.



Comment on Financial Ratios:

The municipality is in a process of improving its ability to spend the 8% threshold of operating expenditure for repairs and maintenance. Liquidity will also improve as the municipality has placed stringent internal controls over unnecessary expenditure, in order to improve the cash flow situation

COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

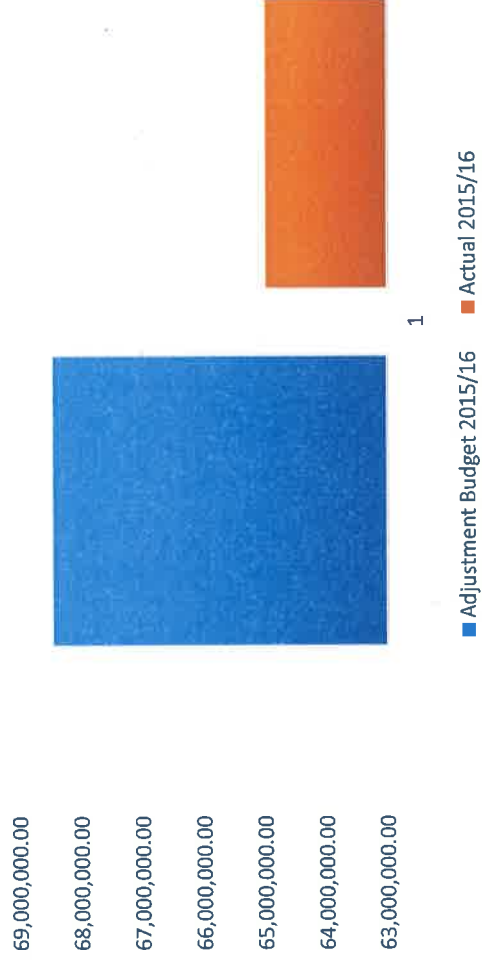
5.5 CAPITAL EXPENDITURE

Introduction

Capital expenditure relates mainly to construction of projects that will have value lasting over many years. Capital expenditure is funded from grants and own revenue. Component B deals with capital spending, indicating where the funding comes from and whether the Municipality is able to spend the available funding as planned. In this component, it is important to indicate the different sources of funding as well as how these funds are spent.

Graph 5: Capital Expenditure 2015/16

Capital expenditure 2015/16



5.6 SOURCE OF FINANCE

Vote Description R thousands	2014/15 Audited Outcome	Current Year 2015/16					YTD variance %
		Original Budget	Adjusted Budget	YearTD actual	YearTD budget	YTD variance	
Funded by:							
National Government	31 584	32 405	52 855	46 309	52 855	(6 546)	-12%
Provincial Government	14 924						
District Municipality							
Other transfers and grants	439						
Transfers recognised - capital	46 947	32 405	52 855	46 309	52 855	(6 546)	-12%
Public contributions & donations							
Borrowing							
Internally generated funds		38 410	35 600	18 671	35 600	(16 929)	-48%
Total Capital Funding	46 947	70 815	88 455	64 980	88 455	(23 475)	-27%
Capital Expenditure - Standard Classification							
Executive and council				82		82	#DN/01
Corporate services	177	1 514	1 014	58	1 014	(956)	-94%
Community and social services	3 507	2 336	2 820	1 732	2 820	(1 088)	-39%
Public safety	284		2 272	399	2 272	(1 873)	-82%
Road transport	39 807	65 115	80 355	60 558	80 355	(19 797)	-25%
Electricity		1 850	394	2 151	394	1 757	446%
Waste management	681						
Other	2 052		1 600		1 600	(1 600)	-100%
Total Capital Expenditure - Standard Classification	46 508	70 815	88 455	64 980	88 455	(23 475)	-27%

Comment on Sources of Funding:

The original capital budget for 2015/16 financial was R70 million that was adjusted upward to R88 million. The actual expenditure was R64 million and reflects under-spending variance of R27% on the adjusted budget which was mainly as a result of additional funding from MIG of R20 Million. This additional funding was received towards the year end, which was practically impossible for the municipality to spend all the money.

The Budget was Funded as Follows:

Original budget – R32 million was funded by grants and R38 million was funded internally

Adjusted budget – R52 million was funded by grants and R35 million was funded internally

Actual expenditure – R46 million was funded by grants and R18 million was funded internally

5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS

Capital expenditure on five largest projects

Vote Description	Current Year 2015/16				
	Original Budget	Adjusted Budget	YearTD actual	Original variance	Adjustment variance %
R thousands					
ELANDSKRAAL INTERNAL STREETS	14 000	11 360	11 033	79%	97%
DICHOEUNG INTERNAL ROAD	7 000	12 500	11 093	158%	89%
MOGANYAKA ACCESS ROAD	8 500	8 500	7 218	85%	85%
MOHLALAO TWANE INTERNAL STREET	6 805	26 805	16 145	237%	60%
UGRADING OF ROAD PULENG	5 000	7 380	7 437	149%	101%

Name of Project - A	Elandskraal Internal Streets
Objective of project	To improve municipal roads' infrastructure for socio-economic growth
Delays	None
Future challenges	None
Anticipated citizen benefits	Job creation, skills transferred and improved road infrastructure
Name of Project - B	Dichoeung Internal Road
Objective of project	To improve municipal roads' infrastructure for socio-economic growth
Delays	None
Future challenges	None
Anticipated citizen benefits	Job creation, skills transferred and improved road infrastructure
Name of Project - C	Moganyaka Access Road
Objective of project	To improve municipal roads' infrastructure for socio-economic growth
Delays	None

Future challenges	None
Anticipated citizen benefits	Job creation, skills transferred and improved town development
Name of Project - D	
MOHLALAOBWANE INTERNAL STREET	
Objective of project	To improve municipal roads' infrastructure for socio-economic growth
Delays	No
Future challenges	None
Anticipated citizen benefits	Job creation, skills transferred and improved road infrastructure
Name of Project -E	
Upgrading of Road Puleng	
Objective of project	To improve municipal roads' infrastructure for socio-economic growth
Delays	No
Future challenges	None
Anticipated citizen benefits	Job creation, skills transferred and improved road infrastructure

Comment on Capital Projects:

During 2015/2016 Financial Year, the Municipality received the Total Allocation of R52 of MIG grant of which the municipality has spent 88%.

5.8 BASIC SERVICE AND INFRASTRUCTURE BACKLOGS

Introduction

There is still huge backlog in terms of Basic Infrastructure that is Water and Sanitation which is implemented at District level. The backlog for Electricity is not that huge as most households have access to electricity. There is also a backlog on roads projects as most of the wards do not have tarred roads due to lack of funds.

Municipal Infrastructure Grant (MIG)* Expenditure 2015/16 on Service backlogs						
R' 000						
Details	Budget	Adjustment Budget	Actual	Variance		Major conditions applied by donor (continue below if necessary)
				Budget	Adjustment Budget	
Infrastructure - Road transport						
<i>Roads, Pavements & Bridges</i>	R 32 405	R 52 855	R 46 309	(R13 904)	R6 546	
<i>Storm water</i>	R0	R0	R0	R0	R0	
Infrastructure - Electricity						
<i>Generation</i>	R0	R0	R0	R0	R0	
<i>Street Lighting</i>	R0	R0	R0	R0	R0	
Infrastructure - Other						
<i>Transportation</i>	R0	R0	R0	R0	R0	
<i>Gas</i>	R0	R0	R0	R0	R0	
Other Specify:						
<i>Cemeteries</i>	R0	R0	R0	R0	R0	
<i>Street Parking</i>	R0	R0	R0	R0	R0	
<i>Waste Management</i>	R0	R0	R0	R0	R0	
Total	R 32 405	R 52 855	R 46 309	(R13 904)	R6 546	

Service Backlogs as at 30 June 2016				
Households (HHs)				
	*Service level above minimum standard		**Service level below minimum standard	
	No HHs	% HHs	No HHs	% HHs
Electricity	57 814	96%	2 350	3.9%
Waste management	9934	84.7%		
Housing	n/a	n/a	n/a	n/a

Comment on Backlogs:

The electricity backlog is 3.5% and 97.5% of households has access to electricity.

Roads and storm water as key function of the municipality is being implemented by MIG funds and own funding. The municipality has a serious backlog on roads and storm water and has challenges of resources and lack of funding to enable them to deal with the backlog.

There is a backlog of 84.7% on waste management as the service is only provided in five (5) wards and which is two towns and 3 townships. All 25 wards are rural areas and they don't receive the service. There are communal skips located at strategic areas in rural areas to assist them with waste management service.

COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

Introduction

The cash flow outcome presents the actual revenue and actual payments made during the year under review. Actual revenue realised should be differentiated from revenue billed because revenue billed does not portray the holistic financial position and performance of the municipality.

As a result, the cash flow outcome is presented on cash basis as opposed accrual basis of accounting.

5.9 CASH FLOW

Comment on Cash-Flow Outcomes:

Cash and cash equivalent at the beginning of the financial year was R81.8 million. The actual cash and cash equivalent as at end of the financial year is R113 million.

Cognizance should be taken that the municipality is still dependent on grants since a major portion of revenue realized is made up of Transfer recognized (both operating and capital).

Description	2014/15	Current Year 2015/16		YearTD actual
	Audited Outcome	Original Budget	Adjusted Budget	
R thousands				
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Property rates, penalties & collection charges	25 772	26 766	26 766	18 956
Service charges	40 765	54 515	54 515	40 335
Other revenue	12 151	16 475	19 724	3 503
Government - operating	95 161	122 308	122 308	115 602
Government - capital	31 584	32 405	32 417	52 405
Interest	4 957	4 692	3 412	4 677
Dividends				
Payments				
Suppliers and employees	(129 884)	(178 931)	(178 319)	(134 334)
Finance charges	(1 785)	(3 562)	(753)	(376)
Transfers and Grants				(1 937)
NET CASH FROM/(USED) OPERATING ACTIVITIES	78 720	74 668	80 070	98 831
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of PPE	1 462			
Decrease (increase) in non-current debtors				
Decrease (increase) other non-current receivables				
Decrease (increase) in non-current investments				
Payments				
Capital assets	(46 508)	(70 815)	(68 455)	(64 980)
NET CASH FROM/(USED) INVESTING ACTIVITIES	(45 046)	(70 815)	(68 455)	(64 980)
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Short term loans				
Borrowing long term/refinancing				
Increase (decrease) in consumer deposits				
Payments				
Repayment of borrowing	(1 551)	(2 809)	(2 009)	(1 407)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(1 551)	(2 809)	(2 009)	(1 407)
NET INCREASE/ (DECREASE) IN CASH HELD	32 122	1 044	9 606	32 444
Cash/cash equivalents at beginning:	49 745	81 867	81 867	80 805
Cash/cash equivalents at month/year end:	81 867	82 911	91 473	113 249

5.10 BORROWING AND INVESTMENTS

Actual Borrowings 2013/14-2015/16 - R'000				
Instrument	2013/14	2014/15	2015/16	
<u>Municipality</u>				
Long-term loans (annuity/reducing balance)	n/a	n/a	n/a	n/a
Long-term loans (non-annuity)	n/a	n/a	n/a	n/a
Local registered stock	n/a	n/a	n/a	n/a
Instalment credit	n/a	n/a	n/a	n/a
Financial leases	6 332	5 015	2 946	
PPP liabilities	n/a	n/a	n/a	n/a
Finance granted by cap equipment supplier	n/a	n/a	n/a	n/a
Marketable bonds	n/a	n/a	n/a	n/a
Non-marketable bonds	n/a	n/a	n/a	n/a
Bankers acceptances	n/a	n/a	n/a	n/a
Financial derivatives	n/a	n/a	n/a	n/a
Other securities	n/a	n/a	n/a	n/a
Municipal Total	n/a	n/a	n/a	n/a
	n/a	n/a	n/a	n/a
<u>Municipal Entities</u>				
Long-term Loans (annuity/reducing balance)	n/a	n/a	n/a	n/a
Long-term Loans (non-annuity)	n/a	n/a	n/a	n/a

Actual Borrowings 2013/14-2015/16 - R'000			
Local registered stock	n/a	n/a	n/a
Instalment credit	n/a	n/a	n/a
Financial leases	n/a	n/a	n/a
PPP liabilities	n/a	n/a	n/a
Finance granted by cap equipment supplier	n/a	n/a	n/a
Marketable bonds	n/a	n/a	n/a
Non-Marketable bonds	n/a	n/a	n/a
Bankers acceptances	n/a	n/a	n/a
Financial derivatives	n/a	n/a	n/a
Other Securities	n/a	n/a	n/a
Entities Total	n/a	n/a	n/a

Municipal and Entity Investments 2013/14 - 2015/16 - R'000			
Investment type	2013/14 Actual	2014/15 Actual	2015/16 Actual
Municipality			
Securities - national government	-	-	-
Listed corporate bonds	-	-	-
Deposits -bank	21 196	22 400	23 838
Deposits -public investment commissioners	-	-	-
Deposits -corporation for public deposits	-	-	-
Bankers' acceptance certificates	-	-	-
Negotiable certificates of deposit - Banks	-	-	-
Guaranteed endowment policies (sinking)	-	-	-

Municipal and Entity Investments 2013/14 - 2015/16 - R'000				
Investment type	2013/14 Actual	2014/15 Actual	2015/16 Actual	
Repurchase agreements - Banks	-	-	-	-
Municipal bonds	-	-	-	-
Other	-	-	-	-
<u>Municipal Entities</u>				
Securities - National government	-	-	-	-
Listed corporate bonds	-	-	-	-
Deposits – Bank	-	-	-	-
Deposits - Public Investment Commissioners	-	-	-	-
Deposits - Corporation for Public Deposits	-	-	-	-
Bankers' acceptance certificates	-	-	-	-
Negotiable certificates of deposit- Banks	-	-	-	-
Guaranteed endowment policies (sinking)	-	-	-	-
Repurchase agreements – Banks	-	-	-	-
Municipal bonds	-	-	-	-
Other	-	-	-	-
Entities Sub-Total	-	-	-	-
Consolidated Total:	14, 051	14,079	23, 764	

Comment on Borrowing And Investments:

The Municipality's closing balance on Investments for 2015/16 financial year was R23, 764 million.
The Municipality's closing balance on Finance at 2015/16 financial year was R2 946 Million.

5.11 PUBLIC PRIVATE PARTNERSHIPS

Not applicable

-

COMPONENT D: OTHER FINANCIAL MATTERS

5.12 SUPPLY CHAIN MANAGEMENT

The financial statements for the 2015/16 present an irregular expenditure of R93.5 million as an opening balance and R19.8 million was incurred during the 2015/16 financial year. This leaves the municipality with overall irregular expenditure of R113 million that emanated mainly from procurement of goods and services without fully following the supply chain management processes.

5.13 GRAP COMPLIANCE

GRAP is the acronym for Generally Recognized Accounting Practice and it provides the rules and principles by which municipalities are required to abide by in preparing the financial statements. Successful GRAP compliance and implementation will ensure that municipal accounts are transparent, comparable and more informative to the users of the financial statements.



Ephraim Mogale Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Legal form of entity	Local municipality
Nature of business and principal activities	Provision of basic services
Mayoral committee	
Executive Mayor	Mmakola MY
Speaker	Modisha LB
Chief Whip	Ratau MF
Traditional Leaders	Kekana PK
	Lehwelere-Mathlala MA
	Matlala MM
	Mashung MJ
	Rahlagane MP
	Bogopa JH
	Bokaba HS
	Chauke MS
	Esson BA
	Kekana KN
	Kekana MJ (Appointed October 2015)
	Kekana MM
	Mabaso WM
	Makanyane GN
	Mamogobo SC
	Mashego GB
	Mokonyane MJ
	MolotshwaFK
	Moraswi ME
	Mothwa NM
	Mphahlele LJ
	Nchabeleng MJ
	Ndobeni NR
	Phala MG
	Phatlane NF (Appointed November 2015)
	Ranoto P
	Sebothoma OE
	Sehloa ET
	Seoka KM
	Seono MR
	Tshiguvho EM
Grading of local authority	Grade 2
Capacity of local authority	Low capacity
Municipal demarcation code	LIM471
Accounting Officer	Mathebela MM
Chief Finance Officer (CFO)	Ramosibi K
Registered office	No. 13 Ficus street Civic centre Marble Hall

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Business address

Limpopo
0450

No. 13 Ficus street
Civic centre
Marble Hall
Limpopo
0450

Postal address

PO Box 111
Marble Hall
Limpopo
0450

Bankers

ABSA Bank First National Bank Nedbank

Auditors

Auditor-General of South Africa

Attorneys

Kgatla Incorporated
Mamadimo Magane Attorneys
Popela Maake Attorneys
Renqe Kunene Incorporated

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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Abbreviations

COVID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
EPWP	Expanded Public Work Programme
FMG	Financial Management Grant
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MSIG	Municipal System Improvement Grant
PAYE	Pay As You Earn
SALGA	South Africa Local Government Association
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003) (MFMA), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

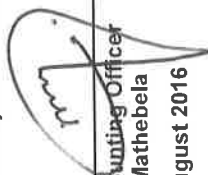
The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 7 to 87, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2016.


Accounting Officer
MM Mathebela
31 August 2016

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2016.

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 6 meetings were held.

Name of member	Number of meetings attended
Malatji TM (Chairperson)	5
Fihlani Z	2
Letsele MH	6
Matabane BTA	6
Ramataboe M	6

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 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 auditors, the audit report on the annual 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 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 annual financial statements

The audit committee has:

- reviewed and discussed the audited annual 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;
- reviewed the municipality's 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 on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

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

Auditor-General of South Africa

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



Chairperson of the Audit Committee

Ephraim Mogale Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Audit Committee Report

Date: 24/01/2017

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

The Accounting Officer submits her report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is engaged in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: sanitation services, electricity services, property rates.

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

Net surplus of the municipality was R 67 635 916 (2015: surplus R 48 110 304).

2. Going concern

The annual 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

On 11 August 2016, the Minister of Co-operative Governance and Traditional Affairs announced that municipal councillors who were not re-elected will each receive a monetary payment for their services and contributions as soon as the new councillors are sworn in. Councillors who have five or more years of service will get an amount equal to three months' salary and the rest will receive a pro rata amount.

4. Accounting policies

The annual financial statements prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations of such Statements issued by the Accounting Standard Board.

5. Accounting Officer

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

Name
Mathebela MM

Nationality
South African

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Position as at 30 June 2016

		2016	2015
	Note(s)	R	Restated* R
Assets			
Current Assets			
Cash and cash equivalents	3	113 249 023	80 804 597
Deposits	4	339 518	260 564
Receivables from exchange transactions	5&7	9 399 366	6 217 663
Receivables from non-exchange transactions	6&7	34 886 323	17 869 156
VAT receivable	8	5 316 377	1 711 410
Inventories	9	791 885	798 751
		163 982 492	107 662 141
Non-Current Assets			
Investment property	10	57 562 700	51 773 000
Property, plant and equipment	11	803 262 197	793 217 685
Heritage assets	12	81 647	76 494
		860 906 544	845 067 179
Total Assets		1 024 889 036	952 729 320
Liabilities			
Current Liabilities			
Payables from exchange transactions	13	41 597 441	35 771 654
Consumer deposits	14	1 529 723	1 568 314
Finance lease obligation	15	1 537 792	1 425 253
Unspent conditional grants and receipts	16	9 363 891	9 626 998
Provisions	17	805 709	-
		54 834 556	48 392 219
Non-Current Liabilities			
Finance lease obligation	15	2 070 549	3 589 907
Provisions	17	6 055 872	9 472 078
Employee benefit obligation	18	20 362 874	17 351 000
		28 489 295	30 412 985
Total Liabilities		83 323 851	78 805 204
Net Assets		941 565 185	873 924 116
Reserves		81 647	76 494
Revaluation reserve		941 483 538	873 847 622
Accumulated surplus		941 565 185	873 924 116

* See Note 43

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

	2016	2015
	R	Restated* R
Revenue	Note(s)	
Revenue from exchange transactions		
Service charges	20	40 764 929
Rental income	22	126 558
Licences and permits		3 913 628
Other income	21	15 012 902
Interest received	23	4 979 205
Total revenue from exchange transactions		64 682 008
Revenue from non-exchange transactions		
Taxation revenue		
Property rates	24	29 797 752
Transfer revenue		
Government grants and subsidies	25	168 270 172
Fines and penalties		1 553 784
Total revenue from non-exchange transactions		153 935 865
Total revenue	19	218 730 214
Expenditure		
Bulk purchases	32	(27 803 116)
Collection costs		(845 527)
Contracted services	33	(4 680 336)
Debt impairment	30	(3 497 031)
Depreciation	28	(41 399 062)
Employee related costs	26	(59 376 780)
Finance costs	29	(2 428 839)
General expenses	35	(29 906 876)
Grant and subsidies paid	34	(1 936 760)
Impairment loss	51	(1 524 703)
Remuneration of councillors	27	(10 633 213)
Repairs and maintenance	31	(7 879 034)
Total expenditure		(173 848 776)
Operating surplus		44 881 438
Loss on disposal of assets and liabilities		(1 305 664)
Fair value adjustments	36	5 804 700
Actuarial gains/(losses)	18	(1 286 616)
Surplus for the year		3 228 866
		48 110 304

* See Note 43

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

	Revaluation reserve R	Accumulated surplus R	Total net assets R
Opening balance as previously reported	-	891 112 229	891 112 229
Adjustments	-	(65 374 911)	(65 374 911)
Correction of errors	-	825 737 318	825 737 318
Balance at 01 July 2014 as restated*			
Changes in net assets	-	48 110 304	48 110 304
Surplus for the year	76 494	-	76 494
Changes in revaluation surplus	76 494	48 110 304	48 186 798
Total changes	76 494	873 847 622	873 924 116
Restated* Balance at 01 July 2015	5 153	-	5 153
Changes in net assets	5 153	-	5 153
Revaluation: Heritage Assets	-	67 635 916	67 635 916
Net income (losses) recognised directly in net assets	5 153	67 635 916	67 641 069
Surplus for the year	5 153	67 635 916	67 641 069
Total recognised income and expenses for the year	81 647	941 483 538	941 565 185
Total changes			
Balance at 30 June 2016			

* See Note 43

Ephraim Mogale Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

	2016	2015
	R	Restated* R
	Note(s)	
Cash flows from operating activities		
Receipts		
Government grants and subsidies		126 497 000
Services		83 557 099
Interest income		4 979 204
		<u>215 033 303</u>
Payments		
Employee costs		(68 153 142)
Suppliers		(68 117 471)
Finance costs		(375 511)
		<u>(136 646 124)</u>
	38	<u>98 831 427</u>
Net cash flows from operating activities		<u>78 879 355</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	11	(64 980 180)
Proceeds from sale of property, plant and equipment	11	(1)
		<u>(64 980 181)</u>
Net cash flows from investing activities		<u>(46 508 203)</u>
Cash flows from financing activities		
Finance lease payments		(1 406 820)
		<u>(1 316 866)</u>
Net increase/(decrease) in cash and cash equivalents		<u>31 054 286</u>
Cash and cash equivalents at the beginning of the year		49 750 311
Cash and cash equivalents at the end of the year	3	<u>80 804 597</u>

* See Note 43

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget		Adjustments		Final Budget		Actual amounts on comparable basis		Difference between final budget and actual		Reference
	R	R	R	R	R	R	R	R	R		
Statement of Financial Performance											
Revenue											
Revenue from exchange transactions											
Service charges	56 598 737	(2 374 780)			54 223 957	49 000 161		(5 223 796)			1
Rental of facilities and equipment	197 430	-			197 430	126 558		(70 872)			2
Licences and permits	12 537 442	(1 712 696)			10 824 746	3 994 013		(6 830 733)			3
Other income	-	5 309 359			5 309 359	3 382 271		(1 927 088)			4
Interest received	4 692 135	(1 280 281)			3 411 854	8 179 005		4 767 151			5
Total revenue from exchange transactions	74 025 744	(58 398)			73 967 346	64 682 008		(9 285 338)			
Revenue from non-exchange transactions											
Taxation revenue											
Property rates	26 430 546		335 809		26 766 355	29 797 752		3 031 397			6
Transfer revenue											
Government grants and subsidies	154 713 000	23 011 882			177 724 882	168 270 172		(9 454 710)			7
Fines and penalties	309 774	373 505			683 279	1 553 784		870 505			8
Total revenue from non-exchange transactions	181 453 320	23 721 196			205 174 516	199 621 708		(5 552 808)			
Total revenue	255 479 064	23 662 798			279 141 862	264 303 716		(14 838 146)			
Expenditure											
Employee related cost	(62 975 479)	738 734			(62 236 745)	(59 376 780)		2 859 965			9
Remuneration of councillors	(10 765 459)	(237 511)			(11 002 970)	(10 633 213)		369 757			10
Depreciation	(42 400 000)	-			(42 400 000)	(41 399 062)		1 000 938			11
Impairment loss	-	-			-	(1 524 703)		(1 524 703)			12
Finance costs	(4 692 135)	3 939 323			(752 812)	(2 428 839)		(1 676 027)			13
Debt impairment	-	-			-	(3 497 031)		(3 497 031)			14
Collection costs	-	-			-	(845 527)		(845 527)			15
Repairs and maintenance	-	(12 729 542)			(12 729 542)	(7 879 034)		4 850 508			16
Bulk purchases	(27 220 941)	(994 000)			(28 214 941)	(27 803 116)		411 825			17
Contracted services	-	-			-	(4 680 336)		(4 680 336)			20
Transfers and subsidies	-	-			-	(1 936 760)		(1 936 760)			18
General expenses	(122 563 648)	(38 934 707)			(161 498 355)	(29 906 876)		131 591 479			19
Total expenditure	(270 617 662)	(48 217 703)			(318 835 365)	(191 911 277)		126 924 088			
Operating surplus	(15 138 598)	(24 554 905)			(39 693 503)	72 392 439		112 085 942			
Loss on disposal of assets and liabilities	-	-			-	(9 274 607)		(9 274 607)			25
Fair value adjustments	-	-			-	5 804 700		5 804 700			26
Actuarial gains/(losses)	-	-			-	(1 286 616)		(1 286 616)			27
Surplus before taxation	(15 138 598)	(24 554 905)			(39 693 503)	67 635 916		107 329 419			

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(15 138 598)	(24 554 905)	(39 693 503)	67 635 916	107 329 419	

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	-	791 885	791 885	21
Receivables from exchange transactions	-	-	-	9 399 366	9 399 366	21
Receivables from non-exchange transactions	-	-	-	34 886 323	34 886 323	21
VAT receivable	-	-	-	5 316 377	5 316 377	21
Deposits	-	3 000 000	3 000 000	339 518	(2 660 482)	21
Cash and cash equivalents	-	31 000 000	31 000 000	113 249 023	82 249 023	21
	-	34 000 000	34 000 000	163 982 492	129 982 492	
Non-Current Assets						
Investment property	-	-	-	57 562 700	57 562 700	21
Property, plant and equipment	-	78 213 000	78 213 000	803 262 197	725 049 197	21
Heritage assets	-	-	-	81 647	81 647	21
	-	78 213 000	78 213 000	860 906 544	782 693 544	
Total Assets	-	112 213 000	112 213 000	1 024 889 036	912 676 036	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	1 537 792	1 537 792	22
Payables from exchange transactions	-	4 000 000	4 000 000	41 597 441	37 597 441	22
Consumer deposits	-	-	-	1 529 723	1 529 723	22
Unspent conditional grants and receipts	-	-	-	9 363 891	9 363 891	22
Provisions	6 900 000	(6 900 000)	-	805 709	805 709	22
	6 900 000	(2 900 000)	4 000 000	54 834 556	50 834 556	
Non-Current Liabilities						
Finance lease obligation	-	-	-	2 070 549	2 070 549	22
Employee benefit obligation	-	-	-	20 362 874	20 362 874	22
Provisions	-	-	-	6 055 872	6 055 872	22
	-	-	-	28 489 295	28 489 295	
Total Liabilities	6 900 000	(2 900 000)	4 000 000	83 323 851	79 323 851	
Net Assets	(6 900 000)	115 113 000	108 213 000	941 565 185	833 352 185	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	-	-	-	81 647	81 647	23
Accumulated surplus	(6 900 000)	115 113 000	108 213 000	941 483 538	833 270 538	23
Total Net Assets	(6 900 000)	115 113 000	108 213 000	941 565 185	833 352 185	

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	81 294 378	(4 170 378)	77 124 000	60 436 126	(16 687 874)	
Grants	154 713 000	23 012 000	177 725 000	168 007 065	(9 717 935)	
Interest income	4 692 000	800 000	5 492 000	8 179 005	2 687 005	
Other receipts	16 474 832	2 327 168	18 802 000	-	(18 802 000)	
	257 174 210	21 968 790	279 143 000	236 622 196	(42 520 804)	
Payments						
Employee costs	(73 741 000)	501 000	(73 240 000)	(65 313 585)	7 926 415	
Suppliers	(140 074 000)	28 095 000	(111 979 000)	(70 048 845)	41 930 155	
Finance costs	-	(753 000)	(753 000)	(2 053 328)	(1 300 328)	
	(213 815 000)	27 843 000	(185 972 000)	(137 415 758)	48 556 242	
Net cash flows from operating activities	43 359 210	49 811 790	93 171 000	99 206 438	6 035 438	
Cash flows from investing activities						
Purchase of property, plant and equipment	(70 215 000)	21 760 000	(48 455 000)	(64 980 180)	(16 525 180)	
Cash flows from financing activities						
Repayment of other financial liabilities	-	(2 009 000)	(2 009 000)	(1 782 331)	226 669	
Net increase/(decrease) in cash and cash equivalents	(26 855 790)	69 562 790	42 707 000	32 443 927	(10 263 073)	24
Cash and cash equivalents at the beginning of the year	-	81 867 000	81 867 000	80 804 597	(1 062 403)	24
Cash and cash equivalents at the end of the year	(26 855 790)	151 429 790	124 574 000	113 248 524	(11 325 476)	

Refer to note 52 for the explanation of material differences between the budget and actual amounts.

Ephraim Mogale Local Municipality
Annual Financial Statements for the year ended 30 June 2016

Appropriation Statement

	Original budget		Budget adjustments (i.Lo. s28 and s31 of the MFMA)		Final budget adjustments s31 of the MFMA		Shifting of funds (i.Lo. MFMA)		Virement (i.Lo. council approved policy)		Final budget		Actual outcome		Unauthorised expenditure		Variance		Actual outcome as % of final budget		Actual outcome as % of original budget		
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Financial Performance																							
Property rates	26 430 546	335 809	26 766 355	-	-	-	-	-	-	-	-	26 766 355	29 737 752	3 031 397	111 %	113 %							
Service charges	56 598 737	(2 374 780)	54 223 957	-	-	-	-	-	-	-	-	54 223 957	49 000 161	(5 223 796)	90 %	87 %							
Investment revenue	4 662 135	(3 521 757)	1 170 378	-	-	-	-	-	-	-	-	1 170 378	8 179 005	7 008 627	699 %	174 %							
Transfers recognised - operational	122 308 000	-	122 308 000	-	-	-	-	-	-	-	-	122 308 000	121 287 155	(1 020 845)	99 %	99 %							
Other own revenue	13 044 645	6 211 644	19 256 289	-	-	-	-	-	-	-	-	19 256 289	14 861 326	(4 394 963)	77 %	114 %							
Total revenue (excluding capital transfers and contributions)	223 074 063	650 916	223 724 979	-	-	-	-	-	-	-	-	223 724 979	223 125 399	(599 580)	100 %	100 %							
Employee costs	(62 975 479)	798 794	(62 236 745)	-	-	-	-	-	-	-	-	(62 236 745)	(59 376 780)	2 859 965	95 %	94 %							
Remuneration of councillors	(10 765 459)	(237 511)	(11 002 970)	-	-	-	-	-	-	-	-	(11 002 970)	(10 633 213)	369 757	97 %	99 %							
Debt impairment	(42 400 000)	-	(42 400 000)	-	-	-	-	-	-	-	-	(42 400 000)	(3 497 031)	(3 497 031)	DIV/0 %	DIV/0 %							
Depreciation and asset impairment	(4 662 135)	3 939 323	(752 812)	-	-	-	-	-	-	-	-	(752 812)	(2 428 839)	(1 676 027)	323 %	52 %							
Finance charges	(27 220 941)	-	(27 220 941)	-	-	-	-	-	-	-	-	(26 226 941)	(27 803 116)	(1 576 175)	106 %	102 %							
Materials and bulk purchases	(122 563 649)	(52 658 598)	(175 222 247)	-	-	-	-	-	-	-	-	(176 216 247)	(1 936 760)	(1 936 760)	DIV/0 %	DIV/0 %							
Transfers and grants	-	-	-	-	-	-	-	-	-	-	-	(994 000)	(53 872 996)	122 343 251	31 %	44 %							
Other expenditure - repairs and maintenance	-	-	-	-	-	-	-	-	-	-	-	-	(7 879 034)	(7 879 034)	DIV/0 %	DIV/0 %							
Total expenditure	(270 617 663)	(48 218 052)	(318 835 715)	-	-	-	-	-	-	-	-	(318 835 715)	(210 351 534)	108 484 181	66 %	78 %							
Total surplus/(Deficit)	(47 543 600)	(47 567 136)	(95 110 736)	-	-	-	-	-	-	-	-	(95 110 736)	12 773 865	107 884 601	(13)%	(27)%							

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Appropriation Statement

	Original budget		Budget adjustments (i.e. s28 and s31 of the MFMA)		Final adjustments budget		Shifting of funds (i.e. s31 of the MFMA)		Virement (i.e. council approved policy)		Final budget		Actual outcome		Unauthorised expenditure		Variance		Actual outcome as % of final budget		
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Transfers recognised - capital	32 405 000	23 011 882	55 416 882	-	-	55 416 882	46 983 017	-	-	-	46 983 017	-	-	(8 433 865)	85 %	145 %					
Surplus (Deficit) after capital transfers and contributions	(15 138 600)	(24 555 254)	(39 693 854)	-	-	(39 693 854)	59 756 882	-	-	-	59 756 882	-	-	99 450 736	(151)%	(395)%					
Surplus/(Deficit) for the year	(15 138 600)	(24 555 254)	(39 693 854)	-	-	(39 693 854)	59 756 882	-	-	-	59 756 882	-	-	99 450 736	(151)%	(395)%					
Capital expenditure and funds sources																					
Total capital expenditure	70 815 213	17 639 882	88 455 095	-	-	88 455 095	(64 980 180)	-	-	-	(64 980 180)	-	-	(153 435 275)	(73)%	(92)%					
Sources of capital funds																					
Transfers recognised - capital	32 405 000	23 011 882	55 416 882	-	-	55 416 882	46 308 984	-	-	-	46 308 984	-	-	(9 107 898)	84 %	143 %					
Internally generated funds	38 410 213	(5 372 000)	33 038 213	-	-	33 038 213	93 526 185	-	-	-	93 526 185	-	-	60 487 972	283 %	243 %					
Total sources of capital funds	70 815 213	17 639 882	88 455 095	-	-	88 455 095	139 835 169	-	-	-	139 835 169	-	-	51 380 074	158 %	197 %					

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Appropriation Statement

	Original budget		Budget adjustments (i.e. s28 and s31 of the MFMA)		Final adjustments (i.e. s28 and s31 of the MFMA)		Shifting of funds (i.e. s31 of the MFMA)		Virement (i.e. council approved policy)		Final budget		Unauthorised expenditure		Actual outcome as % of final budget		Actual outcome as % of original budget		
	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	R	
Cash flows																			
Net cash from (used) operating	43 359 423	49 811 029	93 170 452	-	-	-	-	-	-	-	93 170 452	98 831 427	5 660 975	106 %	228 %				
Net cash from (used) investing	(70 215 213)	21 760 257	(48 454 956)	-	-	-	-	-	-	-	(48 454 956)	(54 980 181)	(16 525 225)	134 %	93 %				
Net cash from (used) financing	-	(2 009 000)	(2 009 000)	-	-	-	-	-	-	-	(2 009 000)	(2 009 000)	-	100 %	DIV/0 %				
Net increase/(decrease) in cash and cash equivalents	(26 855 790)	69 562 286	42 706 496	-	-	-	-	-	-	-	42 706 496	31 842 246	(10 864 250)	75 %	(119)%				
Cash and cash equivalents at the beginning of the year	-	81 866 824	81 866 824	-	-	-	-	-	-	-	81 866 824	80 804 597	(1 062 227)	99 %	DIV/0 %				
Cash and cash equivalents at year end	(26 855 790)	151 429 110	124 573 320	-	-	-	-	-	-	-	124 573 320	112 646 843	11 926 477	90 %	(419)%				

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003) (MFDMA).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures are rounded to the nearest Rand.

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

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual 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 annual financial statements. Significant judgements include:

Receivables

The municipality assesses its 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 receivable.

The impairment for receivables is calculated on a portfolio basis. For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment testing

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

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

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 17 – Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential is expected to be consumed by the municipality.

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 market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 18.

Effective interest rate

The municipality uses the government bond rate to discount future cash flows.

Allowance for impairment

For receivables 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 receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

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

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

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that is 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 at no cost, or for a nominal cost, 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.

Accounting Policies

1.3 Investment property (continued)

Fair value

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

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

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

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.

The gains or losses arising from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such a difference is recognised in surplus or deficit when the investment property is derecognised.

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.

1.4 Property, plant and equipment

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality 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.