



Fezile Dabi District Municipality  
Annual Financial Statements  
for the year ended 30 June 2014

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## General Information

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<b>Legal form of entity</b>	Municipality (MFMA)
<b>Nature of business and principal activities</b>	District Municipality
<b>Mayoral committee</b>	
Executive Mayor	Cllr MP Moshodi
Councillors	Cllr KGL Nkethu (Speaker) Cllr VE de Beer Cllr GN Guza Cllr ML Hlapane Cllr K Khumalo Cllr LS Kubeka Cllr ME Magashule (Resigned 28 February 2014) Cllr ME Notsi Cllr AM Olifant
<b>Municipal demarcation code</b>	DC20
<b>Grading of local authority</b>	Grade 1
<b>Capacity of local authority</b>	Low Capacity
<b>Chief Finance Officer (CFO)</b>	G Mashiyi
<b>Accounting Officer</b>	ML Molibeli
<b>Registered office</b>	John Vorster Road Sasolburg 1947
<b>Postal address</b>	P.O Box 10 Sasolburg 1947
<b>Bankers</b>	ABSA BANK
<b>Auditors</b>	Auditor General of South Africa (Free State)
<b>Attorneys</b>	Peyper Attorneys Inc

# Fezile Dabi District Municipality

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### Abbreviations

DBSA	Development Bank of South Africa
DWA	Department of Water Affairs
EHS	Environmental, Health Services
EPWP	Expanded Public Works Program
FDDM	Fezile Dabi District Municipality
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IDP	Integrated Development Plan
IPSAS	International Public Sector Accounting Standards
LED	Local Economic Development
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
SALGA	South African Local Government Association
SAMWU	South African Municipal Workers Union
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## 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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 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 annual financial statements set out on pages 5 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2014 and were signed on his behalf by:



**Municipal Manager  
Sasolburg  
31 August 2014**



# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Administration and management fees received		78,020	59,280
Other income	15	2,761,035	1,261,735
Interest received - investment	16	8,619,724	9,420,228
Gains on disposal of assets		77,907	-
<b>Total revenue from exchange transactions</b>		<b>11,536,686</b>	<b>10,741,243</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants and subsidies	17	139,561,508	134,627,219
Public contributions and donations		-	148,424
<b>Total revenue from non-exchange transactions</b>		<b>139,561,508</b>	<b>134,775,643</b>
<b>Total revenue</b>		<b>151,098,194</b>	<b>145,516,886</b>
<b>Expenditure</b>			
Employee related costs	18	(70,581,802)	(65,916,417)
Remuneration of councillors	19	(5,983,043)	(5,964,912)
Administrative expense	20	(1,194,040)	(799,788)
Impairment loss on property, plant and equipment		-	(88,810)
Depreciation and amortisation	21	(4,306,153)	(5,141,907)
Finance charges	22	(376,180)	(2,922,635)
Debt impairment		(6,269,593)	(198,462)
Repairs and maintenance		(1,589,401)	(718,019)
Contracted services	23	(12,040,760)	(11,543,823)
Grants and subsidies paid	24	(14,621,734)	(14,982,903)
Loss on disposal of assets	11	-	(9,963)
General expenses	25	(48,909,842)	(36,128,340)
<b>Total expenditure</b>		<b>(165,872,548)</b>	<b>(144,415,979)</b>
<b>(Deficit) surplus for the year</b>		<b>(14,774,354)</b>	<b>1,100,909</b>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	7,835,140	122,963,655	130,798,795
Adjustments			
Prior year adjustments (note 29)	-	49,733	49,733
<b>Balance at 01 July 2012 as restated*</b>	<b>7,835,140</b>	<b>123,013,388</b>	<b>130,848,528</b>
Changes in net assets			
Revaluation reserve realised	(346,462)	346,462	-
Revaluation surplus	8,993,723	-	8,993,723
Devaluation of land	(16,190)	-	(16,190)
Other movements	-	(176,564)	(176,564)
Net income recognised directly in net assets	8,631,071	169,898	8,800,969
Surplus for the year	-	1,100,909	1,100,909
Total recognised income and expenses for the year	8,631,071	1,270,807	9,901,878
Total changes	8,631,071	1,270,807	9,901,878
Opening balance as previously reported	16,466,211	125,611,164	142,077,375
Adjustments			
Prior year adjustments (note 29)	-	(1,326,968)	(1,326,968)
<b>Balance at 01 July 2013 as restated*</b>	<b>16,466,211</b>	<b>124,284,196</b>	<b>140,750,407</b>
Changes in net assets			
Revaluation reserve realised	(879,329)	879,329	-
Net losses recognised directly in net assets	(879,329)	879,329	-
Surplus for the year	-	(14,774,354)	(14,774,354)
Total recognised income and expenses for the year	(879,329)	(13,895,025)	(14,774,354)
Total changes	(879,329)	(13,895,025)	(14,774,354)
<b>Balance at 30 June 2014</b>	<b>15,586,882</b>	<b>110,389,171</b>	<b>125,976,053</b>
Note(s)	14	29	



# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Grants		139,561,508	134,627,219
Interest income		8,619,724	9,420,228
Other receipts	26	2,839,055	1,479,127
		<u>151,020,287</u>	<u>145,526,574</u>
<b>Payments</b>			
Employee costs		(69,579,401)	(67,918,942)
Suppliers		(82,734,924)	(98,162,980)
Finance costs		(376,180)	(2,922,635)
		<u>(152,690,505)</u>	<u>(169,004,557)</u>
<b>Net cash flows from operating activities</b>	27	<u>(1,670,218)</u>	<u>(23,477,983)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(3,844,139)	(1,642,635)
Proceeds from sale of property, plant and equipment	7	196,000	-
<b>Net cash flows from investing activities</b>		<u>(3,648,139)</u>	<u>(1,642,635)</u>
<b>Cash flows from financing activities</b>			
Movement in long term loans		(17,781,655)	(5,293,499)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>(23,100,012)</u>	<u>(30,414,117)</u>
Cash and cash equivalents at the beginning of the year		160,410,675	190,824,792
<b>Cash and cash equivalents at the end of the year</b>	6	<u>137,310,663</u>	<u>160,410,675</u>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Administration and management fees received	42,120	44,900	87,020	78,020	(9,000)	44.1
Other income	84,240	2,496,072	2,580,312	2,761,035	180,723	
Interest received - investment	10,112,212	(1)	10,112,211	8,619,724	(1,492,487)	44.2
<b>Total revenue from exchange transactions</b>	<b>10,238,572</b>	<b>2,540,971</b>	<b>12,779,543</b>	<b>11,458,779</b>	<b>(1,320,764)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Government grants and subsidies	137,841,070	750,000	138,591,070	139,561,508	970,438	
<b>Total revenue</b>	<b>148,079,642</b>	<b>3,290,971</b>	<b>151,370,613</b>	<b>151,020,287</b>	<b>(350,326)</b>	
<b>Expenditure</b>						
Personnel	(73,083,222)	(8,455,518)	(81,538,740)	(70,581,802)	10,956,938	44.3
Remuneration of councillors	(6,574,770)	(695,556)	(7,270,326)	(5,983,043)	1,287,283	44.4
Administration	(1,600,000)	(180,000)	(1,780,000)	(1,194,038)	585,962	44.5
Transfer payments	-	51,243,083	51,243,083	-	(51,243,083)	44.6
Depreciation and amortisation	(4,200,000)	154,501	(4,045,499)	(4,306,153)	(260,654)	
Finance costs	(21,000,000)	2,713,600	(18,286,400)	(376,180)	17,910,220	44.7
Debt impairment	-	-	-	(6,269,593)	(6,269,593)	
Repairs and maintenance	(924,845)	(510,000)	(1,434,845)	(1,589,401)	(154,556)	
Contracted services	(7,361,600)	(10,939,040)	(18,300,640)	(12,040,760)	6,259,880	44.8
Grants and subsidies paid	(2,752,903)	(23,918,867)	(26,671,770)	(14,621,734)	12,050,036	44.9
General expenses	(52,648,537)	3,224,605	(49,423,932)	(48,909,841)	514,091	
<b>Total expenditure</b>	<b>(170,145,877)</b>	<b>12,636,808</b>	<b>(157,509,069)</b>	<b>(165,872,545)</b>	<b>(8,363,476)</b>	
<b>Operating deficit</b>	<b>(22,066,235)</b>	<b>15,927,779</b>	<b>(6,138,456)</b>	<b>(14,852,258)</b>	<b>(8,713,802)</b>	
Gain on disposal of assets and liabilities	-	-	-	77,907	77,907	
<b>Deficit before taxation</b>	<b>(22,066,235)</b>	<b>15,927,779</b>	<b>(6,138,456)</b>	<b>(14,774,351)</b>	<b>(8,635,895)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(22,066,235)</b>	<b>15,927,779</b>	<b>(6,138,456)</b>	<b>(14,774,351)</b>	<b>(8,635,895)</b>	

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

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

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

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

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

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

##### Receivables

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

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

##### Impairment testing

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

##### Value in use of cash generating assets

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

##### Value in use of non-cash generating assets

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 Provisions.

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

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

#### Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 12.

#### Effective interest rate

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

#### Allowance for impairment

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

### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment are initially recognised 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), unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

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

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

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

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

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

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 are carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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.

The revaluation surplus in net assets related to a specific item of property, plant and equipment is transferred directly to accumulated surplus 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 a straight line basis over their expected useful lives to their estimated residual value.

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

Item	Average useful life
Land	Indefinite
Buildings	30years
Plant and machinery	5 years
Furniture and fixtures	3 - 10 years
Motor vehicles	3 - 20 years
Office equipment	3 - 7 years
Computer equipment	3 - 5 years
Other assets	2 - 15 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.5 Site restoration and dismantling cost

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

The related asset is measured using the cost model:

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

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

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 can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Intangible assets are initially recognised at cost.

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.6 Intangible assets (continued)

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; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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.

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

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

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

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

<b>Item</b>	<b>Useful life</b>
Computer software, other	3 -10 years

Intangible assets are derecognised:

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.7 Financial instruments

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

#### Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	Category
Trade and other payables	Financial liability measured at amortised cost
Long term loans	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

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

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

The municipality measures all other financial assets and financial liabilities initially at fair value.

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

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



# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.7 Financial instruments (continued)

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

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

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

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

#### Fair value measurement considerations

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

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

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

Financial assets measured at amortised cost:

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.7 Financial instruments (continued)

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

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

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

### Derecognition

#### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

#### Financial liabilities

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

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.8 Tax

#### Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1)(a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### 1.9 Leases

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

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

#### Operating leases - lessor

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

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

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

Any contingent rents are recognised separately as revenue in the period in which they are received.

#### 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.

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

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

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

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

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

#### Identification

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

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

#### Reversal of an impairment loss

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

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

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Employee benefits

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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

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

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

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

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Employee benefits (continued)

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

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

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

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Employee benefits (continued)

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

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the municipality recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Employee benefits (continued)

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

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



# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.11 Employee benefits (continued)

#### Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees. According to the rules of the long-term service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a number of leave days, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

#### Termination benefits

The municipality recognises termination benefits as a liability and an expense when the municipality is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the municipality has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than twelve months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits is based on the number of employees expected to accept the offer.

### 1.12 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.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.12 Provisions and contingencies (continued)

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 expenditure.

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

A constructive obligation to restructure arises only when the municipality:

- 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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable than an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

### 1.13 Revenue from exchange transactions

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

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

#### Measurement

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

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# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.13 Revenue from exchange transactions (continued)

#### Sale of goods

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

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

#### Rendering of services

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

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

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

#### Interest

Revenue arising from the use by others of municipality assets yielding interest is recognised when:

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

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

### 1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the 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.

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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

#### Recognition

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

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

#### Measurement

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

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

#### Transfers

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

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

#### Collection charges and penalties

Collection charges and penalty interest is recognised when:

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

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

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

#### Services in-kind

Services in-kind are not recognised.

#### Concessionary loans received

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

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.15 Borrowing costs

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

### 1.16 Comparative figures

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

### 1.17 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.18 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.

### 1.19 Irregular expenditure

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 municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

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

### 1.20 Revaluation reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.21 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

### 1.22 Commitments

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.22 Commitments (continued)

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### 1.23 Budget information

Municipality is 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 the accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The annual 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.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### 1.24 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 is 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.

### 1.25 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements.

### 1.26 Accumulated surplus

The municipality's surplus or deficit for the year is accounted in the accumulated surplus reserve in the statement of changes in net assets

### 1.27 Offsetting

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

### 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 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

The standard states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
  - all short-term employee benefits;
  - short-term compensated absences;
  - bonus, incentive and performance related payments;
- post-employment benefits: Defined contribution plans;
- other long-term employee benefits; and
- termination benefits.

The major difference between this standard (GRAP 25) and IAS 19(R) is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred.

All amendments to be applied retrospectively.

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

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The impact of the standard is not material.

##### GRAP 1 (as revised 2012): Presentation of Financial Statements

Minor amendments were made to the statement of financial performance as well as the statement of changes in net assets.

All amendments to be applied retrospectively.

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

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

##### GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Amendments were made to changes in accounting policies. A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a standard of GRAP would otherwise require or permit to be measured at fair value is no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

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

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

#### **GRAP 9 (as revised 2012): Revenue from Exchange Transactions**

Amendments were made to the scope and definitions.

All amendments to be applied retrospectively.

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

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

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

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 has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

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

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 has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### **GRAP 16 (as revised 2012): Investment Property**

Amendments were made to definitions, measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

All amendments to be applied prospectively.

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

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.



# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

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

Amendments were made to measurement at recognition, disposals and disclosure. Changes were made to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle has been clarified.

All amendments to be applied prospectively.

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

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### GRAP 27 and GRAP 31 (as revised 2012)

These Standards of GRAP replace the previous Standard of GRAP on Agriculture (GRAP 101) and Standard of GRAP on Intangible Assets due to the International Public Sector Accounting Standards Board (IPSASB) that has issued an IPSAS on Agriculture (IPSAS 27) and Intangible Assets (IPSAS 31) respectively.

All amendments to be applied retrospectively.

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

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

#### IGRAP 1 (as revised 2012): Applying the Probability Test on Initial Recognition of Revenue

This interpretation now addresses the manner in which the municipality applies the probability test on initial recognition of both:

- (a) exchange revenue (GRAP 9); and
- (b) non-exchange revenue (GRAP 23).

All amendments to be applied prospectively.

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

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

The impact of the interpretation is not material.

#### IGRAP 16: Intangible Assets - Website Costs

The interpretation deals with the treatment of the municipality's own website. It concludes that the municipality's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, the municipality can satisfy the requirements in paragraph .54, which in particular requires the municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If the municipality is not able to demonstrate how a website developed solely and primarily for providing information about its own products and services will generate probable future economic benefits or service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

A website that is recognised as an intangible asset under this interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

Interpretation to be applied retrospectively.

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

The municipality has adopted the interpretation for the first time in the 2014 annual financial statements.

The impact of the interpretation is not material.

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

##### 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.

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

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

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

##### GRAP 105: Transfers of Functions Between Entities Under Common Control

The objective of this standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

A transfer of functions between entities under common control is a reorganisation and / or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between the amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

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

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

#### GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between entities not under common control is a reorganisation and / or reallocation of functions between entities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between entities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition date fair values.

The difference between the amount of consideration paid, if any, and the carrying amounts of assets acquired and liabilities assumed should be recognised in accumulated surplus / (deficit).

For a transfer of functions between entities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

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

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

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

#### GRAP 107: Mergers

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

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

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

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

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

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

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

#### GRAP 20: Related Parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

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

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between the municipality and its related parties;
- identifying the circumstances in which disclosure of the items in bullet one and two is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

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

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

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

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

The standard elaborates on the definitions and identification of:

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

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

- control;
- related party transactions; and
- remuneration of management.

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

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

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

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

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

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

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

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

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

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

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

#### GRAP 108: Statutory Receivables

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

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

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

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

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

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

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

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

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

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

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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

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

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

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

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

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

#### **GRAP 5 (revised 2013): Borrowing Costs**

Benchmark treatment is to recognise borrowing costs as an expense.

Allowed alternative is to capitalise borrowing costs if it is attributable to the acquisition, construction or production of a qualifying asset. All other instances, expense borrowing costs.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

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

#### **GRAP 100 (revised 2013): Discontinued Operations**

All accounting, presentation and disclosure requirements with regards to non-current assets held for sale (or disposal groups) have been deleted. The impact of the amendments is:

- Will no longer be required to reclassify assets as held for sale. GRAP 100 now only deals with discontinued operations.
- Certain disclosure must be made if, at the reporting date, management has taken a decision to dispose of a significant asset or a group of assets and liabilities. Will fall under the Standard of GRAP on Presentation of Financial Statements.

Measurement requirements are to be applied prospectively and presentation and disclosure requirements are to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2014.

The municipality expects to adopt the amendment for the first time in the 2015 annual financial statements.

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>3. Receivables from exchange transactions</b>		
Provision for doubtful debts: Tshabalala and Dhlamini	(198,462)	(198,462)
Suspense	474,535	24,231
Fuel deposit	1,000	1,000
Pick n Pay card	2,251	2,251
S Tshabalala - vehicle loan	35,960	35,960
Other debtors	151,370	1,085,428
Bursary recoupments	-	5,430
S Dhlamini - vehicle loan	162,502	162,502
	<u>629,156</u>	<u>1,118,340</u>

### Trade and other receivables pledged as security

None of the Trade and other receivables was pledged as security by the municipality during the financial year.

### Trade and other receivables impaired

As of 30 June 2014, trade and other receivables of R 629,156 (2013: R 1,118,340) were impaired and provided for.

The amount of the provision was R (198,462) as of 30 June 2014 (2013: R (198,462)).

The ageing of these receivables is as follows:

3 to 6 months	151,370	1,090,858
Over 6 months	477,786	27,482

### 4. Receivables from non-exchange transactions

Department of Sports: FDDM Stadium	-	440,002
Recoverable funeral expenses: MEC Health	6,269,593	6,269,593
Provision for doubtful debts	(6,269,593)	-
	<u>-</u>	<u>6,709,595</u>

### Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

The MEC's funeral expenses will be recovered from the Department of Health.

### 5. VAT receivable

VAT	<u>3,889,098</u>	<u>1,973,723</u>
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VAT is payable on the payment basis. VAT is only paid to SARS on receipt of payment from customers.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>6. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Bank balances	1,558,740	31,595,916
Short-term deposits	135,825,737	128,814,759
Bank overdraft	(73,814)	-
	<b>137,310,663</b>	<b>160,410,675</b>
Current assets	137,384,477	160,410,675
Current liabilities	(73,814)	-
	<b>137,310,663</b>	<b>160,410,675</b>

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Cash and cash equivalents include cash on hand, current bank account, bank overdraft and short term deposits with a maturity of three months or less.

### Short-term deposits consist of the following balances at various institutions

Absa bank	45,741,734	43,376,820
Nedbank	35,575,154	33,737,535
Rand merchant	12,032,628	11,463,949
Standard bank	42,476,221	40,236,455
	<b>135,825,737</b>	<b>128,814,759</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
ABSA BANK - Cheque Account - 520000100	-	3,744,526	3,838,931	(73,813)	3,586,712	3,667,675
ABSA BANK - Savings Account - 9070399717	321,832	25,546,554	63,210,824	321,832	25,546,554	63,210,824
ABSA BANK - HIV/Aids Project Bank Account - 9209269959	1,236,908	2,462,650	1,427,035	1,236,908	2,462,650	1,427,035
<b>Total</b>	<b>1,558,740</b>	<b>31,753,730</b>	<b>68,476,790</b>	<b>1,484,927</b>	<b>31,595,916</b>	<b>68,305,534</b>

### 7. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	2,590,000	-	2,590,000	2,590,000	-	2,590,000
Buildings	19,954,776	(2,153,730)	17,801,046	19,729,696	(1,326,967)	18,402,729
Plant and machinery	225,945	(75,566)	150,379	204,945	(47,056)	157,889
Furniture and fixtures	4,524,807	(3,477,386)	1,047,421	4,479,787	(3,022,409)	1,457,378
Motor vehicles	10,847,042	(4,502,758)	6,344,284	9,339,821	(4,222,401)	5,117,420
Office equipment	1,807,493	(1,560,090)	247,403	1,702,085	(1,139,059)	563,026
Computer equipment	6,006,788	(4,698,744)	1,308,044	5,559,034	(3,982,485)	1,576,549
Other assets	3,203,975	(1,589,378)	1,614,597	2,892,253	(1,251,159)	1,641,094
<b>Total</b>	<b>49,160,826</b>	<b>(18,057,652)</b>	<b>31,103,174</b>	<b>46,497,621</b>	<b>(14,991,536)</b>	<b>31,506,085</b>



# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

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

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

	Opening balance	Additions	Disposals	Depreciation	Total
Land	2,590,000	-	-	-	2,590,000
Buildings	18,402,729	225,080	-	(826,763)	17,801,046
Plant and machinery	157,889	21,000	-	(28,510)	150,379
Furniture and fixtures	1,457,378	45,020	-	(454,977)	1,047,421
Motor vehicles	5,117,420	2,688,155	(118,093)	(1,343,198)	6,344,284
Office equipment	563,026	105,408	-	(421,031)	247,403
Computer equipment	1,576,549	447,754	-	(716,259)	1,308,044
Other assets	1,641,094	311,722	-	(338,219)	1,614,597
	<b>31,506,085</b>	<b>3,844,139</b>	<b>(118,093)</b>	<b>(4,128,957)</b>	<b>31,103,174</b>

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

	Opening balance	Additions	Disposals	Revaluation Surplus / (Devaluation)	Depreciation	Total
Land	2,025,000	-	-	565,000	-	2,590,000
Buildings	11,995,925	-	-	8,323,723	(1,916,919)	18,402,729
Plant and machinery	168,650	-	-	-	(10,761)	157,889
Furniture and fixtures	1,328,612	577,205	(8,991)	-	(439,448)	1,457,378
Motor vehicles	5,818,004	579,550	-	-	(1,280,134)	5,117,420
Office equipment	752,140	35,631	-	-	(224,745)	563,026
Computer Equipment	1,963,412	336,210	(972)	-	(722,101)	1,576,549
Other assets	1,897,657	114,039	-	-	(370,602)	1,641,094
	<b>25,949,400</b>	<b>1,642,635</b>	<b>(9,963)</b>	<b>8,888,723</b>	<b>(4,964,710)</b>	<b>31,506,085</b>

#### Pledged as security

No property, plant and equipment was pledged as security for liabilities.

#### Other information

#### Property, plant and equipment fully depreciated and still in use (Cost price)

Computer Equipment	634,896	634,896
Furniture and Fittings	335,808	335,808
Office Equipment	89,784	89,784
Other Assets	49,744	49,744
	<b>1,110,232</b>	<b>1,110,232</b>

#### Key Assumptions used to determine the recoverable service amount of assets during the period:

The municipality conducted asset count, and in this process the assets' conditions were assessed, and it was determined that no assets were identified to be impaired.

No further information is therefore disclosed, as there were no assets impaired during the period under review.

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

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand

2014

2013

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

#### Revaluations

The effective date of the revaluations was 28 June 2013. Revaluations were performed by Kgolofelo Property Services CC, an independent valuer. Valuations were made on the basis of recent market transactions on arm length terms. The revaluation surplus was credited to revaluation reserve.

Land and buildings are revalued independently every 5 years.

### 8. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Microsoft Exchange 2010	56,848	(37,898)	18,950	56,848	(18,949)	37,899
Caseware	173,950	(120,799)	53,151	173,950	(91,807)	82,143
Microsoft Office 2007	163,027	(149,441)	13,586	163,027	(129,063)	33,964
E-Venus	468,460	(434,302)	34,158	468,460	(375,744)	92,716
Server Software	241,071	(186,245)	54,826	241,071	(147,056)	94,015
Payday System	89,052	(82,559)	6,493	89,052	(71,427)	17,625
<b>Total</b>	<b>1,192,408</b>	<b>(1,011,244)</b>	<b>181,164</b>	<b>1,192,408</b>	<b>(834,046)</b>	<b>358,362</b>

#### Reconciliation of intangible assets - 2014

	Opening balance	Amortisation	Total
Microsoft Exchange 2010	37,899	(18,949)	18,950
Caseware	82,143	(28,992)	53,151
Microsoft Office 2007	33,964	(20,378)	13,586
E-Venus	92,716	(58,558)	34,158
Server Software	94,015	(39,189)	54,826
Payday System	17,625	(11,132)	6,493
	<b>358,362</b>	<b>(177,198)</b>	<b>181,164</b>

#### Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Microsoft Exchange 2010	56,848	(18,949)	37,899
Caseware	111,135	(28,992)	82,143
Microsoft Office 2007	54,342	(20,378)	33,964
E-Venus	151,274	(58,558)	92,716
Server Software	133,204	(39,189)	94,015
Payday System	28,756	(11,131)	17,625
	<b>535,559</b>	<b>(177,197)</b>	<b>358,362</b>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>8. Intangible assets (continued)</b>		
<b>Other information</b>		
Fully amortised intangible assets still in use (Cost price)	4,094	4,094
Fully amortised intangible assets still in use consist of:		
- MS Exchange 2003 Server		
There were no intangible assets that were assessed as having an indefinite useful life.		
There are no intangible assets whose title is restricted.		
There are no contractual commitments for the aquisition of intangible assets.		
<b>9. Trade and other payables</b>		
Trade payables	8,204,504	9,670,238
Retention creditors	3,260,997	2,184,072
Staff leave accrual	5,535,324	4,454,278
Service bonus accrual	2,880,898	1,580,096
	<u>19,881,723</u>	<u>17,888,684</u>
<b>10. Unspent conditional grants and receipts</b>		
See appendix "F2" for a detailed reconciliation of grants from other spheres of government. The Unspent Grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld during the year.		
Unspent conditional grants and receipts comprises of:		
<b>Unspent conditional grants and receipts</b>		
Department of Health - Metsimaholo Hospital	69,988	1,253,366
Department of Health - Relebohile Clinic: Ngwathe Local Municipality	4,062,277	3,042,714
Department of Public Works - Church: Ngwathe Local Municipality	85,794	85,794
Department of Roads, Transport and Police - Internal Roads: Ngwathe Local Municipality	732,391	732,391
Department of Sports - Grant: Fezile Dabi Stadium	1,264,448	-
DWA - Edenville bulk water supply	137,294	137,294
EPWP Project - Sidewalks: Metsimaholo Local Municipality	370,355	509,434
LOTTO	980,987	1,599,055
Sewer network - Moqhaka Local Municipality	1,742,059	-
	<u>9,445,593</u>	<u>7,360,048</u>
<b>Movement during the year</b>		
Balance at the beginning of the year	7,360,048	35,507,082
Additions during the year	10,838,243	11,541,688
Spend during the year	(8,752,698)	(39,688,722)
	<u>9,445,593</u>	<u>7,360,048</u>
<b>11. Long term loans</b>		
<b>Loans from DBSA</b>		
External Loans	2,644,883	20,426,539
Less: Current portion transferred to current liabilities	(2,644,883)	(5,919,300)
	<u>-</u>	<u>14,507,239</u>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 11. Long term loans (continued)

See appendix "A" for a detailed schedule of external loans.

### 12. Retirement benefit obligation

#### Defined benefit plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

In-service members are entitled to a post-employment medical aid subsidy of 60% of the contribution payable. All current continuation members receive a 60% subsidy.

Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

The obligation in respect of medical care contributions for retirement benefits is valued every year by independent qualified actuaries.

An actuarial valuation has been performed of the municipality's liability in respect of benefits to eligible retirees and retired employees of the municipality by ZAQ Consultants and Actuaries.

#### Post retirement medical aid plan

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

In-service members (employees)	122	110
Continuation members (e.g: retirees, widows, orphans)	5	3
	<u>127</u>	<u>113</u>

The municipality make monthly contributions for health care arrangements to the following medical aid schemes:

- Bonitas Medical Scheme
- Discovery Medical Scheme
- Hosmed Medical Scheme
- KeyHealth Medical Scheme
- LA Health Medical Scheme
- Samwumed Medical Scheme

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

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(8,417,000)	(6,440,000)
Service cost	(802,000)	(628,000)
Interest cost	(816,000)	(617,000)
Actuarial gains or (losses)	2,437,026	(819,000)
Actual benefits paid	153,974	87,000
	<u>(7,444,000)</u>	<u>(8,417,000)</u>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>12. Retirement benefit obligation (continued)</b>		
<b>Net expense of the defined benefit obligation recognised in the statement of financial performance</b>		
Current service cost	(802,000)	(628,000)
Interest cost	(816,000)	(617,000)
Actuarial gains (losses)	2,437,026	-
Benefit payments	153,974	87,000
	<b>973,000</b>	<b>(1,158,000)</b>

### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.94 %	9.30 %
Healthcare cost inflation	8.05 %	8.00 %
Net discount rate	0.82 %	1.20 %

The basis used to determine the overall expected rate of return on assets is as follow:

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

The discount rate was set equal to the yield of the R209 South African government bond as at the valuation date. The actual yield on the R209 bond was sourced from RMB Global Markets on the 30th of June 2014.

### Other assumptions

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

	One percentage point increase		One percentage point decrease		
Effect on the accrued liability	7,687,000		7,136,000		
Effect on interest cost	704,000		653,000		
Effect on service cost	571,000		532,000		
	2014	2013	2012	2011	2010
	R	R	R	R	R
Defined benefit obligation	7,444,000	8,417,000	6,440,000	5,643,000	3,483,000

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 13. Provisions for long service awards

#### Reconciliation of provisions for long service awards - 2014

	Opening Balance	Contributions	Total
Long Service Awards	7,190,000	405,000	7,595,000

#### Reconciliation of provisions for long service awards - 2013

	Opening Balance	Additions	Total
Long Service Awards	5,677,000	1,513,000	7,190,000

#### Amounts recognised in the statement of Financial Performance are as follows:

Current service cost	(1,235,000)	(1,031,000)
Interest cost	(557,000)	(465,000)
Actuarial gains/(losses)	384,599	(502,000)
<b>Cash Movements</b>		
Benefit payments	1,002,401	485,000
	<b>(405,000)</b>	<b>(1,513,000)</b>

#### Amounts recognised in the statement of Financial Position are as follows:

Defined benefit obligation	<b>(7,595,000)</b>	<b>(7,190,000)</b>
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The provision relates to the Long Service Award obligation for the municipal employees. The actuarial valuation was performed in line with the requirements of GRAP 25 by ZAQ Consultants and Actuaries on 30 June 2014.

#### Key assumptions used:

Assumptions used at the reporting date:

Discount rates used	7.96 %	7.50 %
Salary inflation	7.33 %	8.00 %
Net discount rate	0.59 %	(0.46)%

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

The discount rate used in the valuation is set as the yield of the R208 South African government bond as at the valuation date. The actual yield on the R208 bond was sourced from RMB Global Markets on the 30th of June 2014.

### 14. Revaluation reserve

Opening balance	16,466,211	7,835,140
Reserve realised	(879,329)	(346,462)
Revaluation surplus	-	8,993,723
Devaluation on Land (recognised against revaluation reserve)	-	(16,190)
	<b>15,586,882</b>	<b>16,466,211</b>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>15. Other income</b>		
Insurance claim received	921,676	70,809
Jazz festival income	1,266,788	828,391
Recoveries - Officials and Councillors	9,458	2,720
Sundry income	563,113	359,816
	<u>2,761,035</u>	<u>1,261,736</u>

Interest revenue relates to financial assets at amortised cost.

### 16. Interest received

<b>Interest revenue</b>		
Short term deposits	7,010,978	6,295,502
Bank	1,608,746	3,124,726
	<u>8,619,724</u>	<u>9,420,228</u>

### 17. Government grants and subsidies

Equitable share	134,501,000	131,146,000
Financial management grant	1,250,000	1,250,000
Municipal systems improvement grant	890,000	1,000,000
SETA intern program	1,740,000	-
SETA skills levy	180,508	231,219
Expanded public works program integrated grant	1,000,000	1,000,000
	<u>139,561,508</u>	<u>134,627,219</u>

#### Equitable Share

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

#### Financial Management Grant

Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(1,250,000)	(1,250,000)
	<u>-</u>	<u>-</u>

The purpose of the financial management grant is to assist municipalities to implement financial reforms required by MFMA..

#### Municipal Systems Improvement Grant

Current-year receipts	890,000	1,000,000
Conditions met - transferred to revenue	(890,000)	(1,000,000)
	<u>-</u>	<u>-</u>

The fund is used to assist the district in building capacity to perform its functions and stabilise institutional and governance systems as required by the Municipal Systems Act (Act 32 of 2000).

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>17. Government grants and subsidies (continued)</b>		
<b>Expanded Public Works Program Integrated Grant (EPWP)</b>		
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
	-	-

The grant was received by the municipality based on its ability to meet the performance requirements as set by the Department of Public Works.

### SETA Intern Program

Current-year receipts	1,740,000	-
Conditions met - transferred to revenue	(1,740,000)	-
	-	-

The purpose of the SETA grant is aimed at skills development, promoting growth in employment and capacity building to address scarce skills.

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No.5 of 2012), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

## 18. Employee related costs

Salaries and wages	42,245,241	36,928,489
Performance bonus	860,137	716,797
Contributions of UIF, pension and medical aids	10,036,887	8,868,414
Leave pay provision charge	2,433,443	3,356,461
Overtime payments	1,290,297	1,188,358
Long-service awards	405,000	1,513,000
Annual bonus	3,176,804	2,772,986
Travel, motor car	9,818,984	8,273,495
Housing benefits	285,608	321,417
Termination benefits	29,401	1,977,000
	<b>70,581,802</b>	<b>65,916,417</b>

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

### Remuneration Municipal Manager: Dr MVM Mongake

Annual remuneration	-	188,668
Car allowance	-	55,000
Performance bonuses	-	170,666
Housing	-	27,000
Contributions to UIF, medical and pension funds	-	39,905
	-	<b>481,239</b>

The Municipal Manager Dr Mongake, only served the municipality up to 30 September 2012.



# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>18. Employee related costs (continued)</b>		
<b>Remuneration of Municipal Manager: ML Molibeli</b>		
Annual remuneration	1,120,873	838,560
Car allowance	446,803	318,750
Performance bonuses	238,000	-
Contributions to UIF, medical and pension funds	221,320	130,421
	<u>2,026,996</u>	<u>1,287,731</u>

The Municipal Manager Ms Molibeli assumed her duties with the municipality with effect from 1 October 2012.

### Remuneration of - Chief Finance Officer: G Mashiyi

Annual remuneration	1,078,140	825,952
Car allowance	359,380	275,317
Performance bonuses	190,400	-
Contributions to UIF, medical and pension funds	1,785	4,586
	<u>1,629,705</u>	<u>1,105,855</u>

The Chief Finance Officer assumed duties with the municipality with effect from 1 September 2012.

### Remuneration of Acting Chief Financial Officer

Car allowance acting	-	44,054
Acting allowance	-	191,423
	<u>-</u>	<u>235,477</u>

Mr J Reyneke was appointed as the Acting Chief Financial Officer effectively from 1 November 2011 until 31 August 2012.

### Remuneration of Director - LED: V Moloji

Annual remuneration	714,661	695,274
Car allowance	136,000	120,000
Performance bonuses	136,633	136,533
Contributions to UIF, medical and pension funds	173,178	50,957
	<u>1,160,472</u>	<u>1,002,764</u>

### Remuneration of Director - PMU: S Mokgatle

Annual remuneration	-	322,463
Car allowance	-	83,884
Performance bonuses	-	136,533
Contributions to UIF, medical and pension funds	-	821
	<u>-</u>	<u>543,701</u>

The position Director: PMU were vacant during the 2013/2014 financial year.

### Remuneration of Director - Corporate Services: Adv A Mini

Annual remuneration	813,098	621,219
Car allowance	266,000	220,995
Performance bonuses	147,602	136,533
Contributions to UIF, medical and pension funds	19,053	36,243
	<u>1,245,753</u>	<u>1,014,990</u>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 18. Employee related costs (continued)

#### Remuneration of Director - Health and Safety: N Sgudu

Annual remuneration	818,667	622,416
Car allowance	266,000	220,995
Performance bonuses	147,602	136,533
Contributions to UIF, medical and pension funds	16,544	37,944
	<u>1,248,813</u>	<u>1,017,888</u>

### 19. Remuneration of councillors

Executive mayor	745,621	709,249
Mayoral committee members	1,730,686	2,031,953
Speaker	583,908	547,565
Councillors	2,922,828	2,676,145
	<u>5,983,043</u>	<u>5,964,912</u>

Councillors and public office bearers remuneration are within the upper limits as determined by Government Gazette 37281, January 2014.

#### Executive Mayor - Cllr MP Moshodi

Basic salary	443,975	422,117
Car allowance	175,950	167,571
Cellphone allowance	41,820	38,963
Social contributions	83,876	80,598
	<u>745,621</u>	<u>709,249</u>

#### Speaker - Cllr SI Mbalo

Basic salary	-	293,960
Car allowance	-	117,744
Cellphone allowance	-	18,411
Social contributions	-	59,271
	<u>-</u>	<u>489,386</u>

Councillor SI Mbalo, only served the municipality up to 17 May 2013.

#### Speaker - Cllr KGL Nkethu

Basic salary	352,174	27,891
Car allowance	140,760	11,171
Cellphone allowance	20,868	1,656
Social contributions	70,106	5,624
	<u>583,908</u>	<u>46,342</u>

Councillor KGL Nkethu assumed duties with the municipality with effect from 1 June 2013.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>19. Remuneration of councillors (continued)</b>		
<b>MPAC Chair Person: Cllr LS Kubeka</b>		
Basic salary	216,985	152,488
Car allowance	72,328	50,829
Cellphone allowance	-	5,293
	<b>289,313</b>	<b>208,610</b>
Councillor LS Kubeka assumed duties with the municipality with effect from 6 October 2012.		
<b>MMC - Technical services: Cllr K Khumalo</b>		
Basic salary	196,606	186,528
Car allowance	81,126	77,263
Cellphone allowance	-	7,476
Social contributions	46,771	45,259
	<b>324,503</b>	<b>316,526</b>
<b>MMC - Social development: Cllr GN Guza</b>		
Basic salary	329,225	312,832
Car allowance	131,963	125,679
Cellphone allowance	20,868	19,872
Social contributions	66,664	64,205
	<b>548,720</b>	<b>522,588</b>
<b>MMC - EHS and public safety: Cllr ME Magashule</b>		
Basic salary	162,252	231,788
Car allowance	54,084	77,263
Cellphone allowance	623	7,476
	<b>216,959</b>	<b>316,527</b>
Councillor ME Magashule, only served the municipality up to 28 February 2013.		
<b>MMC - EHS and public safety: Cllr VE de Beer</b>		
Basic salary	20,281	-
Car allowance	6,760	-
	<b>27,041</b>	<b>-</b>
Councillor VE de Beer, assumed duties with the municipality with effect from 1 June 2014.		
<b>MMC - LED and tourism: Cllr ML Hlapane</b>		
Basic salary	196,606	186,528
Car allowance	81,126	77,263
Cellphone allowance	-	7,476
Social contributions	46,771	45,259
	<b>324,503</b>	<b>316,526</b>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>19. Remuneration of councillors (continued)</b>		
<b>MMC - Finance: Cllr ME Notsi</b>		
Basic salary	206,551	196,715
Car allowance	79,178	75,407
Cellphone allowance	-	7,476
Social contributions	30,983	29,507
	<b>316,712</b>	<b>309,105</b>
<b>MMC - Corporate services: Cllr AM Olifant</b>		
Basic salary	196,606	186,528
Car allowance	81,126	77,263
Cellphone allowance	-	7,476
Social contributions	46,062	45,259
	<b>323,794</b>	<b>316,526</b>
<b>Part Time Councillors</b>		
<b>Cllr's: ME Mokoena, ML Pietersen, SJMT Mahlakazela, DP van der Westhuizen, MC Spruit, SH Pittaway, MS Taje, DLS George, KJ Makhoba, D de Hart</b>		
Basic salary	1,471,508	1,468,530
Car allowance	490,949	502,715
Cellphone allowance	191,944	123,960
Social contributions	-	34,698
	<b>2,154,401</b>	<b>2,129,903</b>
Sitting allowance for seconded councillors of local municipalities	127,570	172,176
<b>In-kind benefits</b>		
The Executive Mayor, Speaker and Executive Committee Members are employed on a full-time basis. Each is provided with an office and secretarial support at the the cost of the Council.		
The Executive Mayor has use of a Council owned vechile for official duties.		
<b>20. Administrative expenditure</b>		
Administrative expense	1,194,040	799,789
<b>21. Depreciation and amortisation</b>		
Property, plant and equipment	4,128,955	4,964,710
Intangible assets	177,198	177,197
	<b>4,306,153</b>	<b>5,141,907</b>
<b>22. Finance costs</b>		
Interest on long term loans	376,180	2,922,635

Finance cost relates to financial liabilities at amortised cost.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>23. Contracted services</b>		
Various Contractors	12,040,760	11,543,823
These payments are contracts which have been entered into during the current and prior financial year		
Admin and strategic plan	542,972	-
Cleaning Services	344,980	237,305
Cleaning change and green	677,130	-
Establishment of District Centre	34,429	860,921
IDP Implementation Monitoring	1,194,168	1,128,263
Improve response incidents'	1,084,353	-
Jazz Festival	5,976,993	5,470,017
Municipal Systems Improvement Programme	641,788	1,000,000
Other	524,699	350,128
Performance system	246,468	-
Renovations - Mafube Fire Station	-	1,537,985
Security Services - Building	-	131,332
Sport Development Programs	764,989	819,322
Upgrading of Municipal Resorts	7,791	8,550
	<b>12,040,760</b>	<b>11,543,823</b>

## 24. Grants and subsidies paid

<b>Other subsidies</b>		
Assistance to local municipality	2,013,438	1,198,100
District Rural Areas	-	1,074,951
Mafube Local Municipality	5,142,481	(26,818)
Metsimaholo Local Municipality	1,057,095	1,474,920
Moqhaka Local Municipality	274,256	9,152,251
Ngwathe Local Municipality	5,975,064	2,109,499
Support to local municipality - disaster management	159,400	-
	<b>14,621,734</b>	<b>14,982,903</b>

The Municipality identifies projects which are funded through grants and subsidies in the various local municipalities within the District. Projects are identified through the Integrated Development Plan. The operation and control of items of property, plant and equipment funded through these grants and subsidies vests in the local municipalities.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>25. General expenses</b>		
Accounting fees	175,439	-
Advertising	227,192	231,576
Auditors remuneration	2,518,433	2,085,047
Bank charges	78,745	74,231
Environmental health projects	598,973	309,231
Bursaries: External students	1,855,910	1,137,296
MHS auxiliary services projects	333,793	148,515
Cleaning	209,928	235,638
Community development and training	2,849,693	2,321,608
Conferences and seminars	578,031	376,884
Consulting and professional fees	364,459	105,450
Consumables	269,804	423,937
Sampling testing	300,829	268,083
Donations	821,046	769,919
Entertainment	800,045	679,493
Stipends	3,052,108	68,061
Public participation meetings	1,134,568	1,213,683
Distribution to beneficiaries (HIV and Aids)	1,300,000	500,000
District outreach programmes	927,362	674,219
Corporate reports	444,872	443,608
Bursaries: Internal	402,623	305,952
Fleet	75,270	72,609
Fuel and oil	1,030,089	693,044
Employee assistance program	157,141	69,773
IT expenses	1,209,104	1,059,741
Insurance	281,506	250,496
Magazines, books and periodicals	61,844	37,196
Marketing	2,125,638	1,371,410
Medical expenses	626	-
Other expenses	3,668,932	4,565,622
Postage and courier	9,154	21,917
Printing and stationery	2,030,518	561,237
Promotions	5,556,698	2,636,021
Protective clothing	646,136	227,040
Insurance: Workers Compensation Assistance	333,871	309,350
Rental equipment	1,742,377	2,693,442
Research and development costs	141,556	144,318
Royalties and license fees	13,442	9,463
Security (Guarding of municipal property)	146,018	21,400
Subscriptions and membership fees	701,006	592,125
Telephone and fax	981,602	785,676
Air quality management	241,250	296,145
Tourism development	-	758,357
Training	1,460,796	1,139,562
Travel - local	4,544,292	3,612,384
Municipal services	694,793	747,650
Entrepreneurial support system	602,866	622,198
Emergency funds	1,209,464	457,733
	<b>48,909,842</b>	<b>36,128,340</b>

### Donations

All donations made by the municipality are in terms of the council's donation policy.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>26. Other receipts</b>		
Other income	2,761,035	1,261,735
Administration and management fees received	78,020	59,280
Gain / (loss) on disposal of assets	-	(9,963)
Public contributions and donations	-	148,424
	<b>2,839,055</b>	<b>1,459,476</b>
<b>27. Cash used in operations</b>		
(Deficit) surplus	(14,774,352)	1,100,909
<b>Adjustments for:</b>		
Depreciation and amortisation	4,306,153	5,141,907
Loss / (gain) on sale of assets and liabilities	(77,907)	9,963
Debt impairment	6,269,593	198,462
Movements in operating lease assets and accruals	81,900	(165,252)
Movements in retirement benefit assets and liabilities	(973,000)	1,977,000
Movements in provisions	405,000	1,513,000
Other non-cash items	-	(87,754)
<b>Changes in working capital:</b>		
Receivables from exchange transactions	489,184	(1,023,218)
Receivables from non-exchange transactions	440,002	(6,709,595)
Trade and other payables	1,993,039	628,791
VAT	(1,915,375)	2,084,838
Unspent conditional grants and receipts	2,085,545	(28,147,034)
	<b>(1,670,218)</b>	<b>(23,477,983)</b>

### 28. Retirement Benefit Information

Councillors and employees belong to two defined benefit retirement funds which are the Free State Municipal Pension Fund and the Councilors Pension Fund governed by the Pension Fund Act of 1956. These Funds are subject to triennial actuarial valuation.

The last valuation of the Free State Municipal Pension Fund was performed June 2008. The Free State Municipal Pension Fund, net assets that are available for benefits at 30 June 2008 was R 1 929 769 000.

The actuarial valuation determined that the fund was in a sound financial position. The estimated liability of the funds is R 1 576 689 000 which is adequately financed.

No new information was available at reporting date.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 29. Prior period errors

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

Below is a description of each individual prior period error followed by a summary of the total effect of the prior period errors on the amounts previously disclosed.

#### 1. Trade payables

Retentions on projects;

During the 2013-14 financial year, the municipality reversed retentions on completed projects which were previously paid out, while the respective accounts were not duly updated.

#### 2. Property, plant and equipment

Depreciation

During the 2013-2014 financial year, the municipality corrected depreciation on buildings incorrectly processed during the 2012-2013 financial year.

### Statement of financial position

Decrease in trade payables	-	49,733
Increase in accumulated surplus or deficit	-	(49,733)
Decrease in property, plant and equipment	-	1,326,968
Increase in accumulated surplus	-	(1,326,968)
	-	-

### Statement of Financial Performance for the year ended 30 June 2013

	Balance as previously reported	Prior period error	Reclassified (note 30)	Restated balance
<b>Expenditure</b>				
Grants and subsidies paid	13,784,803	-	1,198,100	14,982,903
General expenses	37,326,440	-	(1,198,100)	36,128,340
Depreciation	3,814,940	1,326,968	-	5,141,908
Total expenditure	<u>54,926,183</u>	<u>1,326,968</u>	<u>-</u>	<u>56,253,151</u>

### Statement of Financial Position as at 30 June 2013

	Balance as previously reported	Prior period error	Reclassified (note 30)	Restated balance
<b>Assets</b>				
<b>Current Assets</b>				
Receivables from non-exchange transactions	-	-	6,709,595	6,709,595
Receivables from exchange transactions	7,827,935	-	(6,709,595)	1,118,340
Total current assets	<u>7,827,935</u>	<u>-</u>	<u>-</u>	<u>7,827,935</u>
<b>Non-current Assets</b>				
Property, plant and equipment	32,833,052	(1,326,968)	-	31,506,084
Total non-current assets	<u>32,833,052</u>	<u>(1,326,968)</u>	<u>-</u>	<u>31,506,084</u>

### Liabilities

#### Current Liabilities



# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand			2014	2013
<b>29. Prior period errors (continued)</b>				
Trade and other payables	17,938,417	(49,733)	-	17,888,684
Total current liabilities	<u>17,938,417</u>	<u>(49,733)</u>	<u>-</u>	<u>17,888,684</u>
<b>Net Assets</b>				
Accumulated surplus - Opening balance	125,561,429	(1,277,235)	-	124,284,194
Total net assets	<u>125,561,429</u>	<u>(1,277,235)</u>	<u>-</u>	<u>124,284,194</u>
<b>30. Comparative figures</b>				
Certain comparative figures have been reclassified.				
The reason for reclassification is to classify trade receivables to correct classification in terms of receivables from exchange transactions and receivables from non-exchange transactions.				
The effects of the reclassification are as follows:				
<b>Statement of financial position</b>				
Decrease receivables from exchange transactions			-	(6,709,595)
Increase receivables from non-exchange transactions			-	6,709,595
<b>Statement of Financial Performance</b>				
Decrease general expenses			-	(1,198,100)
Increase grants and subsidies paid			-	1,198,100
<b>31. Going concern</b>				
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.				
<b>32. Unauthorised expenditure</b>				
Balance at the beginning of the year			-	272,771
Less: Amounts approved/written-off by council			-	(272,771)
			<u>-</u>	<u>-</u>
<b>33. Fruitless and wasteful expenditure</b>				
Opening balance	2,454		5,290	
Fruitless and wasteful expenditure - current year	29,507		12,140	
Less: Amount approved/written-off by council	-		(5,290)	
Amounts recovered	(3,973)		-	
Transfer to receivables for recovery	(25,534)		(9,686)	
	<u>2,454</u>		<u>2,454</u>	
<b>34. Irregular expenditure</b>				
Opening balance	311,767		482,789	
Add: Irregular Expenditure - current year	-		1,093,619	
Less: Amounts approved/written-off by council	-		(1,264,641)	
	<u>311,767</u>		<u>311,767</u>	

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>34. Irregular expenditure (continued)</b>		
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	-	1,093,619
Prior years	311,767	482,789
	<u>311,767</u>	<u>1,576,408</u>
<b>35. In-kind donations and assistance</b>		
No in-kind donations or assistance were received during the year.		
<b>36. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription	674,882	569,697
Amount paid - current year	(674,882)	(569,697)
	<u>-</u>	<u>-</u>
<b>Audit fees</b>		
Current year fee	2,518,433	2,085,047
Amount paid - current year	(2,518,433)	(2,085,047)
	<u>-</u>	<u>-</u>
<b>PAYE and UIF</b>		
Current year payroll deduction	14,466,370	13,252,006
Amount paid - current year	(14,466,370)	(13,252,006)
	<u>-</u>	<u>-</u>
<b>Pension and medical aid deductions</b>		
Current year payroll deduction	14,537,852	13,697,409
Amount paid - current year	(14,537,852)	(13,697,409)
	<u>-</u>	<u>-</u>
<b>37. Related parties</b>		
Members of key management	Refer to note 18 and 19	
There were no related party transactions identified during the financial year under review.		

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

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Figures in Rand	2014	2013
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### 38. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk).

#### Liquidity risk

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

The financial liabilities of the municipality are backed by appropriate assets and it has adequate liquid resources. The municipality monitors the cash projections by ensuring that borrowing facilities are available to meet its cash requirements.

No significant financial risk pertaining to the creditors exists except for mainly operational risks that are not covered in here.

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

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Trade and other payables	19,881,723	-	-	-
• Long term loans	2,644,883	-	-	-
At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Trade and other payables	17,888,684	-	-	-
• Long term loans	20,426,539	-	-	-

#### Credit risk

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

#### Financial instrument

Receivables from exchange transactions	629,156	1,118,340
Receivables from non-exchange transactions	-	6,709,595
Cash and cash equivalents	137,384,477	160,410,675

#### Market risk

#### Interest rate risk

The municipality is mainly exposed to interest rate risk due to the movements in long-term and short term interest rates.

The risk is managed on an on-going basis.

### 39. Events after the reporting date

No events took place after the reporting date.

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand 2014 2013

### 40. 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 annual financial statements.

Deviations from supply chain management regulations did occur. These deviations were submitted and noted by council. A detailed deviation register is available at the municipality for inspection.

#### Deviation Categories

Emergency	49,210	638,264
Sole Supplier	-	935,543
Others	207,767	3,091,377
	<u>256,977</u>	<u>4,665,184</u>

### 41. Financial instruments disclosure

#### Categories of financial instruments

#### 2014

##### Financial assets

	At amortised cost	Total
Receivables from exchange transactions	629,156	629,156
Cash and cash equivalents	137,384,477	137,384,477
	<u>138,013,633</u>	<u>138,013,633</u>

##### Financial liabilities

	At amortised cost	Total
Trade and other payables	19,881,723	19,881,723
Bank overdraft	73,814	73,814
Unspent conditional grants and receipts	9,445,593	9,445,593
Long term loans	2,644,883	2,644,883
	<u>32,046,013</u>	<u>32,046,013</u>

#### 2013

##### Financial assets

	At amortised cost	Total
Receivables from exchange transactions	1,118,340	1,118,340
Receivables from non-exchange transactions	6,709,595	6,709,595
Cash and cash equivalents	160,410,675	160,410,675
	<u>168,238,610</u>	<u>168,238,610</u>

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>Financial instruments disclosure (continued)</b>		
<b>Financial liabilities</b>		
	At amortised cost	Total
Long term loans	20,426,539	20,426,539
Trade and other payables	17,888,684	17,888,684
Unspent conditional grants and receipts	7,360,048	7,360,048
	<u>45,675,271</u>	<u>45,675,271</u>

### 42. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	<u>18,607,543</u>	<u>15,764,800</u>
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This committed expenditure relates to property and will be financed by available bank facilities, accumulated surpluses, existing cash resources, funds internally generated, etc.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	1,388,420	1,262,500
- in second to fifth year inclusive	977,680	2,366,430
	<u>2,366,100</u>	<u>3,628,930</u>

The municipality rents photocopy machines from Nashua Vaal, being the major supplier:

- no contingent rent is payable in terms of the lease agreements.
- there is no renewal as per lease agreement terms, and the lease escalates as determined in the various lease agreements with the renter; and
- no restrictions are imposed by lease arrangements, with regards to additional debt and further leasing.

The lease agreements is for a total period of 36 months (3 years).

# Fezile Dabi District Municipality

Annual Financial Statements for the year ended 30 June 2014

## Notes to the Annual Financial Statements

Figures in Rand	2014	2013
<b>43. Contingencies</b>		
The municipality had the following contingent liabilities as at year-end:		
The certainty and timing of the outflow of these liabilities are uncertain. The amount disclosed below are possible outflow;		
FDDM/SAMWU obo P. Setsheli - Labour case	1,000,000	80,000
FDDM/SAMWU obo T. Gorati - Labour case	600,000	45,000
FDDM/IMATU obo T. Odendaal - Labour case	900,000	-
FDDM/T. Mohlakoana	100,000	-
FDDM/A. Radebe	100,000	-
	<u>2,700,000</u>	<u>125,000</u>

- P. Setsheli: Dismissal due to misconduct in refusing to take lawful orders.
- T. Gorati: Dismissal due to misconduct, the applicant is contesting the dismissal.
- T. Odendaal: Suspended due to misconduct and faces possible dismissal.
- T. Mohlakoana: Resigned on constructive dismissal and has given notice of intention to go for arbitration.
- A. Radebe: Resigned on constructive dismissal and indicated, labour court will be approached.

### Wage curve agreement:

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/payable prior to the outcome of the pending litigation.

### 44. Budget differences

#### Material differences between budget and actual amounts

1. Administration and management - Decrease in number of tender documents sold.
2. Interest received- investment - Fluctuation in interest rate.
3. Personnel - Vacant posts not filled.
4. Remuneration of councillors - Session allowance - not all councillors attending, Councillors in local municipalities earning the difference between district and local allowance, Speakers salary not earned for months, Resignation of MMC Magashule.
5. Administration - Underspending on strategic sessions and annual licence/GIS
6. Transfer payments - Money borrowed from distributable reserve to supplement the shortfall on the budget.
7. Finance costs - The amount includes redemption captured in the statement of financial position of R14 507 239.
8. Contracted services - Underspending on climate change spatial and master plans, establishment of disaster plan, centre and waste plan.
9. Grants and subsidies paid - Capital projects not finalized.

#### Differences between budget and actual amounts basis of preparation and presentation

The budget is approved on an accrual basis by functional classification. The approved budget covers the period from 1 July 2013 to 30 June 2014. The financial statements are prepared on the accrual basis using a classification on the nature of expenses in the statement of financial performance. The financial statements basis agree to budget basis, no differences.

#### Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters.