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Ditsobotla Local Municipality  
Financial statements  
for the year ended 30 June 2013  
Auditor General of South Africa (North West)  
Registered Auditors

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## General Information

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<b>Legal form of entity</b>	Local Municipality
<b>Nature of business and principal activities</b>	Municipality
<b>Mayoral committee</b>	
Executive Mayor	Honorable Holele LE Honorable
Councillors	Councillor Behm A Councillor Bogatsu T Councillor Dila VS Councillor Engelbrecht R Councillor Dipholo DO Councillor Ditlhareng KH Councillor Fourie JPG Councillor Khambula GF Councillor Koloko GA Councillor Maitshotlo PJ Councillor Masekoa W Councillor Matlaba NG Councillor Mathipe ML Councillor Matlholoa RB Councillor Matlhomane KE Councillor Matshogo Councillor Melamu TK Councillor Mgqamqo QE Councillor Mgquba MV Councillor Mnyakama SS Councillor Moeketsane S Councillor Mogonediwa IM Councillor Moheta B Councillor Moilwa DG Councillor Montsho MK Councillor Morutse MW Councillor Moseki MS Councillor Mothibedi LH Councillor Mothibi ML Councillor Mmota MA Councillor Mmota ME Councillor Mpame DS Councillor Naweta F Councillor Ngesman AW Councillor Njakanjaka K Councillor Ntoagae PR Councillor Senokwane AM Councillor Thabane RE Councillor Thamaga T Councillor Tootla KM Councillor Van der Linde WG Councillor Vilakazi VA
<b>Grading of local authority</b>	Grade B

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## General Information

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<b>Chief Finance Officer (CFO)</b>	Dintwe LJ
<b>Accounting Officer</b>	Bhine MJ
<b>Registered office</b>	Civic Centre Cnr Nelson Mandela and Transvaal Streets Lichtenburg North West 2740
<b>Business address</b>	Civic Centre Cnr Nelson Mandela and Transvaal Streets Lichtenburg North West 2740
<b>Postal address</b>	PO Box 7 Lichtenburg 2740
<b>Bankers</b>	ABSA Bank
<b>Auditors</b>	Auditor General of South Africa (North West)
<b>Attorneys</b>	Bosman & Bosman Attorneys
<b>Municipal demarcation code</b>	NW384
<b>Capacity of local authority</b>	Low

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

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

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### Abbreviations

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements are prepared on the basis that the municipality is a going concern and has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The financial statements set out on pages 6 to 60, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by:

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**Accounting officer**

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Officer's Report

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

### 1. Review of activities

#### Main business and operations

Ditsobotla Local Municipality is a low capacity local municipality and delivers basic services such as water, electricity and refuse removal services to the Lichtenburg region.

### 2. Going concern

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

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year. The municipality has been placed under section 139(B) with effect from August 2013.

### 4. Accounting policies

No International Financial Reporting Standards were applied prior to the commencement dates in the current year:

The financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Standards Board, as the prescribed framework by National Treasury.

### 5. Bankers

The municipality banks primarily with ABSA Bank.

### 6. Auditors

The Auditor-General North West will continue in office for the next financial period.

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand	2013	2012
<strong>Assets</strong>		
Current Assets		
Inventories	15 072 192	2 503 095
Trade and other receivables	16 375 371	12 536 422
Receivables from non-exchange transactions	-	9 547 000
VAT receivable	-	14 793 990
Consumer receivables	179 537 398	74 022 053
Cash and cash equivalents	6 938 045	30 631 659
	<strong>217 923 006</strong>	<strong>144 034 219</strong>
Non-Current Assets		
Biological assets that form part of an agricultural activity	146 433	-
Property, plant and equipment	119 259 144	124 254 565
Intangible assets	362 375	901 626
Heritage assets	506 794	506 794
Capital projects	31 596 967	-
	<strong>151 871 713</strong>	<strong>125 662 985</strong>
<strong>Total Assets</strong>	<strong>369 794 719</strong>	<strong>269 697 204</strong>
<strong>Liabilities</strong>		
Current Liabilities		
Finance lease obligation	6 756	52 222
Operating lease liability	-	41 024
Payables from exchange transactions	66 905 085	13 200 479
VAT payable	4 834 263	-
Consumer deposits	69 845 686	69 760 460
Unspent conditional grants and receipts	1 033 327	3 599 898
Bank overdraft	15 844 043	-
	<strong>158 469 160</strong>	<strong>86 654 083</strong>
Non-Current Liabilities		
Other financial liabilities	82 097	82 097
Finance lease obligation	19 663	6 757
Retirement benefit obligation	34 985 702	30 620 314
Provisions	2 241 150	-
	<strong>37 328 612</strong>	<strong>30 709 168</strong>
<strong>Total Liabilities</strong>	<strong>195 797 772</strong>	<strong>117 363 251</strong>
<strong>Net Assets</strong>	<strong>173 996 947</strong>	<strong>152 333 953</strong>
Accumulated surplus	173 996 947	152 333 953

## Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

### Statement of Financial Performance

Figures in Rand	2013	2012
Revenue	469 163 197	261 862 375
Other income	100 579	142 648
Operating expenses	(425 252 805)	(273 955 655)
<b>Operating surplus (deficit)</b>	<b>44 010 971</b>	<b>(11 950 632)</b>
Investment revenue	513 929	940 564
Dividends received from property trust	7 301 528	-
Finance costs	(6 130 246)	(2 519 039)
<b>Surplus (deficit) for the year</b>	<b>45 696 182</b>	<b>(13 529 107)</b>
<b>Attributable to:</b>		
Owners of the controlling entity	45 696 182	(13 529 107)



# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2011</b>	<b>166 816 009</b>	<b>166 816 009</b>
Changes in net assets		
Prior year adjustments	(952 949)	(952 949)
Net income (losses) recognised directly in net assets	(952 949)	(952 949)
Surplus for the year	(13 529 107)	(13 529 107)
Total recognised income and expenses for the year	(14 482 056)	(14 482 056)
Total changes	(14 482 056)	(14 482 056)
<b>Balance at 01 July 2012</b>	<b>152 333 953</b>	<b>152 333 953</b>
Changes in net assets		
Prior period adjustment	(24 033 188)	(24 033 188)
Net income (losses) recognised directly in net assets	(24 033 188)	(24 033 188)
Surplus for the year	45 696 182	45 696 182
Total recognised income and expenses for the year	21 662 994	21 662 994
Total changes	21 662 994	21 662 994
<b>Balance at 30 June 2013</b>	<b>173 996 947</b>	<b>173 996 947</b>

Note(s)

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand	2013	2012
<b>Cash flows from operating activities</b>		
<b>Receipts</b>		
Sale of goods and services	238 454 225	239 209 822
Grants	120 871 574	52 287 436
Interest income	513 929	10 709 505
Other receipts	-	(9 054 889)
Interest on arrears	2 034 538	-
	<b>361 874 266</b>	<b>293 151 874</b>
<b>Payments</b>		
Employee costs	(127 145 449)	(115 730 773)
Suppliers	(497 949 492)	(91 780 056)
Finance costs	(6 116 098)	(2 435 141)
Other payments	(2 376 256)	(103 944 773)
Other cash item	250 615 263	41 793 621
	<b>(382 972 032)</b>	<b>(272 097 122)</b>
<b>Undefined difference compared to the cash generated from operations note</b>	<b>16 616 569</b>	<b>-</b>
<b>Net cash flows from operating activities</b>	<b>(4 481 197)</b>	<b>21 054 752</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(3 412 785)	(13 417 923)
Purchase of other intangible assets	-	(894 930)
Purchase of capital projects	(31 596 967)	-
<b>Net cash flows from investing activities</b>	<b>(35 009 752)</b>	<b>(14 312 853)</b>
<b>Cash flows from financing activities</b>		
Finance lease payments	(46 708)	(661 668)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(39 537 657)</b>	<b>6 080 231</b>
Cash and cash equivalents at the beginning of the year	30 631 659	24 551 428
<b>Cash and cash equivalents at the end of the year</b>	<b>(8 905 998)</b>	<b>30 631 659</b>

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual
Figures in Rand					
<b>Statement of Financial Performance</b>					
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Sale of goods	5 000	-	5 000	(2 977)	(7 977)
Service charges	174 310 530	-	174 310 530	209 145 781	34 835 251
Rendering of services	255 000	-	255 000	317 722	62 722
Rental of facilities and equipment	630 000	-	630 000	673 067	43 067
Interest received (trading)	10 000 000	-	10 000 000	2 034 538	(7 965 462)
Income from agency services	96 000	-	96 000	739 196	643 196
Licences and permits	20 000	-	20 000	609 220	589 220
Miscellaneous other revenue	43 000	-	43 000	10 143	(32 857)
Administration and management fees received	93 660	-	93 660	82 423	(11 237)
Other income 2	-	-	-	18 156	18 156
Interest received - investment	2 000 000	-	2 000 000	513 929	(1 486 071)
<b>Total revenue from exchange transactions</b>	<b>187 453 190</b>	<b>-</b>	<b>187 453 190</b>	<b>214 141 198</b>	<b>26 688 008</b>
<b>Revenue from non-exchange transactions</b>					
<b>Taxation revenue</b>					
Property rates	39 119 840	-	39 119 840	131 661 201	92 541 361
Government grants & subsidies	95 545 000	-	95 545 000	123 438 145	27 893 145
<b>Transfer revenue</b>					
Public contributions and donations	-	-	-	146 433	146 433
Fines	9 500 000	-	9 500 000	364 398	(9 135 602)
Other transfer revenue 1	29 490	-	29 490	26 330	(3 160)
<b>Total revenue from non-exchange transactions</b>	<b>144 194 330</b>	<b>-</b>	<b>144 194 330</b>	<b>255 636 507</b>	<b>111 442 177</b>
<b>Total revenue</b>	<b>331 647 520</b>	<b>-</b>	<b>331 647 520</b>	<b>469 777 705</b>	<b>138 130 185</b>
<b>Expenditure</b>					
Personnel	(132 792 974)	-	(132 792 974)	(120 590 236)	12 202 738
Remuneration of councillors	-	-	-	(9 826 766)	(9 826 766)
Depreciation and amortisation	-	-	-	(8 871 303)	(8 871 303)
Finance costs	(200 000)	-	(200 000)	(6 130 246)	(5 930 246)
Debt impairment	(27 000 000)	-	(27 000 000)	(133 669 580)	(106 669 580)
Repairs and maintenance	(53 051 328)	-	(53 051 328)	(6 462 645)	46 588 683
Bulk purchases	(82 760 000)	-	(82 760 000)	(94 155 106)	(11 395 106)
Contracted Services	(686 448)	-	(686 448)	(789 424)	(102 976)
Grants and subsidies paid	(29 039 458)	-	(29 039 458)	(6 446 695)	22 592 763
General Expenses	(46 298 597)	-	(46 298 597)	(44 441 050)	1 857 547
<b>Total expenditure</b>	<b>(371 828 805)</b>	<b>-</b>	<b>(371 828 805)</b>	<b>(431 383 051)</b>	<b>(59 554 246)</b>
<b>Operating surplus</b>	<b>(40 181 285)</b>	<b>(331 647 520)</b>	<b>(371 828 805)</b>	<b>38 394 654</b>	<b>410 223 459</b>
Income from equity accounted investments (Filtered)	-	-	-	7 301 528	7 301 528
<b>Surplus before taxation</b>	<b>(40 181 285)</b>	<b>(331 647 520)</b>	<b>(371 828 805)</b>	<b>45 696 182</b>	<b>417 524 987</b>
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(40 181 285)</b>	<b>(331 647 520)</b>	<b>(371 828 805)</b>	<b>45 696 182</b>	<b>417 524 987</b>

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1. Presentation of Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Consolidation

##### Entity combinations

The municipality accounts for entity combinations using the acquisition method of accounting. The cost of the entity combination is measured as the aggregate of the fair values of assets given, liabilities incurred or assumed and equity instruments issued. Costs directly attributable to the entity combination are expensed as incurred, except the costs to issue debt which are amortised as part of the effective interest and costs to issue equity which are included in equity.

Contingent consideration is included in the cost of the combination at fair value as at the date of acquisition. Subsequent changes to the assets, liability or equity which arise as a result of the contingent consideration are not affected against goodwill, unless they are valid measurement period adjustments.

The acquiree's identifiable assets, liabilities and contingent liabilities which meet the recognition conditions of IFRS 3 Business combinations are recognised at their fair values at acquisition date, except for non-current assets (or disposal municipality) that are classified as held-for-sale in accordance with the Standard of GRAP on Non-current Assets Held-For-Sale and Discontinued Operations, which are recognised at fair value less costs to sell.

Contingent liabilities are only included in the identifiable assets and liabilities of the acquiree where there is a present obligation at acquisition date.

On acquisition, the municipality assesses the classification of the acquiree's assets and liabilities and reclassifies them where the classification is inappropriate for municipality purposes. This excludes lease agreements and insurance contracts, whose classification remains as per their inception date.

Non-controlling interest arising from a entity combination is measured either at their share of the fair value of the assets and liabilities of the acquiree or at fair value. The treatment is not an accounting policy choice but is selected for each individual entity combination, and disclosed in the note for entity combinations.

In cases where the municipality held a non-controlling shareholding in the acquiree prior to obtaining control, that interest is measured to fair value as at acquisition date. The measurement to fair value is included in surplus or deficit for the year. Where the existing shareholding was classified as an available-for-sale financial asset, the cumulative fair value adjustments recognised previously to other net assets are recognised in surplus or deficit as a reclassification adjustment.

Goodwill is determined as the consideration paid, plus the fair value of any shareholding held prior to obtaining control, plus non-controlling interest and less the fair value of the identifiable assets and liabilities of the acquiree.

Goodwill is not amortised but is tested on an annual basis for impairment. If goodwill is assessed to be impaired, that impairment is not subsequently reversed.

Goodwill arising on acquisition of foreign entities is considered an asset of the foreign entity. In such cases the goodwill is translated to the functional currency of the municipality at the end of each reporting period with the adjustment recognised in net assets.

#### 1.2 Significant judgements and sources of estimation uncertainty

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.2 Significant judgements and sources of estimation uncertainty (continued)

#### Trade and other receivables

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

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

#### Impairment testing

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

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

#### Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation/amortisation charges for the property, plant and equipment and intangible assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated useful lives.

#### Effective interest rate

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

#### Allowance for impairment

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

### 1.3 Biological assets that form part of an agricultural activity

An entity shall recognise a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets that form part of an agricultural activity are measured at their fair value less point-of-sale costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

The fair value of milk is determined based on market prices in the local area.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Biological assets that form part of an agricultural activity (continued)

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on biological assets that form part of an agricultural activity where fair value cannot be determined, to write down the cost, less residual value, by equal installments over their useful lives as follows:

Item	Useful life
Trees in a plantation forest	x years / indefinite
Maize	x years
Wheat	x years
Sheep	x years
Pigs	x years
Farm fish	x years
Pine trees	x years
Biological assets - Consumable 1	x years
Biological assets - Consumable 2	x years
Other consumable biological assets	x years
Dairy cattle	x years
Vines	x years
Fruit trees	x years
Plants	x years
Bushes	x years
Biological assets - Bearer 1	x years
Biological assets - Bearer 2	x years
Other bearer biological assets	x years

### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

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

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

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

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

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

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

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

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	1 - 7 years
Furniture and fixtures	1 - 7 years
Motor vehicles	2 - 4 years
IT equipment	1 - 4 years

### 1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

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### 1.6 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

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

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

Item	Useful life
Computer software	5 years

### 1.7 Heritage assets

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

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

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

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

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



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Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.7 Heritage assets (continued)

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

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

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

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

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

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

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

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

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

#### Impairment

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

#### Derecognition

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

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

### 1.8 Financial instruments

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

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

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

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

#### Classification

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

<b>Class</b>	<b>Category</b>
Long term receivables	Financial asset measured at amortised cost
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Trade and other payables	Financial liability measured at amortised cost
Bank overdraft and borrowings	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

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

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

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

- Financial instruments at amortised cost.

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

#### Fair value measurement considerations

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

For amounts due to the municipality, significant financial difficulties of the debtor, probably that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

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

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

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

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

##### Financial liabilities

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

#### Presentation

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

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

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

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

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

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

### 1.9 Leases

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

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

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

#### Finance leases - lessee

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

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

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.9 Leases (continued)

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.10 Inventories

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

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

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

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

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

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

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

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

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

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

### 1.11 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.11 Non-current assets held for sale and disposal groups (continued)

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### 1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

Useful life is either:

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

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

#### Identification

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

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

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

#### Value in use

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

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



# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

## Accounting Policies

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

#### Redesignation

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

### 1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

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

Useful life is either:

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

#### Identification

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

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

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

## Accounting Policies

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.14 Share capital / contributed capital

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

### 1.15 Employee benefits

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

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

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

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

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

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

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

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.15 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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

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

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

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

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.15 Employee benefits (continued)

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

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

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

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

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

### 1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 1.17 Revenue from exchange transactions

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.17 Revenue from exchange transactions (continued)

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

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

#### Interest

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

### 1.18 Revenue from non-exchange transactions

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

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



# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

### Recognition

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

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

### Measurement

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

#### Transfers

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

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

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

#### Fines

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

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

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

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

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

#### Services in-kind

Services in-kind are not recognised.

### 1.19 Investment income

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

### 1.20 Borrowing costs

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.12 and 1.13. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

Extended periods is periods that exceeds 12 months.

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.20 Borrowing costs (continued)

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

### 1.21 Comparative figures

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

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.23 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

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

### 1.24 Irregular expenditure

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

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.25 Offsetting

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

### 1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

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

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

### 1.27 Related parties

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

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

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

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

### 1.28 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resource

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- approved and contracted commitments;
- approved and contracted commitments;

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

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

##### **GRAP 23: Revenue from Non-exchange Transactions**

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

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

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

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

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

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

##### **GRAP 24: Presentation of Budget Information in the Financial Statements**

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

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

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

A comparable basis means that the budget and financial statements:

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

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

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

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

##### **GRAP 103: Heritage Assets**

## Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The carrying amount of a heritage asset should be derecognised:

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

## Notes to the Financial Statements

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

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

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

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

#### **GRAP 21: Impairment of non-cash-generating assets**

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

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

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

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

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

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

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

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

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

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

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

#### **GRAP 26: Impairment of cash-generating assets**

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

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

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

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

## Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

### GRAP 104: Financial Instruments

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

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

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

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



## Notes to the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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

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

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

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

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

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

### 3. Biological assets that form part of an agricultural activity

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Other consumable biological assets	146 433	-	146 433	-	-	-

### 4. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	89 904 550	-	89 904 550	89 904 550	-	89 904 550
Plant and machinery	11 509 144	(6 080 018)	5 429 126	11 277 876	(4 789 336)	6 488 540
Furniture and fixtures	19 058 853	(12 398 870)	6 659 983	18 923 226	(9 577 143)	9 346 083
Motor vehicles	30 166 484	(16 134 836)	14 031 648	29 728 906	(12 179 364)	17 549 542
IT equipment	1 953 619	(928 417)	1 025 202	1 553 944	(588 094)	965 850
Infrastructure	2 208 635	-	2 208 635	-	-	-
<b>Total</b>	<b>154 801 285</b>	<b>(35 542 141)</b>	<b>119 259 144</b>	<b>151 388 502</b>	<b>(27 133 937)</b>	<b>124 254 565</b>

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Land	89 904 550	-	-	89 904 550
Plant and machinery	6 488 540	231 268	(1 290 682)	5 429 126
Furniture and fixtures	9 346 083	135 627	(2 821 727)	6 659 983
Motor vehicles	17 549 542	437 579	(3 955 473)	14 031 648
IT equipment	965 850	399 676	(340 324)	1 025 202
Infrastructure	-	2 208 635	-	2 208 635
	<b>124 254 565</b>	<b>3 412 785</b>	<b>(8 408 206)</b>	<b>119 259 144</b>

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land	78 406 050	11 860 000	-	(361 500)	-	89 904 550
Plant and machinery	-	-	6 488 540	-	-	6 488 540
Furniture and fixtures	10 447 943	1 102 450	-	495 994	(2 700 304)	9 346 083
Motor vehicles	22 644 421	122 807	-	(842 322)	(4 375 364)	17 549 542
IT equipment	359 123	332 666	-	432 083	(158 022)	965 850
Other property, plant and equipment	7 577 448	-	(8 488 540)	934 326	(23 234)	-
	<b>119 434 985</b>	<b>13 417 923</b>	<b>(2 000 000)</b>	<b>658 581</b>	<b>(7 256 924)</b>	<b>124 254 565</b>

#### Pledged as security

None of the assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 5. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	960 242	(597 867)	362 375	960 242	(58 616)	901 626

#### Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Impairment loss	Total
Computer software	901 626	(434 448)	(104 803)	362 375

#### Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	37 563	894 930	(30 867)	901 626

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 5. Intangible assets (continued)

#### Pledged as security

None of the intangible assets have been pledged as security.

### 6. Heritage assets

	2013			2012		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Other	506 794	-	506 794	506 794	-	506 794

#### Reconciliation of heritage assets 2013

	Opening balance	Total
Other	506 794	506 794

#### Reconciliation of heritage assets 2012

	Opening balance	Total
Other	506 794	506 794

### 7. Employee benefit obligations

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

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(34 985 702)	(30 620 314)
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The fair value of plan assets includes:

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

Current service cost	1 081 125	991 753
Interest cost	2 362 108	2 435 141
Actuarial (gains) losses	2 603 683	29 882
	<b>6 046 916</b>	<b>3 456 776</b>

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>7. Employee benefit obligations (continued)</b>		
<b>Key assumptions used</b>		
Assumptions used at the reporting date:		
Discount rates used	7.77 %	8.50 %
Expected increase in salaries	5.77 %	6.50 %
Expected increase in healthcare costs	6.27 %	7.00 %
The basis used to determine the overall expected rate of return on assets is as follow: [provide details]		
The effect of the major categories of plan assets is as follow: [state effect]		
The basis on which the discount rate has been determined is as follow: [state basis]		
The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets, is as follows:		
<b>8. Inventories</b>		
Consumable stores	2 609 060	2 592 125
Water	12 663 132	-
	15 272 192	2 592 125
Inventories (write-downs)	(200 000)	(89 030)
	<b>15 072 192</b>	<b>2 503 095</b>
<b>9. Trade and other receivables</b>		
Trade debtors	9 107 049	9 285 506
Employee costs in advance	5 991 852	53 863
Prepayments	1 273 260	1 273 280
Deposits	3 210	3 210
Salary returns	-	1 920 563
	<b>16 375 371</b>	<b>12 536 422</b>
<b>10. Receivables from non-exchange transactions</b>		
Government grants and subsidies	-	9 547 000
<b>11. VAT receivable</b>		
VAT	-	14 793 990
<b>12. Consumer debtors</b>		
<b>Gross balances</b>		
Electricity	244 219 642	152 599 376
Water	53 524 640	-
Sewerage	3 901 197	-
Refuse	3 085 150	-
Housing rental	107 963	-
Other	4 698 806	-
	<b>309 537 398</b>	<b>152 599 376</b>

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>12. Consumer debtors (continued)</b>		
<b>Less: Allowance for impairment</b>		
Consumer debtors bad debt provision	(130 000 000)	(78 577 323)
<b>Net balance</b>		
Electricity	244 219 642	152 599 376
Water	53 524 640	-
Sewerage	3 901 197	-
Refuse	3 085 150	-
Housing rental	107 963	-
Other including bad debt provision	(125 301 194)	(78 577 323)
	<b>179 537 398</b>	<b>74 022 053</b>
<b>Electricity</b>		
Current (0 -30 days)	14 770 093	152 599 376
31 - 60 days	15 750 686	-
61 - 90 days	13 299 554	-
91 - 120 days	18 580 394	-
121 - 365 days	181 818 915	-
	<b>244 219 642</b>	<b>152 599 376</b>
<b>Water</b>		
Current (0 -30 days)	3 237 102	-
31 - 60 days	3 452 015	-
61 - 90 days	2 914 810	-
91 - 120 days	4 072 190	-
121 - 365 days	13 897 791	-
> 365 days	25 950 732	-
	<b>53 524 640</b>	<b>-</b>
<b>Sewerage</b>		
Current (0 -30 days)	235 939	-
31 - 60 days	251 604	-
61 - 90 days	212 449	-
91 - 120 days	296 806	-
121 - 365 days	1 012 954	-
> 365 days	1 891 445	-
	<b>3 901 197</b>	<b>-</b>
<b>Refuse</b>		
Current (0 -30 days)	186 586	-
31 - 60 days	198 973	-
61 - 90 days	168 009	-
91 - 120 days	234 720	-
121 - 365 days	801 066	-
> 365 days	1 495 796	-
	<b>3 085 150</b>	<b>-</b>

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>12. Consumer debtors (continued)</b>		
<b>Housing rental</b>		
Current (0 -30 days)	6 529	-
31 - 60 days	6 963	-
61 - 90 days	5 879	-
91 - 120 days	8 214	-
121 - 365 days	28 033	-
> 365 days	52 345	-
	<b>107 963</b>	<b>-</b>
<b>Other (specify)</b>		
Current (0 -30 days)	(125 301 194)	(78 577 323)
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(130 000 000)	(78 577 323)
<b>13. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	3 450	3 450
Bank balances	6 934 595	30 628 209
Bank overdraft	(15 844 043)	-
	<b>(8 905 998)</b>	<b>30 631 659</b>
Current assets	6 938 045	30 631 659
Current liabilities	(15 844 043)	-
	<b>(8 905 998)</b>	<b>30 631 659</b>
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	6 756	66 370
- in second to fifth year inclusive	-	7 399
	6 756	73 769
less: future finance charges	-	(14 790)
<b>Present value of minimum lease payments</b>	<b>6 756</b>	<b>58 979</b>
<b>Present value of minimum lease payments due</b>		
- within one year	6 756	52 222
- in second to fifth year inclusive	-	6 757
	<b>6 756</b>	<b>58 979</b>
Non-current liabilities	19 663	6 757
Current liabilities	6 756	52 222
	<b>26 419</b>	<b>58 979</b>

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

The average lease term are between 3-5 years and the average effective borrowing rate is prime rate at inception date.

All leases escalate between 0-15% p.a and no arrangements have been entered into for contingent rent.

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Library grant	7 607	6 957
Financial management grant (FMG)	-	2 409 951
Municipal infrastructure grant (MIG)	-	1 330 267
Municipal systems improvement grant (MSIG)	-	(147 277)
Infrastructure skills development grant (ISDG)	1 025 720	-
	<b>1 033 327</b>	<b>3 599 898</b>

### Movement during the year

Balance at the beginning of the year	599 898	(1 736 888)
Additions during the year	41 392 000	27 843 000
Income recognition during the year	(40 958 571)	(22 506 214)
	<b>1 033 327</b>	<b>3 599 898</b>

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

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

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

### 16. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	-	2 241 150	2 241 150

#### Reconciliation of provisions - 2012

### 17. Payables from exchange transactions

Trade payables	52 785 039	(166 457)
Salary creditors	(608 824)	(5 986)
Accrued leave pay	14 590 645	13 241 934
Deposits received	138 225	130 988
	<b>66 905 085</b>	<b>13 200 479</b>

### 18. VAT payable

VAT payables	4 834 263	-
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VAT is payable or receivable on the cash basis and VAT is only paid over to SARS once payment is received or amount is refundable to the municipality.

### 19. Consumer deposits

Rates	69 845 686	69 760 460
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# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>20. Revenue</b>		
Sale of goods	(2 977)	-
Rendering of services	317 722	-
Service charges	209 145 781	155 856 122
Rental income	673 067	690 407
Interest received (trading)	2 034 538	9 768 941
Income from agency services	739 196	74 028
Licences and permits	609 220	37 572
Miscellaneous other revenue	10 143	-
Administration and management fees received	82 423	142 648
Profit on disposal of assets	18 156	-
Interest received - investment	513 929	940 564
Property rates	131 661 201	28 106 100
Government grants & subsidies	123 438 145	67 071 650
Public contributions and donations	146 433	-
Fines	364 398	257 465
Other revenue	26 330	90
	<b>469 777 705</b>	<b>262 945 587</b>

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

Sale of goods	(2 977)	-
Service charges	209 145 781	155 856 122
Rendering of services	317 722	-
Rental income	673 067	690 407
Interest received (trading)	2 034 538	9 768 941
Income from agency services	739 196	74 028
Licences and permits	609 220	37 572
Miscellaneous other revenue	10 143	-
Administration and management fees received	82 423	142 648
Profit on disposal of assets	18 156	-
Interest received - investment	513 929	940 564
	<b>214 141 198</b>	<b>167 510 282</b>

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

<b>Taxation revenue</b>		
Property rates	131 661 201	28 106 100
<b>Transfer revenue</b>		
Government grants & subsidies	123 438 145	67 071 650
Public contributions and donations	146 433	-
Fines	364 398	257 465
Reference fees	26 330	90
	<b>255 636 507</b>	<b>95 435 305</b>

## 21. Property rates

### Rates received

Residential	38 642 681	28 106 100
Commercial	11 042 002	-
State	3 753 479	-
Small holdings and farms	78 223 039	-
	<b>131 661 201</b>	<b>28 106 100</b>

## Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

### Notes to the Financial Statements

Figures in Rand	2013	2012
<b>22. Service charges</b>		
Sale of electricity	115 623 065	107 162 990
Sale of water	75 045 214	31 580 368
Sewerage and sanitation charges	18 477 502	17 112 764
	<b>209 145 781</b>	<b>155 856 122</b>

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 23. Government grants and subsidies

Equitable share	79 407 000	65 521 650
Library grant	-	350 000
FMG grant	3 909 951	-
MSIG grant	1 124 647	1 200 000
MIG grant	32 134 267	-
Extended public works program (EPWP)	2 488 000	-
Infrastructure skills development grant (ISDG)	4 374 280	-

	<b>123 438 145</b>	<b>67 071 650</b>
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#### Equitable Share

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

All registered indigents receive a monthly subsidy, which is funded from the grant.

#### Library grant

Balance unspent at beginning of year	6 957	6 957
Other	650	-
	<b>7 607</b>	<b>6 957</b>

#### FMG grant

Balance unspent at beginning of year	2 409 951	(590 049)
Current-year receipts	1 500 000	-
Conditions met - transferred to revenue	(3 909 951)	-
Other	-	3 000 000
	<b>-</b>	<b>2 409 951</b>

#### MIG grant

Balance unspent at beginning of year	1 330 267	1 330 267
Current-year receipts	30 804 000	-
Conditions met - transferred to revenue	(32 134 267)	-
	<b>-</b>	<b>1 330 267</b>

#### MSIG grant

Balance unspent at beginning of year	(147 277)	(147 277)
Current-year receipts	1 200 000	-
Conditions met - transferred to revenue	(1 052 723)	-
	<b>-</b>	<b>(147 277)</b>

#### ISD Grant

Current-year receipts	5 400 000	-
Conditions met - transferred to revenue	(4 374 280)	-

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
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### 23. Government grants and subsidies (continued)

1 025 720	-
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#### Extended public works program (EPWP)

Current-year receipts	2 488 000	-
Conditions met - transferred to revenue	(2 488 000)	-
	-	-

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

Provide explanations of conditions still to be met and other relevant information.

### 24. Public contributions and donations

Public contributions and donations 1	146 433	-
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#### Reconciliation of conditional contributions

Balance unspent at beginning of year	-	6 957
Conditions met - transferred to revenue	-	(6 957)
	-	-

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

Provide explanations of conditions still to be met and other relevant information

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>25. General expenses</b>		
Advertising	56 273	72 608
Assessment rates & municipal charges	5 268 396	5 349 406
Auditors remuneration	4 115 357	1 525 289
Bank charges	218 332	419 059
Commission paid	2 133 185	285 235
Consulting and professional fees	10 354 490	6 868 021
Consumables	(8 967 776)	546 985
Insurance	303 009	806 533
Lease rentals on operating lease	7 760 536	232 210
Medical expenses	62 315	82 209
Pest control	38 462	40 044
Fuel and oil	3 929 909	3 726 732
Printing and stationery	930 036	1 194 977
Protective clothing	2 580	-
Project maintenance costs	(348 444)	-
Security (Guarding of municipal property)	7 042 029	894 291
Subscriptions and membership fees	1 209 635	2 225 923
Telephone and fax	1 247 997	1 045 958
Training	512 741	556 661
Travel - local	1 343 089	1 192 135
Uniforms	531 397	454 085
Landfill rehabilitation	2 241 150	-
Service fees	325 958	127 538
Rezoning fees	14 020	12 500
Council expenditure	140 772	176 645
Administrative expenses	-	12 400 822
Other expenses	3 975 602	3 268 356
Garden maintenance	-	171
	<b>44 441 050</b>	<b>43 504 393</b>

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>26. Employee related costs</b>		
Basic	66 339 816	52 140 989
Leave bonus	5 367 009	4 038 281
Medical aid - company contributions	6 272 675	5 336 808
UIF	637 685	461 613
SDL	2 434 942	657 684
Other payroll levies	878	-
Leave pay provision charge	704 735	1 597 705
Post-employment benefits - Pension - Defined contribution plan	14 146 720	11 741 437
Travel, motor car, accommodation, subsistence and other allowances	5 896 244	5 212 268
Overtime payments	9 903 429	8 635 323
Long-service awards	144 643	68 314
13th Cheques	-	111 002
Housing benefits and allowances	161 903	166 569
Standby allowance	1 738 147	873 959
Other # 5	2 603 683	29 882
Long-term benefits - incentive scheme	460 489	441 675
	<b>116 812 998</b>	<b>91 513 509</b>
<b>Remuneration of municipal manager: Bhine MJ</b>		
Annual Remuneration	1 044 350	323 000
Car Allowance	105 000	-
	<b>1 149 350</b>	<b>323 000</b>
<b>Remuneration of chief financial officer: Dintwe LJ</b>		
Annual Remuneration	478 826	-
Car Allowance	136 667	-
	<b>615 493</b>	<b>-</b>
<b>Remuneration of municipal manager: Letlhogile T</b>		
Annual Remuneration	-	646 000
<b>Remuneration of chief financial officer: Mashao MH</b>		
Annual Remuneration	-	375 833
<b>Remuneration of chief financial officer: Mmope SS</b>		
Annual Remuneration	-	273 333
Car Allowance	-	2 000
	<b>-</b>	<b>275 333</b>
<b>Remuneration of director of community services: Batsi RF</b>		
Annual Remuneration	253 993	-
Car Allowance	42 976	-
	<b>296 969</b>	<b>-</b>
<b>Remuneration of director of infrastructure: Lepedi TP</b>		
Annual Remuneration	657 561	-

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>26. Employee related costs (continued)</b>		
Car Allowance	128 928	-
	<b>786 489</b>	-
<b>Remuneration of director corporate: Nxumalo AST</b>		
Annual Remuneration	928 937	-
<b>27. Remuneration of councillors</b>		
Executive Mayor	375 796	619 808
Executive Mayor	250 686	-
Mayoral Committee Members	3 513 740	2 100 352
Speaker	526 215	499 614
Councillors	5 160 329	6 127 877
	<b>9 826 766</b>	<b>9 347 651</b>
<b>28. Debt impairment</b>		
Contributions to debt impairment provision	133 669 580	56 423 645
<b>29. Investment revenue</b>		
<b>Interest revenue</b>		
Interest received - other	513 929	940 564
<b>30. Depreciation and amortisation</b>		
Property, plant and equipment	8 409 106	8 701 741
Intangible assets	462 197	10 246
	<b>8 871 303</b>	<b>8 711 987</b>
<b>31. Finance costs</b>		
Finance leases	14 148	83 898
Other interest paid	6 116 098	2 435 141
	<b>6 130 246</b>	<b>2 519 039</b>
<b>32. Auditors' remuneration</b>		
Fees	4 115 357	1 525 289
<b>33. Operating lease</b>		

The Municipality have entered into an operating lease arrangement with a trust fund which was set up for the purpose of leasing the municipal offices. The lease arrangement is for a period of 15 years ending in October 2017.

The remaining net cash outflows over the remainder of the lease amount to R386108 with R35 206 due within 12 months and the remainder due in 1 - 5 years. t

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>34. Contracted services</b>		
Other Contractors	789 424	106 631
<b>35. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Equitable share	2 188 026	3 123 907
FMG	4 186 745	-
MSIG	71 924	-
	<b>6 446 695</b>	<b>3 123 907</b>
<b>36. Bulk purchases</b>		
Electricity	91 480 269	68 358 774
Water	2 674 837	686 921
	<b>94 155 106</b>	<b>69 045 695</b>
<b>37. Cash (used in) generated from operations</b>		
Surplus (deficit)	45 696 182	(13 529 107)
<b>Adjustments for:</b>		
Depreciation and amortisation	8 871 303	8 711 987
Income from equity accounted investments	(7 301 528)	-
Finance costs - Finance leases	14 148	83 898
Impairment deficit	-	171 185
Debt impairment	133 669 580	56 423 645
Movements in operating lease assets and accruals	(41 024)	(10 383)
Movements in retirement benefit assets and liabilities	4 365 388	-
Movements in provisions	2 241 150	-
Other non-cash items	(16 801 939)	11 008 598
<b>Changes in working capital:</b>		
Inventories	(12 569 097)	(344 193)
Trade and other receivables	(3 838 949)	(14 383 233)
Other receivables from non-exchange transactions	9 547 000	-
Consumer debtors	(239 184 925)	(40 479 876)
Payables from exchange transactions	53 704 606	(42 351 506)
VAT	19 628 253	(379 070)
Unspent conditional grants and receipts	(2 566 571)	5 336 786
Consumer deposits	85 226	50 796 021
	<b>(4 481 197)</b>	<b>21 054 752</b>

## 38. Contingencies

Litigation is in the process against the municipality relating to a dispute with a service provider who was engaged to provide tax support services to the Municipality in the financial year 2011/12. The service provider claims non payment of invoices of R3 103 818 which the municipality are currently defending.

Sixbar trading 649 have brought legal proceedings against the Municipality relating to a claim for unpaid invoices of R 3 080 537. Sixbar Trading 649 were engaged to collect debtors balances in excess of 120 days past due at 25% commission on all debts recovered. The Municipality claim that no debts were recovered through Sixbar Trading 649 and intend to defend the claim.

Litigation is proceeding against the Municipality for web development costs. Malebilo Trading brought a case against the Municipality claiming that their contract was wrongly terminated and web designs were used without payment being received. A trial date has not yet been set.



# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>39. Related parties</b>		
<b>Relationships</b>		
Members of council	Refer to note 27	
Members of key management	Refer to note 26	
<b>40. Risk management</b>		
<b>Financial risk management</b>		
<b>Liquidity risk</b>		
<p>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.</p> <p>Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.</p>		
<b>Credit risk</b>		
<p>Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.</p> <p>Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.</p>		
<b>Market risk</b>		
<b>Interest rate risk</b>		
<b>41. Going concern</b>		
<p>The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.</p>		
<b>42. Events after the reporting date</b>		
<p>The municipality has been placed under section 139(B) with effect from August 2013.</p>		
<b>43. Unauthorised expenditure</b>		
Overpayment to suppliers	-	423 169
<b>44. Fruitless and wasteful expenditure</b>		
VAT fines and interest	3 753 990	-
<b>45. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	34 367	21 353
Amount paid - current year	(34 367)	(21 353)
	-	-

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>45. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Audit fees</b>		
Opening balance	1 393 733	-
Current year subscription / fee	1 850 446	1 393 733
Amount paid - previous years	(1 393 733)	-
	<b>1 850 446</b>	<b>1 393 733</b>
<b>PAYE and UIF</b>		
Current year subscription / fee	12 693 626	12 058 271
Amount paid - current year	(12 693 626)	(12 058 271)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	19 798 759	21 982 065
Amount paid - current year	(19 798 759)	(21 982 065)
	-	-
<b>VAT</b>		
VAT receivable	-	14 793 990
VAT payable	4 834 263	-
	<b>4 834 263</b>	<b>14 793 990</b>

VAT output payables and VAT input receivables are shown in note 15 and 9 respectively.

Penalties of R430 479 were incurred due to late filing of VAT returns and R3 165 233 for filing and payment of understated VAT returns were incurred in the financial year.

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
LE Holele	780	1 086	1 866
PJ Maitshotlo	301	995	1 296
VA Vilakazi	258	262	520
WG Van Der Linde	3 973	479	4 452
MW Morutse	337	4 422	4 759
DO Dipholo	1 240	10 713	11 953
IE Lethoko	1 084	5 305	6 389
MV Mgquba	1 220	1 721	2 941
IM Mogonediwa	337	3 100	3 437
TE Bogatsu	356	630	986
MS Moseki	592	13 934	14 526
	<b>10 478</b>	<b>42 647</b>	<b>53 125</b>

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Dipholo DO	759	4 741	5 500
Councillor Mogonediwa IM	453	1 573	2 026
Councillor Morutse MW	487	2 836	3 323
Councillor Moseki MS	1 114	10 948	12 062
	<b>2 813</b>	<b>20 098</b>	<b>22 911</b>

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

### 46. Deviation from supply chain management regulations

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

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

There were four deviations from the supply chain regulations. The purchase of the mayoral car, the implementation of Sebata (finance system) and two other purchases. All deviations meet the paragraph 36 requirements..

# Ditsobotla Local Municipality

Financial Statements for the year ended 30 June 2013

## Detailed Income statement

Figures in Rand		2013	2012
<b>Revenue</b>			
Sale of goods		(2 977)	-
Service charges	22	209 145 781	155 856 122
Rendering of services		317 722	-
Rental of facilities and equipment		673 067	690 407
Interest received (trading)		2 034 538	9 768 941
Income from agency services		739 196	74 028
Licences and permits		609 220	37 572
Miscellaneous other revenue		10 143	-
Administration and management fees received		82 423	142 648
Profit on disposal of assets		18 156	-
Interest received - investment		513 929	940 564
Property rates	21	131 661 201	28 106 100
Government grants & subsidies	23	123 438 145	67 071 650
Public contributions and donations	24	146 433	-
Fines		364 398	257 465
Reference fees		26 330	90
<b>Total revenue</b>		<b>469 777 705</b>	<b>262 945 587</b>
<b>Expenditure</b>			
Personnel	26	(120 590 236)	(93 133 675)
Remuneration of councillors	27	(9 826 766)	(9 347 651)
Depreciation and amortisation	30	(8 871 303)	(8 711 987)
Impairment loss/ Reversal of impairments		-	(171 185)
Finance costs	31	(6 130 246)	(2 519 039)
Debt impairment	28	(133 669 580)	(56 423 645)
Repairs and maintenance		(6 462 645)	9 613 114
Bulk purchases	36	(94 155 106)	(69 045 695)
Contracted services	34	(789 424)	(106 631)
Grants and subsidies paid	35	(6 446 695)	(3 123 907)
General Expenses	25	(44 441 050)	(43 504 393)
<b>Total expenditure</b>		<b>(431 383 051)</b>	<b>(276 474 694)</b>
<b>Operating surplus (deficit)</b>		<b>38 394 654</b>	<b>(13 529 107)</b>
Income from equity accounted investments (Filtered)		7 301 528	-
<b>Surplus (deficit) for the year</b>		<b>45 696 182</b>	<b>(13 529 107)</b>
<b>Attributable to:</b>			
Owners of the controlling entity		45 696 182	(13 529 107)