

## Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

### Notes to the Annual Financial Statements

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

##### GRAP 107: Mergers

The objective of this standard is to establish accounting principles for the combined entity and combining entities in a merger.

A merger is where a new combined entity is started, acquirer can be identified and the combining entities do not have any control over the combined entity.

In the event of a merger, the assets and liabilities should be recognised (by the combined entity) at their carrying amounts and should be derecognised (by the combining entities) at their carrying amounts.

The difference between the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality expects to adopt the standard for the first time in the 2016 annual financial statements, but has already formulated an accounting policy for this reporting period based on the standard.

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

##### GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting entity's annual 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.

The municipality (in this standard referred to as the reporting entity) applies this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two 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 annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the reporting 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.

## Notes to the Annual Financial Statements

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

- 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.

Only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another entity or person are disclosed.

The standard requires that remuneration of management must be disclosed per person and in aggregate.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

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

### IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot'). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's net assets.

## **Notes to the Annual Financial Statements**

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

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 annual financial statements.

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

#### **GRAP 7 (as revised 2010): Investments in Associates**

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 annual financial statements.

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

#### **GRAP 8 (as revised 2010): Interests in Joint Ventures**

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2016 annual financial statements.

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

#### **GRAP 32: Service Concession Arrangements: Grantor**

## **Notes to the Annual Financial Statements**

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

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

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

#### **IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures**

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: 'When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction'. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that 'a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest'. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities ('JCEs').

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE ('additional consideration').

The issues are:

- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer's accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipality expects to adopt the interpretation for the first time in the 2016 annual financial statements.

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

#### **GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements**

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

## Notes to the Annual Financial Statements

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

The standard applies to a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator providing the mandated function on behalf of the grantor can either be a private party or another public sector entity. The standard applies to the grantor only.

PPP agreements that are governed and regulated in terms of the PFMA and MFMA, are some of the arrangements that fall within the scope of GRAP 32. For any other arrangements that meet the control criteria as set out in paragraph .07 of GRAP 32 the principles in the standard on accounting for such arrangements will apply.

An asset provided by the operator, or an upgrade to an existing asset, is recognised as a service concession asset with a corresponding liability, being the performance obligation, if certain criteria and conditions are met.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the standard.

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

#### **GRAP 108: Statutory Receivables**

GRAP 108 only deals with those receivables that arise from legislation or an equivalent means, such as regulations, bylaws or other documents issued in terms of legislation, such as ministerial orders and cabinet or municipal council decisions. Therefore in order to be statutory in nature specific legislation should require the municipality to undertake the transactions, such as outlining who should be taxed and at what rates and amounts.

Statutory receivables are not contractual receivables, the latter of which would normally meet the definition of a financial asset and will be within the scope of the Standard of GRAP on Financial Instruments. Statutory receivables are not voluntarily entered into as with contractual receivables because they arise as a result of specific legislative requirements.

Statutory receivables are initially measured at their transaction amount and subsequently using the cost method.

Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

The standard has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the standard.

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

#### **IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

This interpretation provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

# **Ephraim Mogale Local Municipality**

Annual Financial Statements for the year ended 30 June 2015

## **Notes to the Annual Financial Statements**

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

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this interpretation need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

This interpretation concludes on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The interpretation has been approved by the Accounting Standards Board, but its effective date has not yet been determined by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time once it becomes effective, but has already formulated an accounting policy for this reporting period based on the interpretation.

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

## **Notes to the Annual Financial Statements**

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

#### **Directive 11: Changes in Measurement Bases Following the Initial Adoption of Standards of GRAP**

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

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

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

The effective date of the directive is for years beginning on or after 01 April 2015.

The municipality expects to adopt the directive for the first time in the 2016 annual financial statements.

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

**Ephraim Mogale Local Municipality**  
Annual Financial Statements for the year ended 30 June 2015

**Notes to the Annual Financial Statements**

| Figures in Rand                       | 2015              | 2014              |
|---------------------------------------|-------------------|-------------------|
| <b>3. Cash and cash equivalents</b>   |                   |                   |
| Cash and cash equivalents consist of: |                   |                   |
| Bank balances                         | 59,466,978        | 28,549,317        |
| Call Account                          | 22,399,847        | 21,195,694        |
|                                       | <b>81,866,825</b> | <b>49,745,011</b> |

**The municipality had the following bank accounts**

| Account number / description                         | Bank statement balances |                   |                   | Cash book balances |                   |                   |
|--|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
|  | 30 June 2015            | 30 June 2014      | 30 June 2013      | 30 June 2015       | 30 June 2014      | 30 June 2013      |
| First National Bank - Cheque account - 5295 002 0208 | 6,872,361               | 16,756,404        | 8,928,282         | 8,145,394          | 16,756,404        | 6,455,290         |
| First National Bank -Cheque account - 6205 7590 0393 | -                       | -                 | 32,885            | 32,503             | 32,503            | -                 |
| ABSA Bank - Cheque Account - 4079 367 427            | 43,282,557              | 11,677,241        | 44,153,205        | 51,235,537         | 11,706,865        | 25,942,024        |
| Nedbank - Call Account - 03 / 7881098821 / 000002    | 22,399,847              | 21,195,694        | -                 | 22,399,847         | 21,195,694        | -                 |
| <b>Total</b>   | <b>72,554,765</b>       | <b>49,629,339</b> | <b>53,114,372</b> | <b>81,813,281</b>  | <b>49,691,466</b> | <b>32,397,314</b> |

**4. Deposits**

**Eskom**

A security deposit is held by Eskom who is the bulk electricity supplier of the municipality.

|         |         |
|---------|---------|
| 260,564 | 100,926 |
|---------|---------|



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**Ephraim Mogale Local Municipality**  
Annual Financial Statements for the year ended 30 June 2015

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>                           | <b>2015</b>        | <b>2014</b>        |
|--|--------------------|--------------------|
| <b>5. Receivables from exchange transactions</b> |                    |                    |
| Electricity                                      | 2,926,808          | 989,380            |
| Refuse   | 373,761            | 888,199            |
| Other (including interest)                       | 1,935,889          | 3,457,230          |
|  | <b>5,236,458</b>   | <b>5,334,809</b>   |
| <b>Gross balances</b>                            |                    |                    |
| Electricity                                      | 3,869,469          | 2,640,679          |
| Refuse   | 1,225,304          | 2,370,623          |
| Other (including interest)                       | 9,082,814          | 9,227,428          |
|  | <b>14,177,587</b>  | <b>14,238,730</b>  |
| <b>Less : Allowance for impairment</b>           |                    |                    |
| Electricity                                      | (942,661)          | (1,651,299)        |
| Refuse   | (851,543)          | (1,482,424)        |
| Other (including interest)                       | (7,723,322)        | (5,770,198)        |
|  | <b>(9,517,526)</b> | <b>(8,903,921)</b> |
| <b>Net Balance</b>                               |                    |                    |
| Electricity                                      | 2,926,808          | 989,380            |
| Refuse   | 373,761            | 888,199            |
| Other including interest                         | 1,935,889          | 3,457,230          |
|  | <b>5,236,458</b>   | <b>5,334,809</b>   |
| <b>Electricity</b>                               |                    |                    |
| Current (0-30 days)                              | 2,508,423          | 1,664,350          |
| 31-60 days                                       | 170,489            | 74,735             |
| 61-90 days                                       | 127,443            | 38,989             |
| > 90 days  | 1,063,114          | 862,605            |
| Less : Allowance for impairment                  | (942,661)          | (1,651,299)        |
|  | <b>2,926,808</b>   | <b>989,380</b>     |
| <b>Refuse</b>                                    |                    |                    |
| Current (0-30 days)                              | 215,564            | 231,906            |
| 31-60 days                                       | 73,869             | 55,661             |
| 61-90 days                                       | 85,346             | 50,159             |
| > 90 days  | 850,525            | 2,032,897          |
| Less : Allowance for impairment                  | (851,543)          | (1,482,424)        |
|  | <b>373,761</b>     | <b>888,199</b>     |
| <b>Other (including interest)</b>                |                    |                    |
| Current (0-30 days)                              | 728,309            | 1,851,066          |
| 31-60 days                                       | 323,347            | 378,646            |
| 61-90 days                                       | 318,316            | 345,735            |
| > 90 days  | 7,712,842          | 6,651,981          |
| Less : Allowance for impairment                  | (7,723,322)        | (5,770,198)        |
|  | <b>1,359,492</b>   | <b>3,457,230</b>   |

**Receivables from exchange transactions pledged as security**

No receivables from exchange transactions were pledged as security.

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**Notes to the Annual Financial Statements**

| Figures in Rand   | 2015                | 2014                |
|---|---------------------|---------------------|
| <b>5. Receivables from exchange transactions (continued)</b>  |                     |                     |
| <b>Credit quality of receivables from exchange transactions</b>   |                     |                     |
| The credit quality of receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. |                     |                     |
| <b>Receivables from exchange transactions past due but not impaired</b>   |                     |                     |
| Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2015, no receivables from exchange transactions (2014: R nil) were past due but not impaired.                      |                     |                     |
| <b>Trade and other receivables impaired</b>   |                     |                     |
| As of 30 June 2015, trade and other receivables of R 14,177,587 (2014: R 14,238,730) were impaired and provided for.  |                     |                     |
| The amount of the provision was R 9,517,526 as of 30 June 2015 (2014: R 8,903,921).   |                     |                     |
| <b>6. Receivables from non exchange transactions</b>  |                     |                     |
| Rates   | 30,085,540          | 25,434,431          |
| Fines   | 2,015,031           | 743,530             |
| <b>Gross balances</b>   | <b>32,100,571</b>   | <b>26,177,961</b>   |
| <b>Less: Allowance for impairment</b>   |                     |                     |
| Rates   | (14,426,986)        | (15,764,067)        |
| Fines   | (1,622,584)         | (579,953)           |
|   | <b>(16,049,570)</b> | <b>(16,344,020)</b> |
| <b>Net balance</b>  | <b>15,658,554</b>   | <b>9,670,365</b>    |
| Rates   | 571,447             | 163,577             |
| Fines   | <b>16,230,001</b>   | <b>9,833,942</b>    |
| <b>Fines</b>  |                     |                     |
| Current (0-30 days)   | 104,500             | 47,500              |
| 31-60 days  | 59,750              | 38,500              |
| 61-90 days  | 108,000             | 55,200              |
| > 90 days   | 1,896,351           | 602,330             |
| Less : Allowance for impairment   | (1,597,154)         | (579,953)           |
|   | <b>571,447</b>      | <b>163,577</b>      |
| <b>Net balance</b>  | <b>-</b>            | <b>-</b>            |
| <b>Rates from non exchange transactions</b>   |                     |                     |
| Current (0-30 days)   | 2,756,976           | 3,750,560           |
| 31 - 60 days  | 1,225,780           | 1,274,519           |
| 61 - 90 days  | 1,203,337           | 1,216,252           |
| > 90 days   | 24,899,447          | 19,193,101          |
| Less : Allowance for impairment   | (14,458,914)        | (15,904,941)        |
|   | <b>15,626,626</b>   | <b>9,529,491</b>    |

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**Notes to the Annual Financial Statements**

| Figures in Rand   | 2015                     | 2014                     |
|---|--------------------------|--------------------------|
| <b>6. Receivables from non exchange transactions (continued)</b>    |                          |                          |
| <b>Summary of debtors by customer classification</b>                |                          |                          |
| <b>Consumers</b>  |                          |                          |
| Current (0 -30 days)  | 2,283,810                | 2,546,891                |
| 31 - 60 days  | 524,115                  | 574,360                  |
| 61 - 90 days  | 511,290                  | 510,741                  |
| > 90 days   | 11,677,665               | 9,713,238                |
|   | <u>14,996,880</u>        | <u>13,345,230</u>        |
| Less: Allowance for impairment                                      | <u>(8,212,906)</u>       | <u>(8,548,625)</u>       |
|   | <u><b>6,783,974</b></u>  | <u><b>4,796,605</b></u>  |
| <b>Industrial/ commercial</b>                                       |                          |                          |
| Current (0 -30 days)  | 3,818,589                | 4,755,864                |
| 31 - 60 days  | 1,245,396                | 1,150,402                |
| 61 - 90 days  | 1,212,629                | 1,085,100                |
| > 90 days   | 22,507,818               | 18,392,435               |
|   | <u>28,784,432</u>        | <u>25,383,801</u>        |
| Less: Allowance for impairment                                      | <u>(15,763,534)</u>      | <u>(16,260,237)</u>      |
|   | <u><b>13,020,898</b></u> | <u><b>9,123,564</b></u>  |
| <b>National and provincial government</b>                           |                          |                          |
| Current (0 -30 days)  | 106,873                  | 195,126                  |
| 31 - 60 days  | 23,973                   | 58,798                   |
| 61 - 90 days  | 10,521                   | 55,294                   |
| 91 - 120 days   | 340,446                  | 634,911                  |
|   | <u><b>481,813</b></u>    | <u><b>944,129</b></u>    |
| <b>Total</b>  |                          |                          |
| Current (0 -30 days)  | 6,209,272                | 7,497,881                |
| 31 - 60 days  | 1,793,485                | 1,783,561                |
| 61 - 90 days  | 1,734,440                | 1,651,134                |
| > 90 days   | 30,437,316               | 23,569,352               |
|   | <u>40,174,513</u>        | <u>34,501,928</u>        |
| Less: Allowance for impairment                                      | <u>(23,976,440)</u>      | <u>(24,808,861)</u>      |
|   | <u><b>16,198,073</b></u> | <u><b>9,693,067</b></u>  |
| <b>Reconciliation of allowance for impairment (excluding fines)</b> |                          |                          |
| Balance at beginning of the year                                    | 16,484,894               | 10,277,474               |
| Contributions to allowance  | -                        | 5,627,467                |
| Reversal of allowance   | (832,421)                | -                        |
| <b>Reconciliation of allowance of impairment (fines)</b>            |                          |                          |
| Balance at the beginning of the year                                | 579,953                  | -                        |
| Contributions to allowance  | 1,017,201                | 579,953                  |
|   | <u><b>17,249,627</b></u> | <u><b>16,484,894</b></u> |

**Consumer debtors pledged as security**

No consumer debtors were pledged as security

**Credit quality of receivables from non exchange transactions**

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

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**6. Receivables from non exchange transactions (continued)**

**Receivables from exchange transactions past due but not impaired**

Receivables from non exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2015, no receivables from exchange transactions (2014: R nil) were past due but not impaired

**7. VAT receivable**

|                |           |           |
|----------------|-----------|-----------|
| VAT Receivable | 2,043,013 | 4,394,788 |
|----------------|-----------|-----------|

VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from receivable. All VAT returns were submitted throughout the year

**8. Inventories**

|             |         |         |
|-------------|---------|---------|
| Consumables | 798,751 | 689,236 |
|-------------|---------|---------|

**Inventory pledged as security**

No inventory was pledged as security for the years ended 30 June 2014 and 2015

**9. Investment property**

|                     | 2015             |   |                | 2014             |   |                |
|---------------------|------------------|---|----------------|------------------|---|----------------|
|                     | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 118,087,200      | -   | 118,087,200    | 114,048,000      | -   | 114,048,000    |

**Reconciliation of investment property - 2015**

|                     | Opening balance | Fair value adjustments | Total       |
|---------------------|-----------------|------------------------|-------------|
| Investment property | 114,048,000     | 4,039,200              | 118,087,200 |

**Pledged as security**

None of the above investment property have been pledged as security.

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

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

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

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

### 9. Investment property (continued)

#### Details of valuation

The effective date of the revaluations was 30 June 2015. Revaluations were performed by an independent valuer, Mr Lourens Nel (professional valuator - 4464/2) (SACPVP) (SAIV), of Uniqueco Properties (Pty) Ltd. Uniqueco Properties (Pty) Ltd are not connected to the municipality and have recent experience in location and category of the investment property being valued.

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

**Ephraim Mogale Local Municipality**  
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**10. Property, plant and equipment**

|                     | 2015                 |   |                    | 2014                |   |                    |
|---------------------|----------------------|---|--------------------|---------------------|---|--------------------|
|                     | Cost /<br>Valuation  | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     |
| Land                | 3,755,019            | -   | 3,755,019          | 3,755,019           | -   | 3,755,019          |
| Buildings           | 33,126,335           | (7,076,767)   | 26,049,568         | 33,126,335          | (5,972,556)   | 27,153,779         |
| Plant and machinery | 35,130,378           | (18,352,068)  | 16,778,310         | 29,571,329          | (15,094,980)  | 14,476,349         |
| Motor vehicles      | 6,045,397            | (3,704,790)   | 2,340,607          | 6,045,397           | (2,903,735)   | 3,141,662          |
| Office equipment    | 8,259,960            | (6,478,763)   | 1,781,197          | 8,204,987           | (5,786,341)   | 2,418,646          |
| IT equipment        | 2,137,693            | (1,310,241)   | 827,452            | 2,015,483           | (942,472)   | 1,073,011          |
| Infrastructure      | 883,070,168          | (187,143,060)   | 695,927,108        | 850,978,799         | (155,253,176)   | 695,725,623        |
| Community           | 19,252,222           | (2,280,806)   | 16,971,416         | 19,252,222          | (1,485,321)   | 17,766,901         |
| Landfill site       | 7,514,786            | (3,081,417)   | 4,433,369          | 6,833,807           | (2,853,623)   | 3,980,184          |
| Work in Progress    | 18,270,324           | -   | 18,270,324         | 11,986,699          | -   | 11,986,699         |
| Leased assets       | 8,112,668            | (2,192,214)   | 5,920,454          | 8,112,668           | (1,016,680)   | 7,095,988          |
| <b>Total</b>        | <b>1,024,674,950</b> | <b>(231,620,126)</b>  | <b>793,054,824</b> | <b>979,882,745</b>  | <b>(191,308,884)</b>  | <b>788,573,861</b> |

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**Notes to the Annual Financial Statements**

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**10. Property, plant and equipment (continued)**

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

|                     | Opening balance    | Additions         | Disposals          | Transfers    | Depreciation        | Total              |
|---------------------|--------------------|-------------------|--------------------|--------------|---------------------|--------------------|
| Land                | 3,755,019          | -                 | -                  | -            | -                   | 3,755,019          |
| Buildings           | 27,153,779         | -                 | -                  | -            | (1,104,212)         | 26,049,567         |
| Plant and machinery | 14,476,349         | 5,559,048         | -                  | -            | (3,257,087)         | 16,778,310         |
| Motor vehicles      | 3,141,662          | -                 | -                  | -            | (801,055)           | 2,340,607          |
| Office equipment    | 2,418,647          | 54,972            | -                  | -            | (692,422)           | 1,781,197          |
| IT equipment        | 1,073,011          | 122,210           | -                  | -            | (367,769)           | 827,452            |
| Infrastructure      | 695,725,623        | 283,778           | (1,305,664)        | 33,523,591   | (32,300,220)        | 695,927,108        |
| Community           | 17,766,901         | -                 | -                  | -            | (795,485)           | 16,971,416         |
| Landfill site       | 3,980,184          | 680,979           | -                  | -            | (227,793)           | 4,433,370          |
| Work in Progress    | 11,986,699         | 39,807,216        | -                  | (33,523,591) | -                   | 18,270,324         |
| Leased assets       | 7,095,988          | -                 | -                  | -            | (1,175,534)         | 5,920,454          |
|                     | <b>788,573,862</b> | <b>46,508,203</b> | <b>(1,305,664)</b> | <b>-</b>     | <b>(40,721,577)</b> | <b>793,054,824</b> |

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

|                     | Opening balance    | Additions         | Capital under construction | Transfers    | Depreciation        | Total              |
|---------------------|--------------------|-------------------|----------------------------|--------------|---------------------|--------------------|
| Land                | 3,755,019          | -                 | -                          | -            | -                   | 3,755,019          |
| Buildings           | 28,257,990         | -                 | -                          | -            | (1,104,211)         | 27,153,779         |
| Plant and machinery | 6,834,865          | 9,573,311         | -                          | -            | (1,931,827)         | 14,476,349         |
| Motor vehicles      | 1,765,184          | 1,922,796         | -                          | -            | (546,318)           | 3,141,662          |
| Office equipment    | 1,864,399          | 1,144,733         | -                          | -            | (590,485)           | 2,418,647          |
| IT equipment        | 611,086            | 704,660           | -                          | -            | (242,735)           | 1,073,011          |
| Infrastructure      | 709,196,467        | -                 | -                          | 18,352,883   | (31,823,727)        | 695,725,623        |
| Community           | 7,797,220          | 8,580,714         | -                          | 1,937,179    | (548,212)           | 17,766,901         |
| Landfill site       | 1,993,809          | 2,142,744         | -                          | -            | (156,369)           | 3,980,184          |
| Work in Progress    | 19,635,673         | -                 | 12,641,088                 | (20,290,062) | -                   | 11,986,699         |
| Leased assets       | -                  | 8,112,668         | -                          | -            | (1,016,680)         | 7,095,988          |
|                     | <b>781,711,712</b> | <b>32,181,626</b> | <b>12,641,088</b>          | <b>-</b>     | <b>(37,960,564)</b> | <b>788,573,862</b> |

## Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

### Notes to the Annual Financial Statements

| Figures in Rand  | 2015      | 2014      |
|--|-----------|-----------|
| <b>10. Property, plant and equipment (continued)</b>                           |           |           |
| <b>Pledged as security</b>   |           |           |
| None of the above property, plant and equipment have been pledged as security. |           |           |
| <b>Assets subject to finance lease (Net carrying amount)</b>                   |           |           |
| Vehicles and heavy machinery   | 5,920,454 | 7,095,988 |

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

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand                                    | 2015              | 2014              |
|--|-------------------|-------------------|
| <b>11. Payables from exchange transactions</b>     |                   |                   |
| Trade payables                                     | 18,775,030        | 9,675,159         |
| Accrued leave pay                                  | 5,129,593         | 4,227,833         |
| Accrued bonus                                      | 1,190,377         | 1,126,971         |
| Operating lease payables                           | -                 | 52,530            |
| Retentions   | 5,269,432         | 4,714,252         |
| Credit balances on receivables                     | 2,043,265         | 1,122,677         |
| Sekhukhune creditor                                | -                 | 12,564,383        |
| Other creditors                                    | 104,492           | 121,891           |
| Unallocated payments                               | 2,458,758         | 2,458,758         |
| Unallocated receipts                               | 1,292,181         | 1,292,181         |
|  | <b>36,263,128</b> | <b>37,356,635</b> |
| <b>12. Consumer deposits</b>                       |                   |                   |
| Rates  | 1,568,314         | 1,620,351         |
| <b>13. Finance lease obligation</b>                |                   |                   |
| <b>Minimum lease payments due</b>                  |                   |                   |
| - within one year                                  | 1,775,951         | 1,775,951         |
| - in second to fifth year inclusive                | 3,929,244         | 5,705,195         |
|  | 5,705,195         | 7,481,146         |
| less: future finance charges                       | (690,035)         | (1,149,120)       |
| <b>Present value of minimum lease payments</b>     | <b>5,015,160</b>  | <b>6,332,026</b>  |
| <b>Present value of minimum lease payments due</b> |                   |                   |
| - within one year                                  | 1,425,253         | 1,316,866         |
| - in second to fifth year inclusive                | 3,589,907         | 5,015,160         |
|  | <b>5,015,160</b>  | <b>6,332,026</b>  |
| Non-current liabilities                            | 3,589,907         | 5,015,160         |
| Current liabilities                                | 1,425,253         | 1,316,866         |
|  | <b>5,015,160</b>  | <b>6,332,026</b>  |

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 4-5 years and the average effective borrowing rate was 8% (2014: 8%).

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10.

**Ephraim Mogale Local Municipality**  
Annual Financial Statements for the year ended 30 June 2015

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>                                       | <b>2015</b>      | <b>2014</b>      |
|--|------------------|------------------|
| <b>14. Unspent conditional grants and receipts</b>           |                  |                  |
| <b>Unspent conditional grants and receipts comprises of:</b> |                  |                  |
| <b>Unspent conditional grants and receipts</b>               |                  |                  |
| Municipal infrastructure grant                               | 4,707,597        | 5,221,412        |
| Municipal system improvement grant                           | 1,218,620        | 468,026          |
| Financial management grant                                   | 77,125           | 113,011          |
| Energy efficiency and demand side grant                      | 3,606,541        | 3,606,541        |
| Expanded public work programme grant                         | 17,114           | 17,114           |
|  | <b>9,626,997</b> | <b>9,426,104</b> |
| <b>Movement during the year</b>                              |                  |                  |
| Balance at the beginning of the year                         | 9,426,104        | -                |
| Additions during the year                                    | 34,883,000       | 31,566,700       |
| Income recognition during the year                           | (34,682,106)     | (22,140,596)     |
|  | <b>9,626,998</b> | <b>9,426,104</b> |

Also refer to note 23 for reconciliation of grants from National/Provincial Government.

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

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

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### 15. Provisions

#### Reconciliation of provisions - 2015

|   | Opening Balance | Additions | Increase due to unwinding of discount | Total     |
|---|-----------------|-----------|---------------------------------------|-----------|
| Environmental rehabilitation - landfill sites | 8,608,823       | 680,979   | 182,276                               | 9,472,078 |

#### Reconciliation of provisions - 2014

|   | Opening Balance | Additions | Increase due to unwinding of discount | Total     |
|---|-----------------|-----------|---------------------------------------|-----------|
| Environmental rehabilitation - landfill sites | 6,331,393       | 2,142,744 | 134,686                               | 8,608,823 |

|                         |                  |                  |
|-------------------------|------------------|------------------|
| Non-current liabilities | 9,267,410        | 8,426,547        |
| Current liabilities     | 204,668          | 182,276          |
|                         | <b>9,472,078</b> | <b>8,608,823</b> |

This valuation was performed by Mr Seakle Godschalk Pr Sci Nat and Dr Maryna Möhr-Swart, both partners in Environmental & Sustainability Solutions (ESS). ESS is a boutique consultancy focusing on all aspects of environmental and sustainability accounting.

Mr Godschalk is a registered professional environmental scientist with the South African Council for Natural Scientific Professions as well as with the South African Institute of Ecologists and Environmental Scientists. He holds a Master's degree in Science as well as a Master's degree in Accounting.

Dr Möhr-Swart holds an MBA as well as a D Tech. For the latter she developed an Environmental Management Accounting model for the mining industry. She was a member of the United Nations expert workgroup that developed an International Guidance Document: Environmental Management Accounting that was published by the International Federation of Accountants (IFAC) in 2005.

Both members represent South Africa on the International Standards Organisation workgroup for the development of standards on Material Flow Cost Accounting (MFCA). They developed an environmental management accounting system for Gold Fields. For the Department of Defence, they developed the Environmental Liability Costing Model to estimate the rehabilitation costs of military training areas. On their own initiative they developed the General Landfill Closure Costing Model (GLCCM) that formed the basis for this valuation.

#### Environmental rehabilitation provision

The environment rehabilitation provision relates to the decommissioning and rehabilitation of the landfill site situated on part of portion 476 of the Farm Loskop-Noord.

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

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### 15. Provisions (continued)

Major uncertainties surround the final decommissioning and rehabilitation costs at the end of the useful life and the remaining useful life of the landfill site. The current undiscounted amount at the end of the useful life is estimated as R13 249 222 and the the current remaining useful life is estimated as 11 years.

No reimbursement for the rehabilitation of the landfill site will be received

### 16. Employee benefit obligations

#### Defined benefit plan

The plan is a post employment medical benefit plan.

#### Post retirement medical aid plan

The employer's post-employment benefit health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. The liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

#### Long service awards

According to the rules of the long service awards scheme, which the municipality instituted and operates, an employee (who is on the current conditions service), is entitled to a cash allowances calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

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

|   |                     |                     |
|---|---------------------|---------------------|
| Carrying value  |                     |                     |
| Present value of the defined benefit obligation-wholly unfunded | (13,174,000)        | (13,683,000)        |
| Present value of long service awards obligation                 | (4,177,000)         | (4,559,000)         |
|   | <u>(17,351,000)</u> | <u>(18,242,000)</u> |

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

|  |                   |                   |
|--|-------------------|-------------------|
| Opening balance  | 13,683,000        | 10,780,000        |
| Net expense recognised in the statement of financial performance | (509,000)         | 2,903,000         |
|  | <u>13,174,000</u> | <u>13,683,000</u> |

Net expense of the defined benefit obligation recognised in the statement of financial performance

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Current service cost     | 543,000          | 610,000          |
| Interest cost            | 1,235,000        | 774,000          |
| Actuarial (gains) losses | (2,287,000)      | 1,519,000        |
|                          | <u>(509,000)</u> | <u>2,903,000</u> |

Changes in the present value of the long service award obligation are as follows:

|  |                  |                  |
|--|------------------|------------------|
| Opening balance  | 4,559,000        | 2,129,000        |
| Benefits paid  | (174,470)        | -                |
| Net expense recognised in the statement of financial performance | (207,530)        | 2,430,000        |
|  | <u>4,177,000</u> | <u>4,559,000</u> |

**Ephraim Mogale Local Municipality**  
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**16. Employee benefit obligations (continued)**

**Net expense of the long service awards obligation recognised in the statement of financial performance**

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Current service cost      | 334,000          | 234,000          |
| Interest cost             | 368,000          | 149,000          |
| Actuarial (gains)/ losses | (909,530)        | 2,047,000        |
|                           | <u>(207,530)</u> | <u>2,430,000</u> |

**Key assumptions used**

Assumptions used at the reporting date:

|  |        |        |
|--|--------|--------|
| Discount rate - Post retirement medical aid            | 9.35 % | 8.94 % |
| Consumer price inflation - Post retirement medical aid | 6.89 % | 7.05 % |
| Health care cost inflation                             | 8.39 % | 8.05 % |
| Discount rate - Long service award                     | 8.36 % | 7.96 % |
| Consumer price inflation - Long service award          | 6.06 % | 6.30 % |
| Salary increase rate                                   | 7.06 % | 7.33 % |

**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 percentage point increase | One percentage point decrease |
|---|-------------------------------|-------------------------------|
| Effect on the aggregate of the service cost and interest cost | 332,000                       | (323,000)                     |
| Effect on defined benefit obligation                          | 1,675,000                     | (2,026,000)                   |

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

|                                | 2015<br>R  | 2014<br>R  | 2013<br>R  | 2012<br>R | 2011<br>R |
|--------------------------------|------------|------------|------------|-----------|-----------|
| Defined benefit obligation     | 13,174,000 | 13,683,000 | 10,780,000 | 7,409,162 | 5,683,162 |
| Long service awards obligation | 4,177,000  | 4,559,000  | 2,129,118  | 1,895,118 | 1,538,118 |

**Defined contribution plan**

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

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

**17. Service charges**

|                     |                   |                   |
|---------------------|-------------------|-------------------|
| Sale of electricity | 37,384,302        | 34,080,395        |
| Refuse removal      | 3,380,627         | 2,913,846         |
|                     | <u>40,764,929</u> | <u>36,994,241</u> |

**18. Rental income**

|                          |                |                |
|--------------------------|----------------|----------------|
| Facilities and equipment | 123,685        | 158,352        |
| Premises                 | -              | -              |
| Garages and parking      | -              | -              |
| Facilities and equipment | <u>123,685</u> | <u>158,352</u> |

# Ephraim Mogale Local Municipality

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### 19. Investment revenue

#### Interest revenue

|   |                  |                  |
|---|------------------|------------------|
| Interest charged on Eskom deposits          | 12,348           | -                |
| Interest on cash and cash equivalents       | 2,451,977        | 1,903,903        |
| Interest on outstanding receivable balances | 2,514,879        | 3,411,822        |
|   | <u>4,979,204</u> | <u>5,315,725</u> |
|   | 4,979,204        | 5,315,725        |

### 20. Licences and permits

|                      |                  |                  |
|----------------------|------------------|------------------|
| Licences and permits | <u>3,913,628</u> | <u>4,420,034</u> |
|----------------------|------------------|------------------|

### 21. Other revenue

|              |                   |                  |
|--------------|-------------------|------------------|
| Other income | <u>15,012,901</u> | <u>3,297,654</u> |
|--------------|-------------------|------------------|

Major components of other income include departmental fees and sale of tender documents

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

|  |                   |                  |
|--|-------------------|------------------|
| Claims for skills development            | 69,551            | 366,302          |
| Departmental fees                        | 1,664,828         | 1,571,298        |
| Sales of tender documents                | 409,350           | 201,080          |
| Sekhukhune Commission on Water Sales     | -                 | 971,888          |
| Write off of Sekhukhune creditor balance | 12,564,383        | -                |
| Other                                    | 304,789           | 187,086          |
|  | <u>15,012,901</u> | <u>3,297,654</u> |

**Ephraim Mogale Local Municipality**  
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**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>    | <b>2015</b>          | <b>2014</b>          |
|---------------------------|----------------------|----------------------|
| <b>22. Property rates</b> |                      |                      |
| <b>Rates received</b>     |                      |                      |
| Residential               | 8,042,159            | 9,560,155            |
| Commercial                | 7,644,544            | 8,446,678            |
| State                     | 187,355              | 216,180              |
| Municipal                 | (99,705)             | 178,728              |
| Small holdings and farms  | 9,977,062            | 11,373,544           |
| Other                     | 20,166               | 55,287               |
|                           | <b>25,771,581</b>    | <b>29,830,572</b>    |
| <b>Valuations</b>         |                      |                      |
| Agricultural              | 2,090,034,513        | 1,992,026,160        |
| Business and commercial   | 434,913,600          | 435,502,200          |
| Educational               | 42,110,000           | 41,870,000           |
| Municipal                 | 26,617,000           | 25,667,000           |
| POB                       | 1,050,000            | 1,050,000            |
| PSI                       | 775,230              | 775,230              |
| Religious                 | 28,079,000           | 28,079,000           |
| Residential               | 997,012,700          | 991,368,100          |
| State owned               | 1,536,000            | 1,536,000            |
| Vacant                    | 1,032,000            | 1,032,000            |
|                           | <b>3,623,160,043</b> | <b>3,518,905,690</b> |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2012. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a month to month basis.

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand                            | 2015               | 2014              |
|--|--------------------|-------------------|
| <b>23. Government grants and subsidies</b> |                    |                   |
| Equitable share                            | 91,614,000         | 77,149,000        |
| Financial management grant                 | 1,635,885          | 1,436,989         |
| Municipal system improvement program grant | 183,406            | 421,974           |
| Energy efficiency and demand side grant    | -                  | 1,393,159         |
| Municipal infrastructure grant             | 31,583,815         | 17,905,588        |
| Expanded public works programme grant      | 1,279,000          | 982,846           |
|  | <u>126,296,106</u> | <u>99,289,556</u> |

### Conditional and Unconditional

Included in above are the following grants and subsidies received:

|                               |                    |                   |
|-------------------------------|--------------------|-------------------|
| Conditional grants received   | 34,861,106         | 22,140,556        |
| Unconditional grants received | 91,435,000         | 77,149,000        |
|                               | <u>126,296,106</u> | <u>99,289,556</u> |

### Equitable Share

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

### Municipal infrastructure grant

|   |                  |                  |
|---|------------------|------------------|
| Balance unspent at beginning of year    | 5,221,412        | -                |
| Current - year receipts                 | 31,070,000       | 23,127,000       |
| Conditions met - transferred to revenue | (31,583,815)     | (17,905,588)     |
|   | <u>4,707,597</u> | <u>5,221,412</u> |

Conditions still to be met - remain liabilities (see note 14).

The grant is intended to assist the Municipality in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy

Conditions still to be met relate to unspent amounts on the following projects:

- Upgrading of Pule road
- Upgrading of Matilu road
- Makgatle A&B internal road
- Leeufontein internal streets
- Elandskraal internal road
- Letebejane internal road

### Municipal system improvement programme grant

|   |                  |                |
|---|------------------|----------------|
| Balance unspent at beginning of year    | 468,026          | -              |
| Current - year receipts                 | 934,000          | 890,000        |
| Conditions met - transferred to revenue | (183,406)        | (421,974)      |
|   | <u>1,218,620</u> | <u>468,026</u> |

Conditions still to be met - remain liabilities (see note 14).



# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
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### 23. Government grants and subsidies (continued)

The grant is intended to assist the Municipality in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related legislation, policies and local government turnaround strategy

#### Financial management grant

|   |               |                |
|---|---------------|----------------|
| Balance unspent at beginning of year    | 113,011       | -              |
| Current - year receipts                 | 1,600,000     | 1,550,000      |
| Conditions met - transferred to revenue | (1,635,886)   | (1,436,989)    |
|   | <u>77,125</u> | <u>113,011</u> |

Conditions still to be met - remain liabilities (see note 14).

The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

#### Energy efficiency and demand side grant

|   |                  |                  |
|---|------------------|------------------|
| Balance unspent at beginning of year    | 3,606,541        | -                |
| Current - year receipts                 | -                | 4,999,700        |
| Conditions met - transferred to revenue | -                | (1,393,159)      |
|   | <u>3,606,541</u> | <u>3,606,541</u> |

Conditions still to be met - remain liabilities (see note 14).

The grant is intended to fund energy efficient lighting technologies in municipal buildings, streets and traffic lighting infrastructure.

#### Expanded public works programme grant

|   |               |               |
|---|---------------|---------------|
| Balance unspent at beginning of year    | 17,114        | -             |
| Current - year receipts                 | 1,279,000     | 1,000,000     |
| Conditions met - transferred to revenue | (1,279,000)   | (982,886)     |
|   | <u>17,114</u> | <u>17,114</u> |

Conditions still to be met - remain liabilities (see note 14).

The grant is intended to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas, in compliance with the Expanded Public Works Programme Guidelines.

### 24. Fines

|                       |                  |                  |
|-----------------------|------------------|------------------|
| <b>Fines</b>          |                  |                  |
| Traffic Fines         | 1,541,950        | 906,050          |
| Meter tampering fines | 326,229          | 333,326          |
|                       | <u>1,868,179</u> | <u>1,239,376</u> |

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**Ephraim Mogale Local Municipality**  
Annual Financial Statements for the year ended 30 June 2015

**Notes to the Annual Financial Statements**

|  | 2015              | 2014              |
|--|-------------------|-------------------|
| <b>Figures in Rand</b>   |                   |                   |
| <b>25. Employee related costs</b>  |                   |                   |
| Basic  | 31,836,760        | 29,658,260        |
| Bonus  | 3,677,901         | 3,913,258         |
| Medical aid - company contributions  | 1,994,205         | 1,854,502         |
| UIF  | 279,705           | 268,333           |
| Other payroll levies   | 17,018            | 16,193            |
| Group life insurance   | 85,553            | 70,965            |
| Standby allowance  | 340,707           | 310,912           |
| Short term benefit   | 468,362           | 316,642           |
| Other short term costs   | 12,000            | 6,000             |
| Defined contribution plans   | 6,378,457         | 5,995,989         |
| Travel, motor car, accommodation, subsistence and other allowances   | 202,493           | 1,318,769         |
| Overtime payments  | 1,389,132         | 1,057,222         |
| Car allowance  | 2,689,583         | 2,341,090         |
| Housing benefits and allowances  | 82,481            | 80,304            |
| Seta levies  | 462,814           | 430,573           |
| Travel and accommodation   | 3,233,111         | 1,495,273         |
| Other # 8  | -                 | 117,047           |
|  | <b>53,150,282</b> | <b>49,251,332</b> |
| <b>Remuneration of Municipal Manager : Mathebela MM</b>  |                   |                   |
| Annual remuneration  | 141,674           | -                 |
| Travel allowance   | 37,377            | -                 |
| Other allowances   | 15,751            | -                 |
| Contributions to UIF, medical and pension funds  | 18,219            | -                 |
|  | <b>213,021</b>    | <b>-</b>          |
| Mrs MM Mathebela was appointed to position of Municipal Manager on 1 April 2015  |                   |                   |
| <b>Remuneration of Acting Municipal Manager: Mashamba NS</b>   |                   |                   |
| Annual remuneration  | 29,807            | -                 |
| Travel allowance   | 16,703            | -                 |
| Other allowances   | 15,792            | -                 |
| Back pay   | 66,815            | -                 |
|  | <b>129,117</b>    | <b>-</b>          |
| Mr NS Mashamba acted as municipal manager for the period 1 April 2014 to 31 March 2015. He received all his remuneration and backpay in the 2014/2015 financial year |                   |                   |
| <b>Remuneration of Chief Financial Officer: Ramosibi KA</b>  |                   |                   |
| Annual remuneration  | 580,464           | 46,020            |
| Travel allowance   | 14,205            | -                 |
| Other allowances   | 52,220            | 3,881             |
| Back pay   | 10,988            | -                 |
| Contributions to UIF, medical and pension funds  | 71,719            | -                 |
| Service bonus  | -                 | 5,687             |
|  | <b>729,596</b>    | <b>55,588</b>     |

Ms KA Ramosibi was appointed as Chief Financial Officer on 1 June 2014.

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
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### 25. Employee related costs (continued)

#### Remuneration of Acting Chief Financial Officer: Mohaudi R

|   |          |                |
|---|----------|----------------|
| Annual remuneration                             | -        | 275,953        |
| Travel allowance                                | -        | 170,112        |
| Other allowances                                | -        | 52,466         |
| Acting Allowance                                | -        | 88,871         |
| Contributions to UIF, medical and pension funds | -        | 25,522         |
|   | <u>-</u> | <u>612,924</u> |

Mr R Mohaudi acted as CFO for the period from 1 June 2013 to 31 May 2014.

#### Remuneration of Director Corporate Services: Lekola MJ

|   |                |                |
|---|----------------|----------------|
| Annual remuneration                             | 574,221        | 544,352        |
| Travel allowance                                | 11,890         | 12,141         |
| Other allowances                                | 56,898         | 53,498         |
| Back pay  | 8,388          | -              |
| Contributions to UIF, medical and pension funds | 87,656         | 83,409         |
| Service bonus                                   | 33,739         | 31,594         |
|   | <u>772,792</u> | <u>724,994</u> |

#### Remuneration of Director Technical Services: Monakedi ME

|   |                  |                |
|---|------------------|----------------|
| Annual remuneration                             | 672,517          | 432,201        |
| Travel allowance                                | 161,923          | 102,759        |
| Other allowances                                | 53,106           | 20,497         |
| Back pay  | 13,865           | -              |
| Contributions to UIF, medical and pension funds | 71,719           | 45,496         |
| Service bonus                                   | 33,739           | -              |
|   | <u>1,006,869</u> | <u>600,953</u> |

#### Remuneration of Director Community Services: Mathebela MM

|   |                |          |
|---|----------------|----------|
| Annual remuneration                             | 216,323        | -        |
| Travel allowance                                | 43,968         | -        |
| Other allowances                                | 20,804         | -        |
| Contributions to UIF, medical and pension funds | 36,438         | -        |
|   | <u>317,533</u> | <u>-</u> |

Mrs MM Mathebela was appointed to the position of Director Community Services on 1 October 2014 and was employed as such until 31 March 2015.

#### Remuneration of Director Community: Makopo LM

|   |          |                |
|---|----------|----------------|
| Annual remuneration                             | -        | 359,652        |
| Travel allowance                                | -        | 58,197         |
| Other allowances                                | -        | 173,810        |
| Contributions to UIF, medical and pension funds | -        | 44,216         |
| Service bonus                                   | -        | 33,753         |
|   | <u>-</u> | <u>669,628</u> |

Mr LM Makopo's employment contract expired on 31 March 2014

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
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### 25. Employee related costs (continued)

#### Acting Municipal Managers during the 2013/2014 and 2014/2015

During the 2013/2014 and 2014/2015 financial years, PJ Phahlamohlaka acted as Municipal Manager for the period 23 August 2013 to 20 February 2014

### 26. Remuneration of councillors

|                       |                   |                  |
|-----------------------|-------------------|------------------|
| Executive Mayor       | 744,660           | 716,352          |
| Chief whip            | 589,990           | 569,044          |
| Speaker               | 636,994           | 249,650          |
| Executive councillors | 2,427,530         | 1,494,757        |
| Councillors           | 5,944,281         | 6,850,160        |
|                       | <b>10,343,455</b> | <b>9,879,963</b> |

#### In-kind benefits

Members of municipal council should be remunerated within the upper limits as determined by the Department of Cooperative Governance and Traditional Affairs. Any deviations are disclosed as irregular expenditure.

#### Remuneration of Employees:

The remuneration of the employees and section 57 managers are within the upper limits as determined by the framework envisaged section 219 of the Constitution.

#### Remuneration of Councillors:

The remuneration of the political office bearers and councillors are within the upper limits as determined by the framework envisaged section 219 of the Constitution.

| 2015                   | Annual remuneration | Travel allowance | Other allowances | Back pay      | Pension        | Total            |
|------------------------|---------------------|------------------|------------------|---------------|----------------|------------------|
| <b>Executive Mayor</b> |                     |                  |                  |               |                |                  |
| MMakola MY             | 438,596             | 171,998          | 28,865           | 24,370        | 80,831         | 744,660          |
| <b>Chief Whip</b>      |                     |                  |                  |               |                |                  |
| Ratau MF               | 438,596             | 26,390           | 27,428           | 16,745        | 80,831         | 589,990          |
| <b>Speaker</b>         |                     |                  |                  |               |                |                  |
| Modisha LB             | 350,877             | 180,031          | 27,678           | 13,743        | 64,665         | 636,994          |
|                        | <b>1,228,069</b>    | <b>378,419</b>   | <b>83,971</b>    | <b>54,858</b> | <b>226,327</b> | <b>1,971,644</b> |

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

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### 26. Remuneration of councillors (continued)

| 2014                   | Annual remuneration | Travel allowance | Other allowances | Back pay      | Pension        | Total            |
|------------------------|---------------------|------------------|------------------|---------------|----------------|------------------|
| <b>Executive Mayor</b> |                     |                  |                  |               |                |                  |
| MMakola MY             | 420,111             | 164,749          | 38,526           | 18,829        | 74,137         | 716,352          |
| <b>Chief Whip</b>      |                     |                  |                  |               |                |                  |
| Ratau MF               | 420,111             | 32,555           | 25,438           | 16,803        | 74,137         | 569,044          |
| <b>Speaker</b>         |                     |                  |                  |               |                |                  |
| Modisha LB             | 134,436             | 60,122           | 18,678           | 12,691        | 23,724         | 249,651          |
|                        | <u>974,658</u>      | <u>257,426</u>   | <u>82,642</u>    | <u>48,323</u> | <u>171,998</u> | <u>1,535,047</u> |

| 2015                         | Annual remuneration | Travel allowance | Other allowances | Back pay      | Pension        | Total            |
|------------------------------|---------------------|------------------|------------------|---------------|----------------|------------------|
| <b>Executive Councillors</b> |                     |                  |                  |               |                |                  |
| Mahlobogoane ST              | 400,966             | 86,312           | 27,387           | 12,148        | 74,095         | 600,908          |
| Makilla TS                   | 241,228             | 6,076            | 25,486           | 7,994         | 44,457         | 325,241          |
| Matlala MF                   | 328,947             | 145,987          | 27,399           | 12,911        | 60,623         | 575,867          |
| Monyamane EM                 | 328,947             | 166,072          | 27,443           | 17,602        | 60,623         | 600,687          |
| Phefadi MG                   | 180,921             | 76,574           | 25,523           | 8,466         | 33,343         | 324,827          |
|                              | <u>1,481,009</u>    | <u>481,021</u>   | <u>133,238</u>   | <u>59,121</u> | <u>273,141</u> | <u>2,427,530</u> |

| 2015 Councillors | Annual remuneration | Travel allowance | Other allowances | Back pay       | Pension          | Total             |
|------------------|---------------------|------------------|------------------|----------------|------------------|-------------------|
| Bogopa JH        | 140,351             | 46,557           | 24,882           | 5,352          | 25,866           | 243,008           |
| Chauke S         | 140,351             | 41,280           | 24,882           | 5,352          | 25,866           | 237,730           |
| Esson BA         | 175,438             | -                | 24,877           | 5,077          | 32,332           | 237,726           |
| Kekana KN        | 140,351             | 67,550           | 24,991           | 10,565         | 25,866           | 269,322           |
| Kekana MM        | 140,351             | 51,092           | 24,882           | 5,352          | 25,866           | 247,542           |
| Bokaba HS        | 140,351             | 41,280           | 24,882           | 5,352          | 25,866           | 237,730           |
| Mabaso WM        | 140,351             | 54,343           | 23,925           | 10,044         | 25,866           | 254,528           |
| Makanyane GN     | 140,351             | 41,280           | 24,882           | 5,352          | 25,866           | 237,730           |
| Mamogobo SC      | 140,351             | 55,513           | 24,882           | 5,352          | 25,866           | 251,963           |
| Mampane NZ       | 43,211              | -                | 6,428            | -              | 7,626            | 57,265            |
| Mashego BG       | 140,351             | 60,384           | 25,932           | 5,352          | 25,866           | 257,885           |
| Mokonyane MJ     | 175,438             | -                | 24,877           | 5,077          | 32,332           | 237,726           |
| Molotshwa FK     | 175,438             | -                | 24,919           | 5,077          | 32,332           | 237,767           |
| Morwaswi ME      | 140,351             | 46,542           | 24,882           | 5,352          | 25,866           | 242,993           |
| Mothwa NM        | 131,490             | -                | 18,511           | 3,385          | 24,249           | 177,636           |
| Mphahlele LJ     | 140,351             | 46,971           | 24,926           | 10,044         | 25,866           | 248,157           |
| Nchabeleng MJ    | 140,351             | 48,104           | 24,882           | 5,352          | 25,866           | 244,554           |
| Ndobeni NR       | 140,351             | 55,321           | 24,882           | 5,352          | 25,867           | 251,772           |
| Phala MG         | 140,351             | 67,842           | 24,882           | 5,352          | 25,866           | 264,293           |
| Ranoto P         | 140,351             | 47,774           | 24,882           | 5,352          | 25,866           | 244,225           |
| Sebothoma OE     | 140,351             | 43,550           | 24,882           | 5,352          | 25,866           | 240,001           |
| Sehlola ET       | 140,351             | 60,450           | 24,882           | 5,352          | 25,866           | 256,901           |
| Seoka KM         | 140,351             | 62,218           | 24,933           | 5,352          | 25,866           | 258,719           |
| Seono MR         | 140,351             | 65,795           | 29,353           | 5,352          | 25,866           | 266,718           |
| Tshiguvho EM     | 140,351             | 43,940           | 24,882           | 5,352          | 25,866           | 240,390           |
| Subtotal         | <u>3,508,035</u>    | <u>1,047,786</u> | <u>602,020</u>   | <u>140,253</u> | <u>646,192</u>   | <u>5,944,281</u>  |
|                  | <u>6,217,114</u>    | <u>1,907,228</u> | <u>819,229</u>   | <u>254,230</u> | <u>1,145,654</u> | <u>10,343,455</u> |

**Ephraim Mogale Local Municipality**  
Annual Financial Statements for the year ended 30 June 2015

**Notes to the Annual Financial Statements**

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**26. Remuneration of councillors (continued)**

| 2014<br>Executive<br>Councillors | Annual<br>remuneration | Travel<br>allowance | Other<br>allowances | Back pay      | Pension        | Total            |
|----------------------------------|------------------------|---------------------|---------------------|---------------|----------------|------------------|
| Mahlobogoane                     | 145,959                | 54,098              | 18,676              | 12,691        | 25,757         | 257,181          |
| ST                               |                        |                     |                     |               | 13,980         | 102,001          |
| Makilla TS                       | 79,221                 |                     | 8,800               |               |                |                  |
| Matlala MF                       | 134,436                | 48,158              | 18,678              | 12,691        | 23,724         | 237,687          |
| Monyamane                        | 315,084                | 177,511             | 25,452              | 16,802        | 55,603         | 590,452          |
| EM                               |                        |                     |                     |               |                |                  |
| Phetadi MG                       | 173,296                | 69,468              | 23,642              | 10,448        | 30,582         | 307,436          |
|                                  | <b>847,996</b>         | <b>349,235</b>      | <b>95,248</b>       | <b>52,632</b> | <b>149,646</b> | <b>1,494,757</b> |

  

| 2014<br>Councillors | Annual<br>remuneration | Travel<br>allowance | Other<br>allowances | Back pay       | Pension          | Total            |
|---------------------|------------------------|---------------------|---------------------|----------------|------------------|------------------|
| Bogopa JH           | 134,436                | 51,634              | 18,678              | 12,691         | 23,724           | 241,163          |
| Chauke S            | 134,436                | 39,540              | 18,678              | 12,691         | 23,724           | 229,069          |
| Esson BA            | 168,045                |                     | 18,673              | 12,691         | 29,655           | 229,064          |
| Kekana KN           | 336,089                | 192,998             | 26,184              | 17,744         | 59,310           | 632,325          |
| Kekana MM           | 134,436                | 48,157              | 18,678              | 12,691         | 23,724           | 237,686          |
| Selamole SS         | 11,171                 |                     | 744                 |                |                  | 11,915           |
| Bokaba HS           | 134,436                | 39,540              | 18,678              | 12,691         | 23,724           | 229,069          |
| Mabaso WM           | 315,084                | 163,712             | 25,453              | 16,802         | 55,603           | 576,654          |
| Malbelo MF          | 56,808                 | 16,715              | 5,631               |                | 7,747            | 86,901           |
| Makanyane GN        | 134,436                | 46,073              | 18,678              | 12,691         | 23,724           | 235,602          |
| Mamogobo SC         | 134,436                | 42,104              | 18,678              | 12,691         | 23,724           | 231,633          |
| Mashego BG          | 134,436                | 56,257              | 18,678              | 12,691         | 23,724           | 245,786          |
| Mokonyane MJ        | 154,327                |                     | 17,536              | 10,878         | 27,234           | 209,975          |
| Molotshwa FK        | 99,455                 |                     | 13,002              | 2,881          | 17,551           | 132,889          |
| Morwaswi ME         | 134,436                | 42,041              | 18,678              | 12,691         | 23,724           | 231,570          |
| Motsepe JS          | 11,171                 |                     | 742                 |                |                  | 11,913           |
| Mphahlele LJ        | 315,084                | 160,348             | 25,453              | 16,802         | 55,603           | 573,290          |
| Nchabeleng MJ       | 134,436                | 42,910              | 18,678              | 12,691         | 23,724           | 232,439          |
| Ndobeni NR          | 134,436                | 52,185              | 18,678              | 12,691         | 23,724           | 241,714          |
| Nzmampane S         | 154,327                |                     | 17,536              | 10,878         | 27,234           | 209,975          |
| Phala MG            | 134,436                | 63,120              | 18,678              | 12,690         | 23,724           | 252,648          |
| Ranoto P            | 134,436                | 44,448              | 18,678              | 12,690         | 23,724           | 233,976          |
| Sebothoma OE        | 134,435                | 47,400              | 18,678              | 12,690         | 23,724           | 236,927          |
| Sehlola ET          | 134,435                | 45,770              | 18,678              | 12,690         | 23,724           | 235,297          |
| Seoka KM            | 134,435                | 46,480              | 18,678              | 12,690         | 23,724           | 236,007          |
| Seono MR            | 134,435                | 64,770              | 18,678              | 12,690         | 23,724           | 254,297          |
| Shalang LJ          | 15,360                 |                     | 1,194               |                |                  | 16,554           |
| Thabane SM          | 88,300                 |                     | 9,525               | 10,287         | 16,643           | 124,755          |
| Tshiguvho EM        | 134,435                | 39,540              | 18,678              | 12,690         | 23,724           | 229,067          |
| Subtotal            | <b>4,010,628</b>       | <b>1,345,742</b>    | <b>479,199</b>      | <b>314,703</b> | <b>699,888</b>   | <b>6,850,160</b> |
|                     | <b>5,833,281</b>       | <b>1,952,403</b>    | <b>657,091</b>      | <b>415,657</b> | <b>1,021,531</b> | <b>9,879,963</b> |

**27. Debt impairment**

Contributions to allowance for impairment  
Bad debts written off

|                  |                  |
|------------------|------------------|
| 319,156          | 6,066,546        |
| 2,625,183        |                  |
| <b>2,944,339</b> | <b>6,066,546</b> |

**Ephraim Mogale Local Municipality**  
Annual Financial Statements for the year ended 30 June 2015

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>  | <b>2015</b>       | <b>2014</b>       |
|---|-------------------|-------------------|
| <b>28. Depreciation and amortisation</b>  |                   |                   |
| Property, plant and equipment   | <u>40,721,576</u> | <u>37,960,565</u> |
| <b>29. Finance costs</b>  |                   |                   |
| Finance leases  | 256,803           | 374,431           |
| Finance cost - Landfill site  | 182,276           | 134,686           |
| Finance costs - Post-retirement medical aid benefits  | 1,235,000         | 774,000           |
| Finance costs - Long service awards   | 368,000           | 149,000           |
|   | <u>2,042,079</u>  | <u>1,432,117</u>  |
| <b>30. Repairs and maintenance</b>  |                   |                   |
| <b>Repairs and maintenance per class:</b>   |                   |                   |
| Buildings   | 2,176,759         | 3,203,031         |
| Community   | 912,102           | 776,458           |
| Infrastructure  | 112,005           | 456,813           |
| IT Equipment  | -                 | 19,786            |
| Motor Vehicles  | 4,673,322         | 4,723,955         |
|   | <u>7,874,188</u>  | <u>9,180,043</u>  |
| <b>31. Bulk purchases</b>   |                   |                   |
| Electricity   | <u>23,580,252</u> | <u>21,544,525</u> |
| <p>Electricity losses</p> <p>For the 2014/2015 financial year, distribution losses on electricity amount 7%. The annual electricity distribution loss are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.</p> <p>For the 2013/2014 financial year, distribution losses on electricity amount 6%. The annual electricity distribution loss are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.</p> |                   |                   |
| <b>32. Contracted services</b>  |                   |                   |
| Information Technology Services   | 3,784,558         | 2,755,342         |
| Specialist Services   | 286,688           | 99,577            |
|   | <u>4,071,246</u>  | <u>2,854,919</u>  |
| <b>33. Grants and subsidies paid</b>  |                   |                   |
| <b>Other subsidies</b>  |                   |                   |
| Indigent  | -                 | 17,450            |
| Staff Bursary   | 164,468           | 8,020             |
| Free and subsidised services  | 733,007           | 690,195           |
| Community Bursary   | 690,087           | 457,968           |
|   | <u>1,587,562</u>  | <u>1,173,633</u>  |
| Grants paid to ME's   | 1,587,562         | 1,173,633         |
| Other subsidies   |                   |                   |

**Ephraim Mogale Local Municipality**  
Annual Financial Statements for the year ended 30 June 2015

**Notes to the Annual Financial Statements**

| <b>Figures in Rand</b>                                | <b>2015</b>        | <b>2014</b>       |
|---|--------------------|-------------------|
| <b>34. General expenses</b>                           |                    |                   |
| Advertising   | 427,434            | 419,906           |
| Asset Reports   | 1,348,138          | 1,283,631         |
| Auditors remuneration                                 | 2,049,682          | 2,936,651         |
| Bank charges  | 250,606            | 339,035           |
| Cleaning  | 118,124            | 87,817            |
| Consumer Connections                                  | 108,547            | 79,780            |
| Conferences and seminars                              | 416,586            | 690,924           |
| Consulting and professional fees                      | 2,989,168          | 1,114,220         |
| Consumables   | 257,286            | 264,024           |
| Donations   | 99,651             | 142,336           |
| Electricity   | 2,989,306          | 1,995,533         |
| Entertainment   | 131,174            | 132,289           |
| Fuel  | 29,398             | 152,140           |
| Grant Expenditure                                     | 3,857,775          | 3,069,420         |
| Housing and building control                          | 1,336              | 6,469             |
| Insurance   | 746,729            | 1,535,544         |
| Internal audit  | 799,726            | 461,243           |
| Marketing   | 2,859,996          | 3,130,870         |
| Medical expenses                                      | 543,000            | 610,000           |
| Motor vehicle expenses                                | 1,561,226          | 1,319,810         |
| Operating leases                                      | 1,262,625          | 912,265           |
| Performance management                                | 38,355             | 695,873           |
| Postage and courier                                   | 146,535            | 112,123           |
| Printing and stationery                               | 501,869            | 438,001           |
| Promotions  | 49,526             | 4,061             |
| Protective clothing                                   | 120,650            | 134,762           |
| Refuse  | 222,456            | 174,955           |
| Security (Guarding of municipal property)             | 4,589,805          | 3,912,995         |
| Software expenses                                     | 95,986             | 104,426           |
| Staff welfare   | 43,160             | 389,316           |
| Sewerage and waste disposal                           | -                  | 10,831            |
| Strategic planning                                    | 132,907            | 38,027            |
| Subscriptions and membership fees                     | 537,339            | 510,235           |
| Telephone and fax                                     | 869,040            | 605,319           |
| Training  | 709,560            | 729,182           |
| Valuation roll and GIS                                | 348,364            | 307,063           |
| Water   | -                  | 69,877            |
|   | <b>31,253,065</b>  | <b>28,920,953</b> |
| <b>35. Loss on disposal of assets</b>                 |                    |                   |
| Proceeds on disposal of property, plant and equipment | -                  | -                 |
| Property, plant and equipment                         | (1,305,664)        | -                 |
|   | <b>(1,305,664)</b> | <b>-</b>          |
| <b>36. Fair value adjustments</b>                     |                    |                   |
| Investment property (Fair value model)                | 4,039,200          | 6,719,000         |



# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand   | 2015              | 2014              |
|---|-------------------|-------------------|
| <b>37. Cash generated from operations</b>                 |                   |                   |
| Surplus   | 46,413,827        | 15,433,914        |
| <b>Adjustments for:</b>                                   |                   |                   |
| Depreciation and amortisation                             | 40,721,576        | 37,960,565        |
| Fair value adjustments                                    | (4,039,200)       | (6,719,000)       |
| Fair value adjustment - Medical aid actuarial gain (loss) | 256,803           | 374,431           |
| Provision for impairment                                  | 2,944,339         | 6,066,546         |
| Movements in retirement benefit assets and liabilities    | (891,000)         | 7,461,838         |
| Movements in provisions                                   | -                 | (1,478,487)       |
| Provision for short term portion of land fill site        | 840,863           | 2,095,154         |
| Actuarial gains and losses                                | -                 | 3,566,000         |
| Consumer deposits   | (52,037)          | (68,582)          |
| <b>Changes in working capital:</b>                        |                   |                   |
| Inventories   | (109,514)         | (44,576)          |
| Consumer receivables                                      | (2,160,644)       | (3,017,746)       |
| Receivables from non-exchange transactions                | (6,664,644)       | (4,339,273)       |
| Payables from exchange transactions                       | (1,093,507)       | (15,278,079)      |
| VAT   | 2,351,775         | (4,394,788)       |
| Unspent conditional grants and receipts                   | 200,894           | 9,426,104         |
|   | <b>78,719,531</b> | <b>47,044,021</b> |

## 38. Financial instruments disclosure

### Categories of financial instruments

#### 2015

##### Financial assets

|  | At amortised cost  | Total              |
|--|--------------------|--------------------|
| Cash and cash equivalents                  | 81,813,280         | 81,813,280         |
| Receivables from exchange transactions     | 3,827,639          | 3,827,639          |
| Receivables from non-exchange transactions | 16,198,073         | 16,198,073         |
| Deposits                                   | 260,564            | 260,564            |
|  | <b>102,099,556</b> | <b>102,099,556</b> |

##### Financial liabilities

|   | At amortised cost | Total             |
|---|-------------------|-------------------|
| Payables from exchange transactions     | 36,201,028        | 36,201,028        |
| Consumer deposits                       | 1,568,314         | 1,568,314         |
| Finance lease obligation                | 5,015,160         | 5,015,160         |
| Unspent conditional grants and receipts | 9,626,998         | 9,626,998         |
|   | <b>52,411,500</b> | <b>52,411,500</b> |

#### 2014

##### Financial assets

|  | At amortised cost | Total             |
|--|-------------------|-------------------|
| Cash and cash equivalents                  | 49,691,467        | 49,691,467        |
| Receivables from exchange transactions     | 533,489           | 533,489           |
| Receivables from non-exchange transactions | 9,693,067         | 9,693,067         |
|  | <b>59,918,023</b> | <b>59,918,023</b> |

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**Ephraim Mogale Local Municipality**  
Annual Financial Statements for the year ended 30 June 2015

**Notes to the Annual Financial Statements**

| Figures In Rand                                     | 2015              | 2014              |
|---|-------------------|-------------------|
| <b>Financial Instruments disclosure (continued)</b> |                   |                   |
| <b>Financial liabilities</b>                        |                   |                   |
|   | At amortised cost | Total             |
| Payables from exchange transactions                 | 37,434,560        | 37,434,560        |
| Consumer deposits                                   | 1,620,351         | 1,620,351         |
| Finance lease obligation                            | 6,332,026         | 6,332,026         |
| Unspent conditional grants and receipts             | 9,426,104         | 9,426,104         |
|   | <u>54,813,041</u> | <u>54,813,041</u> |
| <b>39. Commitments</b>                              |                   |                   |
| <b>Authorised capital expenditure</b>               |                   |                   |
| <b>Already contracted for but not provided for</b>  | <u>24,318,667</u> | <u>11,655,047</u> |
| • Infrastructure                                    |                   |                   |
| <b>Total capital commitments</b>                    | <u>24,318,667</u> | <u>11,655,047</u> |
| Already contracted for but not provided for         |                   |                   |
| <b>Authorised operational expenditure</b>           |                   |                   |
| <b>Already contracted for but not provided for</b>  | 1,525,686         | -                 |
| • Leasing of plant                                  | 5,960,448         | -                 |
| • Security  | 2,030,000         | -                 |
| • Consulting and Training                           | <u>9,516,134</u>  | <u>-</u>          |
| <b>Total operational commitments</b>                | <u>9,516,134</u>  | <u>-</u>          |
| Already contracted for but not provided for         |                   |                   |
| <b>Total commitments</b>                            |                   |                   |
| <b>Total commitments</b>                            | 24,318,667        | 11,655,047        |
| Authorised capital expenditure                      | 9,516,134         | -                 |
| Authorised operational expenditure                  | <u>33,834,801</u> | <u>11,655,047</u> |
| <b>Operating leases - as lessee (expense)</b>       |                   |                   |
| <b>Minimum lease payments due</b>                   | 675,439           | 867,554           |
| - within one year                                   |                   | 675,439           |
| - in second to fifth year inclusive                 | <u>675,439</u>    | <u>1,542,993</u>  |

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of 4 years. No contingent rent is payable.

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

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### 40. Contingencies

#### Kwanha's Business Enterprises

A party is suing the municipality for idle time of equipment that remained inactive on a work site. The party is seeking a settlement of R 585,709 (2014: R 100,000). The expected outcome of this litigation is unknown to legal council and the municipality at this stage.

#### Phillip Mphahlele

A defamation of character suit has been instituted against the municipality during the 2014/2015 financial year. The claimant is seeking damages to the value of R 2,105,500.35 (2014: R 0). Legal council and the municipality are of the opinion that the claimant is unlikely to succeed with his claim.

#### Walterama-Kgatla Inc.

A service provider was contracted to provide debt collection services on behalf of the municipality. The municipality is disputing the amount and refuses to pay the invoice amount of R 208,000 (2014: R 100,000). As at 30 June 2015, this case was still heading to trial and the possible outcome is not known at this stages.

#### Mohlarerwa & Boledi Construction

The municipality awarded a contractor a tender for the rehabilitation of the administration block. The contractor submitted an invoice to the amount of R 1,605,515.35 for the work performed, which the municipality has refused to pay as the amount has already been paid. The parties are still exchanging pleadings at this stage and the possible outcome is still unknown by legal council and the municipality.

### Contingent assets

#### Gerhardus Muller

The municipality erroneously paid an amount of R 205,000 into the defendant's bank account. He used the money despite being notified not to do so. The defendant has refused to pay back the funds and the municipality has instituted action against. The outcome is unknown.

### 41. Related parties

Relationships  
Accounting Officer  
Key management  
Executive Mayor  
Speaker  
Chief Whip  
Mayoral Committee  
Members of management

Refer to Accounting Officer's report note  
Please refer to note 25  
Please refer to note 26  
Please refer to note 26  
Please refer to note 26  
Please refer to note 26  
Refer to note 40

### 42. Comparative figures

Certain comparative figures have been reclassified.

The reason for reclassification are as follows:

- Statement of financial performance items being incorrectly disclosed in the statement of financial position
- Statement of financial position of items being incorrectly disclosed in the statement of financial performance
- The incorrect amount of credit balances in receivables being taken to payables
- Benefits paid on employee benefits being taken to employee costs
- Long service awards being disclosed incorrectly under provisions instead of employee benefits

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2014 is disclosed in note 43 - Prior period errors.

The effects of the reclassification are as follows:

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand                            | 2015 | 2014         |
|--|------|--------------|
| <b>42. Comparative figures (continued)</b> |      |              |
| <b>Statement of Financial Position</b>     |      |              |
| Receivables from exchange transaction      | -    | (15,829,714) |
| Receivables from non-exchange transactions | -    | 7,736,891    |
| Property, plant and equipment              | -    | 9,168,891    |
| Payables from exchange transaction         | -    | (7,472,313)  |
| Consumer deposits                          | -    | (4,515)      |
| Employee benefit obligation                | -    | 5,290,118    |
| Provisions                                 | -    | (2,119,098)  |
| <b>Statement of Financial Performance</b>  |      |              |
| Other income                               | -    | (616,025)    |
| Employee related costs                     | -    | (254,000)    |
| Finance costs                              | -    | (923,030)    |
| General expenses                           | -    | 10,941,887   |
| Actuarial gains/losses                     | -    | (3,767,000)  |

### 43. Prior period errors

The prior year has been amended to account for prior period errors.

Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved.

Refer to note 42 for details on comparative figures.

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

Figures in Rand

2015

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### 43. Prior period errors (continued)

#### Statement of Financial Performance for the year ended 30 June 2014

|   | Balance as previously reported | Prior period error | Reclassified (note 42) | Restated balance     |
|---|--------------------------------|--------------------|------------------------|----------------------|
| <b>Revenue</b>                          |                                |                    |                        |                      |
| Service charges                         | 37,243,517                     | 142,835            | (470,036)              | 36,916,316           |
| Rental income                           | 158,352                        | -                  | -                      | 158,352              |
| Licenses and permits                    | 9,888,761                      | -                  | (5,468,727)            | 4,420,034            |
| Interest received                       | (780,735)                      | 6,096,460          | -                      | 5,315,725            |
| Other income                            | 2,944,418                      | 969,261            | (616,025)              | 3,297,654            |
| Property rates                          | 29,830,569                     | -                  | -                      | 29,830,571           |
| Government grants and subsidies         | 96,060,652                     | 3,650,819          | (421,915)              | 99,289,556           |
| Fines                                   | 162,520                        | 1,076,856          | -                      | 1,239,376            |
| <b>Total revenue</b>                    | <b>175,508,054</b>             | <b>11,936,231</b>  | <b>(6,976,703)</b>     | <b>180,467,584</b>   |
| <b>Expenditure</b>                      |                                |                    |                        |                      |
| Employee related costs                  | (46,178,097)                   | 383,723            | (3,456,956)            | (49,251,330)         |
| Remuneration of councillors             | (9,398,616)                    | -                  | (481,347)              | (9,879,963)          |
| Debt impairment                         | (11,254,934)                   | 5,047,514          | -                      | (6,207,420)          |
| Depreciation and amortisation           | (37,785,544)                   | (175,021)          | -                      | (37,960,565)         |
| Finance costs                           | (1,298,225)                    | 923,814            | (1,057,706)            | (1,432,117)          |
| Repairs and maintenance                 | (6,144,498)                    | (645,814)          | (2,389,731)            | (9,180,043)          |
| Bulk purchases                          | (21,544,525)                   | -                  | -                      | (21,544,525)         |
| Contracted services                     | (3,516,232)                    | -                  | 661,313                | (2,854,919)          |
| Grants and subsidies paid               | (715,665)                      | -                  | (457,968)              | (1,173,633)          |
| General expenses                        | (50,866,402)                   | 3,023,530          | 19,253,316             | (28,589,556)         |
| <b>Total expenditure</b>                | <b>(188,702,738)</b>           | <b>8,557,746</b>   | <b>12,070,921</b>      | <b>(168,074,071)</b> |
| Operating surplus / (deficit)           | (13,194,684)                   | -                  | -                      | (13,194,684)         |
| Fair value adjustments                  | 6,719,000                      | -                  | -                      | 6,719,000            |
| Actuarial gains/(losses)                | -                              | 201,000            | (3,767,000)            | (3,566,000)          |
| <b>Surplus / (deficit) for the year</b> | <b>(6,475,684)</b>             | <b>201,000</b>     | <b>(3,767,000)</b>     | <b>(10,041,684)</b>  |

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand   | 2015                                  | 2014                      |                               |                         |
|---|---------------------------------------|---------------------------|-------------------------------|-------------------------|
| <b>43. Prior period errors (continued)</b><br><b>Statement of Financial Position as at 30 June 2014</b> | <b>Balance as previously reported</b> | <b>Prior period error</b> | <b>Reclassified (note 42)</b> | <b>Restated balance</b> |
| <b>Assets</b>   |                                       |                           |                               |                         |
| <b>Current Assets</b>   |                                       |                           |                               |                         |
| Cash and cash equivalents   | 36,652,948                            | 2,354,517                 | 10,684,002                    | 49,691,467              |
| Deposits (security held in advance)   | 100,926                               | -                         | -                             | 100,926                 |
| Receivables from exchange transactions  | 6,667,361                             | 7,157,729                 | (8,490,281)                   | 5,334,809               |
| Receivables from non-exchange transactions  | 15,563,949                            | (1,824,469)               | (4,078,343)                   | 9,661,137               |
| Inventories   | 689,236                               | -                         | -                             | 689,236                 |
| Total current assets  | 59,674,420                            | 7,687,777                 | (1,884,622)                   | 65,477,575              |
| <b>Non-current Assets</b>   |                                       |                           |                               |                         |
| Investment property   | 114,048,000                           | -                         | -                             | 114,048,000             |
| Property, plant and equipment   | 781,894,169                           | (2,489,200)               | 9,168,892                     | 788,573,861             |
| VAT Receivable  | 47,574                                | 3,944,902                 | 733,162                       | 4,725,638               |
| Total non-current assets  | 895,989,743                           | 1,455,702                 | 9,902,054                     | 907,347,499             |
| <b>Liabilities</b>  |                                       |                           |                               |                         |
| <b>Current Liabilities</b>  |                                       |                           |                               |                         |
| Payables from exchange transactions   | 27,212,587                            | (249,956)                 | 10,471,929                    | 37,434,560              |
| Consumer deposits   | 1,585,232                             | -                         | 35,119                        | 1,620,351               |
| Operating lease liability   | 161,741                               | (161,741)                 | -                             | -                       |
| Finance lease obligation  | 1,316,866                             | -                         | -                             | 1,316,866               |
| Unspent conditional grants and receipts   | 11,672,161                            | (3,650,819)               | 1,404,762                     | 9,426,104               |
| Total current liabilities   | 41,948,587                            | (4,062,516)               | 11,911,810                    | 49,797,881              |
| <b>Non-current Liabilities</b>  |                                       |                           |                               |                         |
| Finance lease obligation  | 5,015,160                             | -                         | -                             | 5,015,160               |
| Employee benefit obligation   | 12,526,162                            | 425,720                   | 5,290,118                     | 18,242,000              |
| Provisions  | 10,727,941                            | (20)                      | (2,301,374)                   | 8,426,547               |
| Total non-current liabilities   | 28,269,263                            | 425,700                   | 2,988,744                     | 31,683,707              |
| <b>Net Assets</b>   |                                       |                           |                               |                         |
| Accumulated surplus - Opening balance   | 890,958,479                           | (15,343,780)              | 7,338,293                     | 882,952,992             |
| Surplus / (deficit) for the year  | (6,475,684)                           | 12,725,152                | 1,958,750                     | 8,208,218               |
| Movements in net assets   | 963,539                               | (963,539)                 | -                             | -                       |
| Total net assets  | 885,446,334                           | (3,582,167)               | 9,297,043                     | 891,161,210             |

**1. Amounts as per trial balance and annual financial statements do not agree**

|  |   |           |
|--|---|-----------|
| Increase in cash and cash equivalents              | - | 1,683,075 |
| Increase in receivables from exchange transactions | - | 7,157,729 |

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand  | 2015     | 2014             |
|--|----------|------------------|
| <b>43. Prior period errors (continued)</b>             |          |                  |
| Decrease in receivables from non-exchange transactions | -        | (1,792,539)      |
| Decrease in property, plant and equipment              | -        | (2,191,617)      |
| Increase in VAT receivable                             | -        | 708,408          |
| Decrease in payables from exchange transactions        | -        | (21,129)         |
| Decrease in provisions                                 | -        | (20)             |
| Decrease in accumulated surplus                        | -        | 1,960,381        |
| Increase in service charges                            | -        | 1,523            |
| Increase in interest received                          | -        | 1,008,826        |
| Decrease in other income                               | -        | (5,082)          |
| Decrease in employee related costs                     | -        | 151,520          |
| Increase in depreciation                               | -        | 100,857          |
| Decrease in finance cost                               | -        | 923,814          |
| Increase in general expense                            | -        | 60,627           |
|  | <u>-</u> | <u>9,746,373</u> |

Amount as per trial balance and annual financial statements do not agree

The figures used to compile the annual financial statements for the 2013/2014 financial year do not agree to the annual financial statements. This was corrected to bring the annual financial statements in line with the accounting records of the municipality.

The above adjustments did not have any financial on the accounting records of the municipality. This is merely an alignment of the annual financial statements with the Munsoft accounting system as at 30 June 2014.

### 2. Understatement of VAT receivable

|   |          |                  |
|---|----------|------------------|
| Increase in VAT receivable              | -        | 3,603,076        |
| Increase in cash and bank               | -        | 641,815          |
| Increase in opening accumulated surplus | -        | 3,279,753        |
| Increase in other income                | -        | 965,138          |
|   | <u>-</u> | <u>8,489,782</u> |

### Understatement of VAT receivable

A comparison was done of the VAT receivable to the VAT statement of account from SARS and a difference of R3 603 076 was noted. This was due to a refund not being recorded during the 2013/2014 financial year of R641 815, input tax not being claimed an expenses resulting in an additional refund of R965 138 and errors on VAT submission prior to 30 June 2013.

### 3. Library membership fees incorrectly treated as a liability

|   |          |          |
|---|----------|----------|
| Decrease in payables from exchange transactions | -        | (16,519) |
| Increase in opening accumulated surplus         | -        | 14,064   |
| Increase in other income                        | -        | 2,455    |
|   | <u>-</u> | <u>-</u> |

### Library membership fees incorrectly treated as a liability

Receipts on library membership fees have been incorrectly accounted for as a refundable during the 2013/2014 and prior financial year. However, this amount is not refundable at any point and should be accounted for as revenue. An amount of R2 455 relates to the 2013/2014 financial year and R14 064 to prior years.

### 4. Accrual accounts not utilised or reversed in prior periods

|   |          |           |
|---|----------|-----------|
| Decrease in payables from exchange transactions | -        | (224,801) |
| Increase in opening accumulated surplus         | -        | 224,801   |
|   | <u>-</u> | <u>-</u>  |

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**43. Prior period errors (continued)**

Accrual accounts not utilised or reversed in prior periods

Review of the 2014/2015 figures revealed accruals that had been raised during the 2011/2012 financial year and not utilised during the 2012/2013 financial year. The accounting treatment of the prior year resulted in opening balances being carried forward and being cleared in the respective periods against the relevant expenses. These amounts were cleared in the current year against the accumulated surplus account in the current year. Prior period from 1 July 2010 to 30 June 2012. The total amount of these accounts is R224 801.

**5. Benefits paid on long service award incorrectly taken to bonus accrual**

|   |          |           |
|---|----------|-----------|
| Decrease in payables from exchange transactions | -        | (201,000) |
| Increase in actuarial gains and losses          | -        | 201,000   |
|   | <u>-</u> | <u>-</u>  |

Benefits paid on long service award incorrectly taken to bonus accrual

As per the actuarial report for the measurement of the long service award employee benefit, an estimate of employee benefits paid was made to the value of R201 000. The report requires this figure be adjusted to the actual figure. An accrual was raised based on the estimate of benefits paid, however, due to no actual payment occurring, this amount was to be taken to actuarial gains and losses to balance the movement on the long service award for the 2013/2014 financial year as per the actuarial valuation report

**6. Correction of bonus accrual as at 30 June 2014**

|   |          |           |
|---|----------|-----------|
| Decrease in payables from exchange transactions | -        | (232,203) |
| Decrease in employment costs                    | -        | 232,203   |
|   | <u>-</u> | <u>-</u>  |

Correction of bonus accrual as at 30 June 2014

A recalculation of the bonus accrual as at 30 June 2014 revealed that the amount accrued had been overprovided by R232 203

**7. Opening balances on employee benefits are incorrect**

|   |          |           |
|---|----------|-----------|
| Increase in employee benefit obligation | -        | 425,720   |
| Decrease in accumulated surplus         | -        | (425,720) |
|   | <u>-</u> | <u>-</u>  |

Opening balances on employee benefits are incorrect

It was noted that the closing balances for the long service award and the post-retirement medical aid benefit did not agree to the balances as per the actuarial valuation as at 30 June 2014. After reconciling all movements, it was discovered that the opening balances (closing balance for 2012/2013 financial year) had not been adjusted correctly to reflect this balance.

The difference noted was R382 838 on the post-retirement medical aid benefit and R42 822 on the long service award.

**8. Incorrect property, plant and equipment figures disclosed in 2013/2014 financial year**

|   |          |                  |
|---|----------|------------------|
| Decrease in property, plant and equipment | -        | (108,583)        |
| Decrease in opening accumulated surplus   | -        | (34,419)         |
| Increase in depreciation                  | -        | (74,164)         |
|   | <u>-</u> | <u>(217,166)</u> |



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## Notes to the Annual Financial Statements

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### 43. Prior period errors (continued)

Incorrect property, plant and equipment figures disclosed in 2013/2014 financial year

The figures as per the disclosure in the annual financial statements did not agree to the fixed asset register as at 30 June 2014. This included both cost (overstated by R1 008 782), accumulated depreciation (overstated by R900 199) and depreciation for the 2013/2014 financial year (understated by R74 164)

#### 9. Correction of straight lining liability as at 30 June 2014

|   |          |           |
|---|----------|-----------|
| Decrease in Payables from exchange transactions | -        | (488,531) |
| Increase in accumulated surplus                 | -        | 312,474   |
| Decrease in Other Expenditure                   | -        | 176,057   |
|   | <u>-</u> | <u>-</u>  |

Correction of straight lining liability as at 30 June 2014

A re-calculation of the straight lining liability as at 30 June 2014 revealed that the amount was overstated by R488 531. This was due to the 2013/2014 rent expense amount not being correctly straight lined by R176 057 and incorrect straight lining in prior periods to the value of R312 474

#### 10. Grants corrected to include VAT amounts

|   |          |             |
|---|----------|-------------|
| Increase in conditional grant revenue             | -        | 3,650,819   |
| Decrease in unspent portion of conditional grants | -        | (3,650,819) |
|   | <u>-</u> | <u>-</u>    |

Correction of VAT on expenditure related to conditional grants excluded from amounts transferred to revenue

#### 11. Account for prepaid electricity not recorded

|                                       |          |          |
|---------------------------------------|----------|----------|
| Increase in revenue                   | -        | (72,957) |
| Increase in VAT output                | -        | (10,760) |
| Increase in cash and cash equivalents | -        | 83,717   |
|                                       | <u>-</u> | <u>-</u> |

To account for prepaid electricity revenue for April 2014 which was not recorded.

#### 12. Reversal of prepaid electricity incorrectly accounted for

|                                 |          |          |
|---------------------------------|----------|----------|
| Decrease in revenue             | -        | (68,355) |
| Increase in current liabilities | -        | 77,925   |
| Decrease in VAT output          | -        | (9,570)  |
|                                 | <u>-</u> | <u>-</u> |

Reversal of prepaid electricity for 2013 accounted for in the 2014 financial year

#### 13. Interest correction due to incorrect accounting treatment

|                            |          |          |
|----------------------------|----------|----------|
| Decrease in current assets | -        | 54,090   |
| Decrease in revenue        | -        | (54,090) |
|                            | <u>-</u> | <u>-</u> |

Adjusting for interest earned recorded in the incorrect accounting periods

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|--|----------|-------------|
| <b>43. Prior period errors (continued)</b>   |          |             |
| <b>14. Correction of accruals incorrectly recorded</b>                               |          |             |
| Increase in VAT input  | -        | (367,771)   |
| Increase in creditors  | -        | 367,771     |
|  | <u>-</u> | <u>-</u>    |
|  | -        | -           |
|  | <u>-</u> | <u>-</u>    |
| <br>To correct accruals incorrectly recorded at the invoice amount, exclusive of VAT |          |             |
| <b>15. Correction of interest on Sekhukhene District Debtor</b>                      |          |             |
| Increase in accumulated surplus  | -        | 5,141,724   |
| Increase in investment income  | -        | (5,141,724) |
|  | <u>-</u> | <u>-</u>    |
|  | -        | -           |
|  | <u>-</u> | <u>-</u>    |
| <br><b>16. Correction of irrecoverable debt</b>                                      |          |             |
| Decrease in accumulated surplus  | -        | (31,930)    |
| Decrease in irrecoverable debt   | -        | 31,930      |
|  | <u>-</u> | <u>-</u>    |
|  | -        | -           |
|  | <u>-</u> | <u>-</u>    |

**44. Risk management**

**Financial risk management**

The municipality's activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk.

**Liquidity risk**

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

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

**Credit risk**

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

Receivables comprise a widespread customer base. Management evaluated credit risk relating to receivables on an ongoing basis. If receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivable, 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 management.

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

**45. 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.

**46. Events after the reporting date**

The accounting officer is not aware of any matter or event arising since the end of the reporting period and the date of this report, which will significantly affect the financial position and results of the municipality's operations.

# Ephraim Mogale Local Municipality

Annual Financial Statements for the year ended 30 June 2015

## Notes to the Annual Financial Statements

| Figures in Rand                     | 2015              | 2014              |
|-------------------------------------|-------------------|-------------------|
| <b>47. Unauthorised expenditure</b> |                   |                   |
| Opening balance                     | 97,000,713        | 35,939,552        |
| Unauthorised expenditure incurred   | -                 | 61,061,161        |
|                                     | <u>97,000,713</u> | <u>97,000,713</u> |

Section 125(2)(d)(i) of MFMA - states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorized expenditure, that occurred during the financial year, and whether these are recoverable.

The total unauthorised expenditure was referred to council for further investigation. The management is still awaiting the investigation outcomes.

### 48. Fruitless and wasteful expenditure

|   |                |                |
|---|----------------|----------------|
| Opening balance                             | 218,389        | 186,257        |
| Fruitless and wasteful expenditure incurred | 362,146        | 32,132         |
|   | <u>580,535</u> | <u>218,389</u> |

Section 125(2)(d)(i) of MFMA - states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorized expenditure, that occurred during the financial year, and whether these are recoverable.

The total fruitless and wasteful expenditure was referred to council for further investigation. The management is still awaiting the outcome of the investigation.

### 49. Irregular expenditure

|   |                   |                   |
|---|-------------------|-------------------|
| Opening balance                           | 66,441,363        | 33,158,008        |
| Add: Irregular expenditure - current year | -                 | 33,283,355        |
|   | <u>66,441,363</u> | <u>66,441,363</u> |

### Analysis of expenditure awaiting condonation per age classification

|              |            |            |
|--------------|------------|------------|
| Current year | -          | 33,283,355 |
| Prior year:  | 66,441,363 | 33,158,008 |

Section 125(2)(d)(i) of MFMA - states that the notes to the annual financial statements of a municipality or municipal entity must disclose particulars of any material losses and any material irregular or fruitless and wasteful expenditures, including in the case of a municipality, any material unauthorized expenditure, that occurred during the financial year, and whether these are recoverable.

The total irregular expenditure was referred to council for further investigation and still waiting for the investigation outcomes.

|                   |                   |
|-------------------|-------------------|
| <u>66,441,363</u> | <u>66,441,363</u> |
|-------------------|-------------------|

### Details of irregular expenditure not recoverable (not condoned)

|                                  |                   |
|----------------------------------|-------------------|
| Prior year irregular expenditure | <u>66,441,363</u> |
|----------------------------------|-------------------|