



Ngaka Modiri Molema District Municipality  
Financial statements  
for the year ended 30 June 2013

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## General Information

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**Registered office**

Cnr. Carrington Str and 1st Avenue  
Industrial Site  
Mahikeng  
2745

**Postal address**

Private Bag X2165  
Mahikeng  
2745

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Index

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

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	7
Accounting Policies	11 - 21
Notes to the Financial Statements	22 - 42

The following supplementary information does not form part of the financial statements and is unaudited:

Detailed Income statement	43
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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)

# Ngaka Modiri Molema District 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 will be given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with South African Statements of Generally Accepted 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 set out on pages 4 to 43, 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**  
**ME Mojaki**

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
<b>Assets</b>			
Current Assets			
Inventories	4	9 472 078	7 544 562
Receivables from exchange transactions	5	1 826 403	2 053 939
VAT receivable	6	68 301 987	66 795 988
Cash and cash equivalents	7	34 668 742	109 849 194
		<b>114 269 210</b>	<b>186 243 683</b>
Non-Current Assets			
Property, plant and equipment	3	1 750 376 209	618 009 899
<b>Total Assets</b>		<b>1 864 645 419</b>	<b>804 253 582</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	10	249 010 008	98 827 467
Unspent conditional grants and receipts	8	110 722 463	83 550 500
Provisions	9	16 310 499	59 659 580
Bank overdraft	7	663 046	19 209 605
		<b>376 706 016</b>	<b>261 247 152</b>
<b>Total Liabilities</b>		<b>376 706 016</b>	<b>261 247 152</b>
<b>Net Assets</b>		<b>1 487 939 403</b>	<b>543 006 430</b>
Reserves			
Other NDR		1 682 957	1 682 957
Accumulated surplus		1 486 256 446	541 323 473
<b>Total Net Assets</b>		<b>1 487 939 403</b>	<b>543 006 430</b>

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue	11	670 169 216	562 726 413
Other income		13 492 227	18 472 207
Operating expenses		(715 545 333)	(427 138 540)
<b>Operating (deficit) surplus</b>		<b>(31 883 890)</b>	<b>154 060 080</b>
Finance costs	18	(136 801)	-
<b>(Deficit) surplus for the year</b>		<b>(32 020 691)</b>	<b>154 060 080</b>
<b>Attributable to:</b>			
Owners of the controlling entity		(32 020 691)	154 060 080

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

	Other Net Distributable Reserves	Accumulated surplus	Total net assets
Figures in Rand			
<b>Balance at 01 July 2011</b>	<b>1 682 957</b>	<b>388 624 798</b>	<b>390 307 755</b>
Changes in net assets			
Surplus for the year	-	154 060 080	154 060 080
Total changes	-	154 060 080	154 060 080
<b>Balance at 01 July 2012</b>	<b>1 682 957</b>	<b>541 323 476</b>	<b>543 006 433</b>
Changes in net assets			
Prior period error	-	1 030 735 963	1 030 735 963
Write off of other reserves	-	1 682 957	1 682 957
Adjustment to Botshelo Water provision	-	(55 465 259)	(55 465 259)
Net income (losses) recognised directly in net assets	-	976 953 661	976 953 661
Surplus for the year	-	(32 020 691)	(32 020 691)
Total recognised income and expenses for the year	-	944 932 970	944 932 970
Total changes	-	944 932 970	944 932 970
<b>Balance at 30 June 2013</b>	<b>1 682 957</b>	<b>1 486 256 446</b>	<b>1 487 939 403</b>
Note(s)			

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Grants		375 458 695	562 726 414
Interest income		-	14 019 201
Other receipts		4 916 998	4 453 009
Working capital movements		-	11 899 524
		<u>380 375 693</u>	<u>593 098 148</u>
<b>Payments</b>			
Employee costs		236 573 163	127 846 618
Suppliers		(340 772 821)	(542 876 514)
Finance costs		(136 801)	-
		<u>(104 336 459)</u>	<u>(415 029 896)</u>
<b>Net cash flows from operating activities</b>	22	<b><u>276 039 234</u></b>	<b><u>178 068 252</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(469 670 393)	(291 358 082)
Proceeds from sale of property, plant and equipment	3	5 152 853	1 072 262
Depreciation		(168 034 969)	(6 445 888)
		<u>(632 552 509)</u>	<u>(296 731 708)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(56 633 893)</u></b>	<b><u>(112 217 568)</u></b>
Cash and cash equivalents at the beginning of the year		90 639 589	202 857 157
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>34 005 696</u></b>	<b><u>90 639 589</u></b>



# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

				Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand									
<b>Statement of Financial Performance</b>									
<b>Revenue</b>									
<b>Revenue from exchange transactions</b>									
Interest Earned	8 000 000	(3 026 377)	<b>4 973 623</b>	8 574 729			<b>3 601 106</b>		
Other income	5 000 000	(4 433 885)	<b>566 115</b>	2 288 197			<b>1 722 082</b>		
Own funds	114 569 459	137 517 412	<b>252 086 871</b>	2 629 301			<b>(249 457 570)</b>		
<b>Total revenue from exchange transactions</b>	<b>127 569 459</b>	<b>130 057 150</b>	<b>257 626 609</b>	<b>13 492 227</b>			<b>(244 134 382)</b>		
<b>Revenue from non-exchange transactions</b>									
<b>Taxation revenue</b>									
Government grants & subsidies	734 936 215	(37 649 833)	<b>697 286 382</b>	670 169 216			<b>(27 117 166)</b>		
<b>Total revenue</b>	<b>862 505 674</b>	<b>92 407 317</b>	<b>954 912 991</b>	<b>683 661 443</b>			<b>(271 251 548)</b>		
<b>Expenditure</b>									
Personnel	(152 000 000)	(75 300 000)	<b>(227 300 000)</b>	(231 057 372)			<b>(3 757 372)</b>		
Remuneration of councillors	(9 000 000)	(400 000)	<b>(9 400 000)</b>	(9 380 302)			<b>19 698</b>		
Depreciation and amortisation	-	(75 472 804)	<b>(75 472 804)</b>	(168 034 969)			<b>(92 562 165)</b>		
Finance costs	-	-	-	(136 801)			<b>(136 801)</b>		
Repairs and maintenance	(109 683 850)	(74 495 330)	<b>(184 179 180)</b>	(62 051 055)			<b>122 128 125</b>		
Bulk purchases	(2 000 000)	(830 000)	<b>(2 830 000)</b>	(1 956 294)			<b>873 706</b>		
Contracted Services	(23 600 000)	9 400 000	<b>(14 200 000)</b>	(16 410 757)			<b>(2 210 757)</b>		
Grants and subsidies paid	(27 097 000)	-	<b>(27 097 000)</b>	(105 233 254)			<b>(78 136 254)</b>		
General Expenses	(90 728 944)	-	<b>(90 728 944)</b>	280 501 583			<b>371 230 527</b>		
Contributions to fixed assets	(91 218 017)	49 218 017	<b>(42 000 000)</b>	(41 379 831)			<b>620 169</b>		
Capital projects	(432 503 197)	-	<b>(432 503 197)</b>	(360 543 082)			<b>71 960 115</b>		

# Ngaka Modiri Molema District 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

Figures in Rand

<b>Total expenditure</b>	<b>862 505 674</b>	<b>97 407 317</b>	<b>954 912 991</b>	<b>(715 682 134)</b>	<b>390 028 991</b>
<b>Deficit before taxation</b>	<b>862 505 674</b>	<b>97 407 317</b>	<b>959 912 991</b>	<b>(32 020 691)</b>	<b>(991 933 682)</b>
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>862 505 674</b>	<b>97 407 317</b>	<b>959 912 991</b>	<b>(32 020 691)</b>	<b>(991 933 682)</b>

# Ngaka Modiri Molema District 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

Figures in Rand

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	-	-	-	9 472 078	<b>9 472 078</b>
Receivables from exchange transactions	-	-	-	1 826 403	<b>1 826 403</b>
VAT receivable	-	-	-	68 301 987	<b>68 301 987</b>
Cash and cash equivalents	-	-	-	34 668 742	<b>34 668 742</b>
	-	-	-	<b>114 269 210</b>	<b>114 269 210</b>

##### Non-Current Assets

Property, plant and equipment	-	-	-	1 750 376 209	<b>1 750 376 209</b>
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##### Total Assets

-	-	-	-	<b>1 864 645 419</b>	<b>1 864 645 419</b>
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#### Liabilities

##### Current Liabilities

Payables from exchange transactions	-	-	-	258 235 519	<b>258 235 519</b>
Unspent conditional grants and receipts	-	-	-	110 722 463	<b>110 722 463</b>
Provisions	-	-	-	16 310 499	<b>16 310 499</b>
Bank overdraft	-	-	-	663 046	<b>663 046</b>
	-	-	-	<b>385 931 527</b>	<b>385 931 527</b>

##### Total Liabilities

-	-	-	-	<b>385 931 527</b>	<b>385 931 527</b>
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##### Net Assets

-	-	-	-	<b>1 478 713 892</b>	<b>1 478 713 892</b>
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#### Net Assets

##### Net Assets Attributable to Owners of Controlling Entity

##### Reserves

Other NDR	-	-	-	1 682 957	<b>1 682 957</b>
Accumulated surplus	-	-	-	1 477 030 935	<b>1 477 030 935</b>
<b>Total Net Assets</b>	-	-	-	<b>1 478 713 892</b>	<b>1 478 713 892</b>

# Ngaka Modiri Molema District 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.

These accounting policies are consistent with the previous period.

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

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

##### Allowance for slow moving, damaged and obsolete stock

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

##### Fair value estimation

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

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

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

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 9 - Provisions.

##### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

##### Allowance for doubtful debts

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

#### 1.2 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.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

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.

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

<b>Depreciation and impairment</b>	<b>Average useful life</b>
Infrastructure	
• Roads and Paving	10-40
Community	
• Buildings	30
• Recreational facilities	30
• Security	30
• Halls	30
• Libraries	30
• Parks and gardens	30
• Other assets	15-30
Other property, plant and equipment	
• Office equipment	5-7
• Furniture and fixtures	5-10
• Emergency equipment	5
• IT equipment	5
• Motor vehicles	7-10

### 1.3 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.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Intangible assets (continued)

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.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.4 Financial instruments

#### Initial recognition

Financial instruments are initially recognised at fair value.

#### Subsequent measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

#### Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

#### Trade and other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

#### Trade payables and borrowings

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

#### Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### 1.5 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.



# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.5 Leases (continued)

#### Operating leases - lessee

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

### 1.6 Inventories

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

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

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

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

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.7 Impairment of cash-generating assets

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

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

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

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

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

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

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

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:

### 1.8 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.

### 1.9 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.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.9 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 24.

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.

### 1.10 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.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.10 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.

### 1.11 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.

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

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

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

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

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

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

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

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

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

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

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

### 1.12 Borrowing costs

### 1.13 Comparative figures

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

### 1.14 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.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.14 Unauthorised expenditure (continued)

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

### 1.15 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.

### 1.16 Irregular expenditure

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

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

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

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

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

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

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

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

### 1.17 Use of estimates

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

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.18 Presentation of currency

These financial statements are presented in South African Rand.

### 1.19 Conditional grants and receipts

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

### 1.20 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.

### 1.21 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 local 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.

### 1.22 Value Added Tax

The municipality is registered for VAT on the payment basis.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013

2012

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

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

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

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

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

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

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

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

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

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

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.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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

#### **GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

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.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

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

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

#### **GRAP 12 (as revised 2012): Inventories**

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

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

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

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

#### **GRAP 13 (as revised 2012): Leases**

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

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

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

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.



# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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

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

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

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

All amendments to be applied prospectively.

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

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

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

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

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

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

All amendments to be applied retrospectively.

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

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

#### IGRAP16: Intangible assets website costs

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

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

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

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

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

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

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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

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

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

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

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

#### **IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue**

Paragraphs .03, .04, .05, .06, .08 and .10, were amended and paragraph .02 was added in the Interpretation of the Standards of GRAP.

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

- (a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and
- (b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This Interpretation of the Standards of GRAP supersedes the Interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

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

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected to be as follows:

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

### 3. 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	2 434 595	-	2 434 595	-	-	-
Buildings	70 849 575	(2 605 586)	68 243 989	10 993 440	-	10 993 440
Infrastructure	2 947 280 027	(1 369 226 356)	1 578 053 671	537 680 141	-	537 680 141
Community	61 560 000	(3 186 303)	58 373 697	16 948 137	-	16 948 137
Other property, plant and equipment	81 750 095	(38 479 838)	43 270 257	69 175 550	(16 787 369)	52 388 181
<b>Total</b>	<b>3 163 874 292</b>	<b>(1 413 498 083)</b>	<b>1 750 376 209</b>	<b>634 797 268</b>	<b>(16 787 369)</b>	<b>618 009 899</b>

#### Revaluations

The effective date of the revaluations was 01 July 2012. Revaluations were performed by independent valuer, Ms Kgaogelo Linky Molema (Professional Valuer - REG 6160/9), of TMDG Consultants and are not connected to the municipality. The valuations are performed every period.

Land and buildings are re-valued independently every 3years.

The valuation was performed using the Depreciated Replacement Cost method, and the following assumptions were used:

- Market data.

These assumptions were based on gross replacement costs.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012

### 3. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2013

	<b>Included within Infrastructure</b>	<b>Total</b>
Opening balance	537 680 141	537 680 141
Additions/capital expenditure	352 220 677	352 220 677
	<b>889 900 818</b>	<b>889 900 818</b>

#### Reconciliation of Work-in-Progress 2012

	<b>Included within Infrastructure</b>	<b>Total</b>
Additions/capital expenditure	537 680 141	537 680 141

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.

#### Deemed cost

Deemed cost was determined using fair value OR depreciated replacement cost.

### 4. Inventories

Consumable stores	2 602 002	1 468 058
Maintenance materials	6 870 076	6 076 504
	<b>9 472 078</b>	<b>7 544 562</b>
Opening balance of inventories	7 544 562	6 184 463
Consumable stores	1 468 058	700 555
Maintenance materials	6 076 504	5 483 908
Additions	19 507 052	13 169 176
Consumable stores	1 142 199	2 142 724
Maintenance materials	18 364 852	11 026 452
Issued (expensed)	17 214 335	11 467 407
Consumable stores	8 255	1 543 740
Maintenance materials	17 206 080	9 923 667
Write off of Obsolete inventory	(309 153)	-
Consumable stores	(71 344)	-
Maintenance materials	(237 809)	-
Closing balance of inventories	9 837 279	7 544 562
Consumable stores	2 602 002	1 468 058
Maintenance materials	7 235 277	6 076 504

#### Inventory pledged as security

No Inventory was pledged as security for the 2012/2013 financial years.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>5. Receivables from exchange transactions</b>		
Trade debtors	351 958	577 660
Prepayments	1 474 445	1 476 279
	<b>1 826 403</b>	<b>2 053 939</b>

### Trade and other receivables pledged as security

No Trade and other receivables were pledged as security.

### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired as the customer has agreed on repaying the full amount owed. At 30 June 2013, R0 were past due but and therefore not impaired.

### 6. VAT receivable

VAT	68 301 987	66 795 988
-----	------------	------------

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	34 668 742	109 849 194
Bank overdraft	(663 046)	(19 209 605)
	<b>34 005 696</b>	<b>90 639 589</b>
Current assets	34 668 742	109 849 194
Current liabilities	(663 046)	(19 209 605)
	<b>34 005 696</b>	<b>90 639 589</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
ABSA 3: Account no 160432-2201-01	226 738	217 175	207 093	226 738	848	-
ABSA AIMS Account No.0027004	1 560 840	1 508 059	1 458 870	1 560 840	4 710	-
Momentum 2: Account no PP022502587	181 160	88 754 511	124 184 708	181 160	760 518	-
Momentum A/c PP0024505006	13 138 941	12 421 725	-	13 138 941	388 970	-
FNB A/c 62324619975	74 136	141 245	-	7 574 827	10 477 535	-
<b>Total</b>	<b>15 181 815</b>	<b>103 042 715</b>	<b>125 850 671</b>	<b>22 682 506</b>	<b>11 632 581</b>	<b>-</b>

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012

### 8. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	50 108 718	37 184 140
Municipal Systems Improvement Grant	-	394 582
Department of Water Affairs and Forestry (DWA - Assets Refurbishment)	1 260 014	875 900
IDT Call Centre	12 210 526	12 210 526
Department of Water Affairs and Forestry (DPLG/DBSA)	23 300 232	23 300 232
Disaster Management Grant	5 235 449	5 235 449
Provincial Infrastructure Grant	14 006 394	-
Rural Roads Assessment Management	-	679 237
Bucket Eradication/DPLG	1 415 538	1 415 538
Popo Molefe Hall	2 254 897	2 254 897
SETA	930 695	(2)
	<b>110 722 463</b>	<b>83 550 499</b>

#### Movement during the year

Balance at the beginning of the year	83 550 500	83 550 499
Additions during the year	697 341 179	-
Income recognition during the year	(670 169 216)	-
	<b>110 722 463</b>	<b>83 550 499</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.

### 9. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Reversed during the year	Total
Botshelo Water provision	59 659 580	(43 349 081)	16 310 499

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Reversed during the year	Total
Botshelo Water provision	35 217 073	24 442 507	-	59 659 580
Performance bonus	2 200 578	-	(2 200 578)	-
	<b>37 417 651</b>	<b>24 442 507</b>	<b>(2 200 578)</b>	<b>59 659 580</b>

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>10. Payables from exchange transactions</b>		
Trade payables	112 989 321	37 845 124
Payments received in advanced	-	410 614
Retentions	41 077 561	37 164 013
Accured staff leave	9 446 418	9 272 427
Other creditors	78 732 193	14 135 289
Accured 13th cheque bonus	6 376 127	-
Accrued long service awards	388 388	-
	<b>249 010 008</b>	<b>98 827 467</b>
<b>11. Revenue</b>		
Interest earned - external investments	8 574 729	14 019 201
Other income	2 288 197	4 453 006
Income from sale of assets	2 629 301	-
Government grants & subsidies	670 169 216	562 726 413
	<b>683 661 443</b>	<b>581 198 620</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Interest Earned - external investments	8 574 729	14 019 201
Other Income	2 288 197	4 453 006
Income from sale of assets	2 629 301	-
	<b>13 492 227</b>	<b>18 472 207</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
<b>Transfer revenue</b>		
Government grants & subsidies	670 169 216	562 726 413

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>12. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	355 942 000	357 615 000
Development Bank of South Africa	55 713 560	-
Department of Local Government and Traditional Affairs (DPLG/DBSA)	17 235 681	4 025 647
Regional Bulk Infrastructure Grants	3 226 227	-
Rural Roads Assets Management	2 455 237	1 008 763
Department of Water Affairs and Forestry (ACIP)	18 217 900	17 530 000
Extended Public Incentive Programme (EPWP)	1 021 000	-
Financial Management Grant (FMG)	1 250 000	1 250 000
Municipal Systems Improvement Grant	1 394 582	1 000 000
	<b>456 456 187</b>	<b>382 429 410</b>
<b>Capital grants</b>		
Provincial Infrastructure Grant	23 493 606	12 000 000
Municipal Infrastructure Grant	190 219 423	168 291 373
	<b>213 713 029</b>	<b>180 291 373</b>
	<b>670 169 216</b>	<b>562 720 783</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and to fund the operations of the municipality in accordance with the approved MTREF budget.

### Municipal Infrastructure Grant

Balance unspent at beginning of year	37 184 140	37 184 140
Current-year receipts	203 144 000	-
Conditions met - transferred to revenue	(190 219 422)	-
	<b>50 108 718</b>	<b>37 184 140</b>

Conditions still to be met - remain liabilities (see note 8).

Current Municipal Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year.

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

### Municipal Systems Improvement Grant

Balance unspent at beginning of year	394 582	394 582
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(1 394 582)	-
	<b>-</b>	<b>394 582</b>

Conditions still to be met - remain liabilities (see note 8).

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue

### Department of Water Affairs and Forestry (DWAF - Assets Refurbishment)

Balance unspent at beginning of year	875 900	875 900
Current-year receipts	18 495 695	17 530 000
Conditions met - transferred to revenue	(18 111 581)	(17 530 000)
	<b>1 260 014</b>	<b>875 900</b>



# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012

### 12. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 8).

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

Additional text

#### Department of Water Affairs and Forestry (ACIP)

Current-year receipts	18 217 000	-
Conditions met - transferred to revenue	(18 217 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 8).

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

#### IDT Call centre

Balance unspent at beginning of year	12 210 526	-
Current-year receipts	-	28 000 000
Conditions met - transferred to revenue	-	(15 789 474)
	<b>12 210 526</b>	<b>12 210 526</b>

Conditions still to be met - remain liabilities (see note 8).

Current Municipal Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### Financial Management Grant

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

Conditions still to be met - remain liabilities (see note 8).

Current Municipal Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### Department of Local Government and Traditional Affairs (DPLG/DBSA)

Balance unspent at beginning of year	23 300 232	1 817 041
Current-year receipts	-	21 483 191
	<b>23 300 232</b>	<b>23 300 232</b>

Conditions still to be met - remain liabilities (see note 8).

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012

### 12. Government grants and subsidies (continued)

Current Municipal Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### Extended Public Incentive Programme (EPWP)

Current-year receipts	1 021 000	-
Conditions met - transferred to revenue	(1 021 000)	-
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 8).

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

#### Disaster Management Grant

Balance unspent at beginning of year	5 235 449	154 998
Current-year receipts	-	5 600 000
Conditions met - transferred to revenue	-	(519 549)
	<u>5 235 449</u>	<u>5 235 449</u>

Conditions still to be met - remain liabilities (see note 8).

Current Municipal Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### Development Bank of South Africa

Current-year receipts	55 713 560	-
Conditions met - transferred to revenue	(55 713 560)	-
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 8).

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### Provincial Infrastructure Grant

Current-year receipts	37 500 000	-
Conditions met - transferred to revenue	(23 493 606)	-
	<u>14 006 394</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 8).

Current Municipal Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

	2013	2012
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### 12. Government grants and subsidies (continued)

#### Regional Bulk Infrastructure Grant

Current-year receipts	3 226 227	-
Conditions met - transferred to revenue	(3 226 227)	-
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 8).

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### Rural Roads Assessment Mangement

Balance unspent at beginning of year	679 237	679 237
Current-year receipts	1 776 000	-
Conditions met - transferred to revenue	(2 455 237)	-
	<u>-</u>	<u>679 237</u>

Conditions still to be met - remain liabilities (see note 8).

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### Bucket Eradication/DPLG

Balance unspent at beginning of year	<u>1 415 538</u>	<u>1 415 538</u>
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Conditions still to be met - remain liabilities (see note 8).

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### Popo Molefe Hall

Balance unspent at beginning of year	<u>2 254 897</u>	<u>2 254 897</u>
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Conditions still to be met - remain liabilities (see note 8).

This grant dates back 15 years. The municipality is in a process to investigate the grant during the 2013/2014 financial year.

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

#### SETA

Balance unspent at beginning of year	(2)	-
Current-year receipts	930 697	(2)
	<u>930 695</u>	<u>(2)</u>

Conditions still to be met - remain liabilities (see note 8).

Current Municipal Infrastructure Grant projects are still on going at year end. The balance of this grant is expected to be utilised within the first quarter of the next financial year.

The unspent portion of the grant was calculated by the roll over from prior period, plus grants received for the year, less the expenditure incurred to meet the requirements of the grant; which is recognised to revenue.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012

### 12. Government grants and subsidies (continued)

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act ...of 20X2), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

### 13. Other income

Income on sale of assets	2 629 301	-
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### 14. General expenses

Advertising	1 549 414	1 678 282
Accommodation	2 483 338	1 882 777
Audit fees	-	2 913 261
Bank charges	890 450	789 694
Busaries	48 384	1 819 864
Computer Software and programming	-	1 178 681
Consulting fees	11 478 349	11 574 870
Cutlery	-	19 618
Conferences and seminars	7 060	569 423
Fuel and Oil	5 768 970	4 097 121
Insurance	2 076 868	988 385
Legal fees	-	10 770 079
Drought relief tankering	16 433 829	31 534 731
Protective Clothing	442 374	2 150 196
IDP Review	1 737 677	5 034 300
Membership fees	1 149 194	1 026 856
Electricity	7 487 809	750 477
Printing and stationery	1 951 269	788 166
Public Participation Programme	228 030	2 381 191
Rental of buildings	197 338	358 280
Licencing vehicles	175 046	156 953
Led Support fund	7 117 974	6 618 242
Skills development levies	1 412 785	36 095
Sports, Arts and Culture	-	357 996
Special Projects	1 273 624	2 709 574
Telephone Costs	5 474 554	3 615 225
Training	1 723 832	1 998 348
Refreshments	340 159	540 077
Rates and Taxes	387 632	684 128
Other	49 585 371	61 130 618
	<b>121 421 330</b>	<b>160 153 508</b>

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>15. Employee related costs</b>		
Basic	121 188 845	71 642 493
UIF	39 667 183	26 943 576
Other payroll levies	45 024 471	-
Leave pay provision charge	746 969	1 416 620
Overtime payments	5 795 734	3 740 199
Acting allowances	7 050 088	4 325 448
Car allowance	857 281	-
Industrial council	33 640	14 453
Contributions to staff leave accrual	3 973 959	8 071 517
Allowances	222 524	42 470
Contributions to 13th cheque accrual	6 376 127	679 636
Subsistence and travel	120 551	1 105 183
	<b>231 057 372</b>	<b>117 981 595</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	1 013 955	767 478
Allowances	424 303	726 816
Contributions to UIF, Medical and Pension Funds	238 096	221 298
	<b>1 676 354</b>	<b>1 715 592</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	892 156	469 965
Allowance	-	219 158
Contributions to UIF, Medical and Pension Funds	206 311	148 335
	<b>1 098 467</b>	<b>837 458</b>
<b>Remuneration of executive directors</b>		
Annual Remuneration	5 900 517	4 312 769
Allowances	735 107	852 170
Contributions to UIF, Medical and Pension Funds	1 194 242	779 113
	<b>7 829 866</b>	<b>5 944 052</b>
<b>16. Remuneration of councillors</b>		
Medical and Pension fund contributions	834 176	649 389
Subsistence and travel	85 312	656 572
Allowance councilors	8 460 814	8 559 062
	<b>9 380 302</b>	<b>9 865 023</b>
<b>17. Depreciation and amortisation</b>		
Property, plant and equipment	168 034 969	6 445 888
<b>18. Finance costs</b>		
Interest on convertible instruments	136 801	-
<b>19. Contracted services</b>		
Other Contractors	16 410 757	25 955 560

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>20. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Grants to local municipalities, Botshelo Water and Municipal Health and Fire	24 160 501	55 441 819
Other	27 808 180	-
Water services operating grant	37 204 657	-
Lehurste water crisis	16 059 916	-
	<b>105 233 254</b>	<b>55 441 819</b>
<b>21. Bulk purchases</b>		
Water	1 956 294	6 450 152
<b>22. Cash generated from operations</b>		
(Deficit) surplus	(32 020 691)	152 698 678
<b>Adjustments for:</b>		
Depreciation and amortisation	168 034 969	6 445 888
Gain on sale of assets and liabilities	-	105 943
Movements in provisions	(43 349 081)	22 241 929
<b>Changes in working capital:</b>		
Inventories	(1 927 516)	(1 360 100)
Receivables from exchange transactions	227 536	(250 929)
Payables from exchange transactions	159 408 052	6 918 220
VAT	(1 505 999)	(12 720 332)
Unspent conditional grants and receipts	27 171 964	3 988 955
	<b>276 039 234</b>	<b>178 068 252</b>
<b>23. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for</b>		
• Property, plant and equipment	580 610 448	218 206 319
<b>Approved and not yet contracted for</b>		
• Property, plant and equipment	298 600 000	51 799 272
This committed expenditure relates to plant and equipment and will be financed by external loans, government grants and own resources.		
<b>Operating leases - as lessee (expense)</b>		
<b>Minimum lease payments due</b>		
- within one month	113 826	-

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

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013

2012

### 24. Contingencies

#### Monarch Security VS the Municipality

**R 4 451 001**      **R 4 451 001**

This matter started in 2009 wherein the municipality is being sued for termination of services. The service provider wants to compel the municipality to reinstate their services. Attorneys have served documentation with regard to irregular proceedings.

#### JY GUTTA VS the Municipality

**R 2 235 379**      **R 2 235 379**

The municipality has received a summons. Attorneys have served documentation with regard to irregular proceedings.

#### Portia Semanya VS the Municipality

**R 500 000**      **R 500 000**

The matter started in 2012 wherein Ms Semanya is suing the municipality for defamation of character. The municipality appointed external attorneys to defend the matter on its behalf. Currently the matter is still pending.

#### Gwabeni VS the Municipality

**R 2 021 184**      **R 2 021 184**

Matter started in 2011 wherein Mr Gwabeni sued the municipality for outstanding term payment and legal fees (for alleged criminal case).

#### Mapitsi Civil works VS the Municipality

**R 583 722**      **R 583 722**

Letter of demand was issued the claim was based on the retention amount of R583 722.69. A due diligence assessment was conducted to determine whether the contractor has successfully completed the scope of work. An opinion was rendered by our attorneys who made a recommendation of settling the matter.

#### Iwyzw Valuables Insurance

**R 125 038**      **R 125 038**

We received letter of demand from Mr Keebine's attorneys, due to damages on his vehicle when there were riots in Lehurutshe. Our investigation confirmed that riots were as a result of Lehurutshe residents demanding services from the municipality. The matter has been stagnant.

#### M Santo VS the Municipality

**R 5 731**      **R 5 731**

Mr Santo was suing the municipality for damages caused to his vehicle due to the pothole on 1st Street. Currently he was advised to seek three (3) quotations and expert affidavit explaining the extent of the damages.

#### Balemi Civils VS the Municipality

**R 2 867 984**      **R 2 867 984**

Summons have been received, notice of intention to be served and filed. Second defendant entered a notice to remove causes of complaint.

#### Microzone CC VS the Municipality

**R 871 850**      **R 871 850**

A letter of demand was received and the matter was referred to our attorney to defend on the municipality's behalf. Currently the matter is still pending.

#### Swathi Civils VS the Municipality

**R 1 263 657**      **R 1 263 657**

Swathi Civils sought to give summary judgment application against the municipality for damages due to termination of contract. The matter has been removed from the court roll by agreement between parties.

#### Paul Rabotapi VS the Municipality

**R 15 553**      **R 15 553**

Letter of demand was received by the municipality claiming damages caused to Mr Rabotapi's vehicle which was damaged.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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Figures in Rand	2013	2012
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### 24. (continued)

due to the pothole on 1st Street. No further pleadings have been filed. The matter is stagnant.

**JJG Construction (Pty) Ltd & Khethayo Construction VS the Municipality** R 3 542 447 R 3 542 447

Received letter of demand from the Attorneys.

**Virtual COnsulting Engineers VS the Municipality** R 2 840 065 R 2 772 159

The municipality received a letter alleging that there were outstanding payments with regard to the invoice from Virtual Consulting Engineers worth R2 840 065. The attorney acting on behalf on the municipality was instructed to negotiate a settlement to the amount of R2 500 000.00.

**Botshelo Water Claim** R75 443 509 R 39 915 524

Botshelo Water submitted a claim for R 75 443 509 (2012: R 39 915 524) in respect of bulk water supply to Distobotla Local Municipality, Ngaka Modiri Molema (Eastern) and Motswedi areas. The municipality disputed the claim and the two parties reconciled the claims. The matter has been resolved and the municipality has raised a provision for the water service provider at year end.

**Van Staden & Associates** R 24 222 R 24 222

During 2011 the municipality received summons from Van Staden and Associates CC for failing to honour and invoice for service rendered to amount of R24 221. Matter now settled.

**King and Associates** R 3 118 310

The municipality received a grievance letter from the service provider's attorneys requiring the Municipality to re-instate their client to continue with their services

**Bathhalefi Projects** R 10 388 915

The municipality received invoices for work perpotted to be done by Bathhalefi Projects on First Street. Due to the payments exceeding the allocated budget the Municipality appointed a forensic investigator to investigate into the allegations

**Black Empowered Youth Entrepreneurs** R 28 687

Parties confirmed settlement agreement and was made an order of the court on the 29th July 2011 however the outstanding fees were for the bill of cost for taxation in favour of Black Empowered Youth Entrepreneurs' Attorney R28 687.

**D Tsholetsane** R NIL

Parties have reached an agreement outside the court perimeters. Matter is finalized.

**Big Eye Investment** R NIL

Parties have reached an agreement outside the court perimeters. Matter is finalized.

### Contingent assets

**Mvula Trust VS the Municipality** R 50 000 R 50 000

The matter is still pending. Mr Stanton advised us of an offer of R 50 000 BY Mvula Trust after our counterclaim.



# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013

2012

### 25. Related parties

#### Key management information

Class	Member	Date of appointment
Municipal Manager	M Mojaki	01 October 2011
Chief Financial Officer	MW Molokele	01 December 2011
Senior Manager: Business Process Support	S Williams	01 December 2011
Senior Manager: Corporate Resource Support	L Mahole	01 March 2012
Senior Manager: Technical Services	P Nthutang	01 December 2011
Senior Manager: PMU	W Sehole	01 August 2012
Senior Manager: Mayor's Office	Mr. Ramoabi	01 October 2011
Senior Manager: Municipal Health, Fire and Emergency	MA Metswamere	01 August 2012
Audit Executive	DI Mongwaketsi	01 February 2012
Senior Manager: Growth and Economic Development	T Mbekeni	01 March 2012
Executive Manager: Corporate Services	C Malefo	Terminated
Senior Manager: PMU	C Maliambe	Terminated
Senior Manager: Community Services	KS Mbali	Terminated

### 26. Accounting Officer's emoluments

### 27. Risk management

#### Financial risk management

##### Liquidity risk

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

##### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

##### Market risk

##### Interest rate risk

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

### 28. Going concern

We draw attention to the fact that at 30 June 2013, the municipality had accumulated deficits of R 1 486 256 446 and that the municipality's total liabilities exceed its assets by R 1 487 939 403.

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012

### 28. Going concern (continued)

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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

### 29. Events after the reporting date

There are no non-adjusting events after the reporting date:

### 30. Unauthorised expenditure

Opening balance	145 646 109	77 587 883
Unauthorised expenditure - discovered in the current year	53 781 840	68 058 226
Less: Amounts approved by council or condoned with funding	(145 646 634)	-
	<b>53 781 315</b>	<b>145 646 109</b>

### 31. Irregular expenditure

Opening balance	130 195 231	124 237 329
Add: Irregular Expenditure - current year	656 925 726	49 007
Less: Amounts to be ratified	-	5 908 895
Less: Amounts condoned by council	(787 120 957)	-
	<b>-</b>	<b>130 195 231</b>

### Details of irregular expenditure condoned

	<b>Condoned by council</b>	
Overspending on employee cost	Employee costs budget was over spent during the year due to the following reasons: 1. An accrual was raised for the provision of 13th cheque bonuses to be paid out in November 2013 which was not budgeted for 2. An increase in the accrual for staff leave provision at year end, which increases the employee costs. 3. Appointments during the 2012/2013 financial year increased the payroll costs	75 573 163
Expenditure incurred before 07 December 2011	Contractors	201 612 520
	Consultants	296 565 975
Expenditure incurred before 07 December 2011	Contractors	69 507 070
	Consultants	13 666 998
Opening Balances		130 195 231
		<b>787 120 957</b>

### 32. Additional disclosure in terms of Municipal Finance Management Act

#### Audit fees

Amount paid - current year	-	2 913 261
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# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012
<b>32. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>PAYE and UIF</b>		
Current year subscription / fee	23 305 973	18 791 112
Amount paid - current year	(21 409 589)	(16 791 316)
	<b>1 896 384</b>	<b>1 999 796</b>
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	20 626 462	28 184 146
Amount paid - current year	(17 354 189)	(25 397 029)
	<b>3 272 273</b>	<b>2 787 117</b>
<b>VAT</b>		
VAT receivable	68 301 987	66 795 988

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

All VAT returns have been submitted throughout the year.

### 33. Deviation from supply chain management regulations

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

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

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

# Ngaka Modiri Molema District Municipality

Financial Statements for the year ended 30 June 2013

## Detailed Income statement

Figures in Rand	Note(s)	2013	2012
<b>Revenue</b>			
Interest earned - external investment		8 574 729	14 019 201
Other income		2 288 197	4 453 006
Income on sale of assets	13	2 629 301	-
Government grants & subsidies	12	670 169 216	562 726 413
<b>Total revenue</b>		<b>683 661 443</b>	<b>581 198 620</b>
<b>Expenditure</b>			
Personnel	15	(231 057 372)	(117 981 595)
Remuneration of councillors	16	(9 380 302)	(9 865 023)
Depreciation and amortisation	17	(168 034 969)	(6 445 888)
Finance costs	18	(136 801)	-
Repairs and maintenance		(62 051 055)	(46 100 279)
Bulk purchases	21	(1 956 294)	(6 450 152)
Contracted services	19	(16 410 757)	(25 955 560)
Grants and subsidies paid	20	(105 233 254)	(55 441 819)
Loss on disposal of assets	20	-	(105 943)
General Expenses	14	(121 421 330)	(158 792 281)
<b>Total expenditure</b>		<b>(715 682 134)</b>	<b>(427 138 540)</b>
<b>Operating (deficit) surplus</b>		<b>(32 020 691)</b>	<b>154 060 080</b>
<b>(Deficit) surplus for the year</b>		<b>(32 020 691)</b>	<b>154 060 080</b>
<b>Attributable to:</b>			
Owners of the controlling entity		(32 020 691)	154 060 080