

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019



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## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## **GENERAL INFORMATION**

### **Members of the Executive Mayoral Committee:**

Councillor L U Makhalema	Chairperson
Councillor M A Mokoena	MMC for community services
Councillor M St V Mofokeng	MMC for public works and rural development
Councillor D B Michaels	MMC for corporate services
Councillor S M Jacobs	MMC for human settlement & local economic development and tourism
Councillor T J Tseki	MMC for finance
Councillor Ms M E Sempe	MMC for IDP, performance management and monitoring
Councillor N E Mabizela	MMC for women, children, disability and vulnerable groups

### **Grade of Local Authority:**

Grade 8

### **Auditor:**

Auditor-General South Africa

### **Bankers:**

ABSA Bank  
Branch 502-233      Account number      4052898966

### **Registered Office:**

Civic centre	PO Box 551	Telephone:	058-303 5732
Muller street	Bethlehem	Fax:	058-303 5076
Bethlehem	9700		

### **E-mail address:**

info@dihlabeng.co.za

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## **Municipal Manager:**

Mr Busa Molatseli

## **Chief Financial Officer:**

Mr Pule Khiba

## **Members of the Dihlabeng Local Municipality**

<b><u>Ward No:</u></b>	<b><u>Councillor</u></b>
1	Mr T I Mofokeng
2	Mr M M Twala
3	Mr D B Michaels
4	Mr M D Motaung
5	Mr T J Mbambo
6	Ms J Twala
7	Ms T M Mofokeng
8	Mr T M H Mofokeng
9	Mr B F Mokoena
10	Ms C J van Niekerk
11	Mr M D Shabalala
12	Mr J M Radebe
13	Mr T J Seekane
14	Mr T J Tseki
15	Ms M E Sempe
16	Mrs S M Jacobs
17	Mrs A L Rakhothule - Mkhwanazi
18	Mrs N E Mabizela
19	Mr M St V Mofokeng
20	Mr P D Lengoabala

## **Public Representatives Councillors**

Mrs L U Makhalema	Mr J K Rathebe
Ms M A Maleka	Mrs M A Mokoena
Ms M E Lekhoa	Mrs H E Mokoena
Ms M F Mabuya	Mr E T Motlounq
Mr G J Roetz	Ms N A Motaung
Mr P A Maasdorp	Mr J J Nhlapo
Mr M J Mokoena	Mr M K Mthombeni
Mr D L Xaba	Ms M V Oliphant

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Ms M A Motaung

Ms Z Nzimande

Mr A Wolmarans

Mr EM Maswili

## **Executive Mayor:**

Councillor L.U. Makhalema

## **Speaker:**

Councillor P.D. Lengoabala

## **Members of the Audit Committee:**

Ms V C Sikaundi	-	Chairperson
Mr. MD Motaung	-	Member
Mr TD Tshikundu	-	Member

## **Nature of the entity**

The municipality is established in terms of Chapter 7 of the Constitution of the Republic of South Africa.

## **Relevant legislation**

Constitution of the Republic of South Africa

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act (Act No 5 of 2012)

The Income Tax Act (Act No 28 of 1997)

Value Added Tax Act (Act No 89 of 1991)

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no32 of 2000)

Municipal Planning and Performance Management Regulations

Water Services Act (Act no 108 of 1997)

Housing Act (Act no 107 of 1997)

Municipal Property Rates Act (Act no 6 of 2004)

Electricity Act (Act no 41 of 1987)

Skills Development Levies Act (Act no 9 of 1999)

Employment Equity Act (Act no 55 of 1998)

Unemployment Insurance Act (Act no 30 of 1966)

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Basic Conditions of Employment Act (Act no 75 of 1997)

Disaster Management Act (Act no 57 of 2002)

Municipal Electoral Act (Act no 27 of 2000)

Municipal Demarcation Act (Act no 27 of 1998)

Supply Chain Management Regulations, 2005

Collective Agreements

Infrastructure Grants

SALBC Leave Regulations

## **APPROVAL OF FINANCIAL STATEMENTS:**

I am responsible for the preparation of these annual financial statements, which are set out on pages 18 to 98 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in Note 29 and 30 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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Acting Municipal Manager  
NP Mondl

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Chief Financial Officer  
Pule Khiba

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## ACCOUNTING OFFICER'S REPORT

### 1. INTRODUCTION

The 2018/19 financial year posed many challenges and obstacles which had to be addressed and accommodated by the limited financial and other resources.

The budget and the IDP are aligned with the vision and imperatives of national government, which are to address service delivery backlogs and the following strategic areas, were focussed on during the 2018/19 budget:

- The eradication of backlogs and investment in infrastructure for basic services and growth
- Economic growth and development that is shared and creates sustainable jobs
- Building safer, more secure and more sustainable communities
- The deepening of democracy
- Financial viability and management of resources
- A caring and effective government
- Institutional capacity and transformation

To budget for improved service delivery and then subsequently realising operational efficiency while it is also ensured that the deliverables are attained in a sustainable manner, has been a huge challenge during the 2018/19 financial year.

The challenge of addressing unlimited needs within the constraints of limited resources has necessitated a change in the way we do business to ensure that we stretch our resources to the maximum.

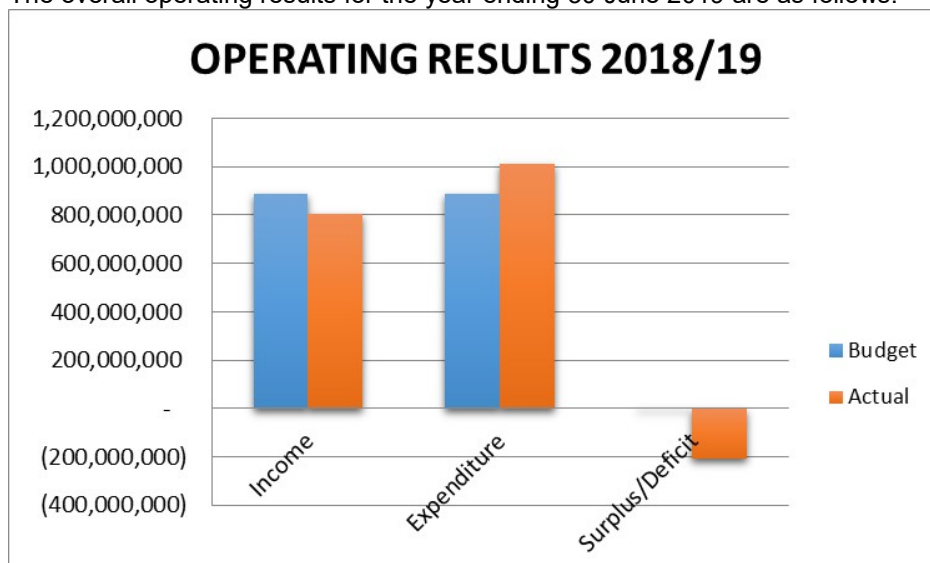
### 2. REVIEW OF OPERATING RESULTS

The 2018/19 budget of Dihlabeng Local Municipality was approved by Council in May 2018.

#### 2.1 General

Details of the 2018/19 operating results and classification of revenue and expenditure are included in the Statement of Financial Performance. A graphical presentation of the operating results is shown in the graph below:

The overall operating results for the year ending 30 June 2019 are as follows:



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

	Original Budget 2018	Adjusted	Actual 2019	Variance Actual / Adjusted budget	Actual 2018
Description	R'000	R'000	R'000	%	R'000
<b>REVENUE</b>					
Operating revenue for the year	888 806	888 806	802 231	10,35%	726 977
	888 806	888 806	802 231		726 977
<b>EXPENDITURE</b>					
Operating expenditure for the year	888 806	888 806	1 013 439	18,45%	(855 562)
Fair value adjustment	-	-	116		114
Gain / (Loss) on disposal of assets	-	-	1 846		(46 890)
Actuarial Gains / (loss)			(765)		(3 486)
Gain on biological assets	0	-	917		299
	888 806	888 806	1 011 326		905 525

The actual net expenditure of the Municipality reflects an increase of 18.45% while the actual revenue of the Municipality has increased by 10.35% in 2018/19

The largest increase on revenue occurred on Interest received (15%), traffic fines (377%), licenses and permits (174%), other income (384%), Government Grants (15%) and Dividends received (17%).

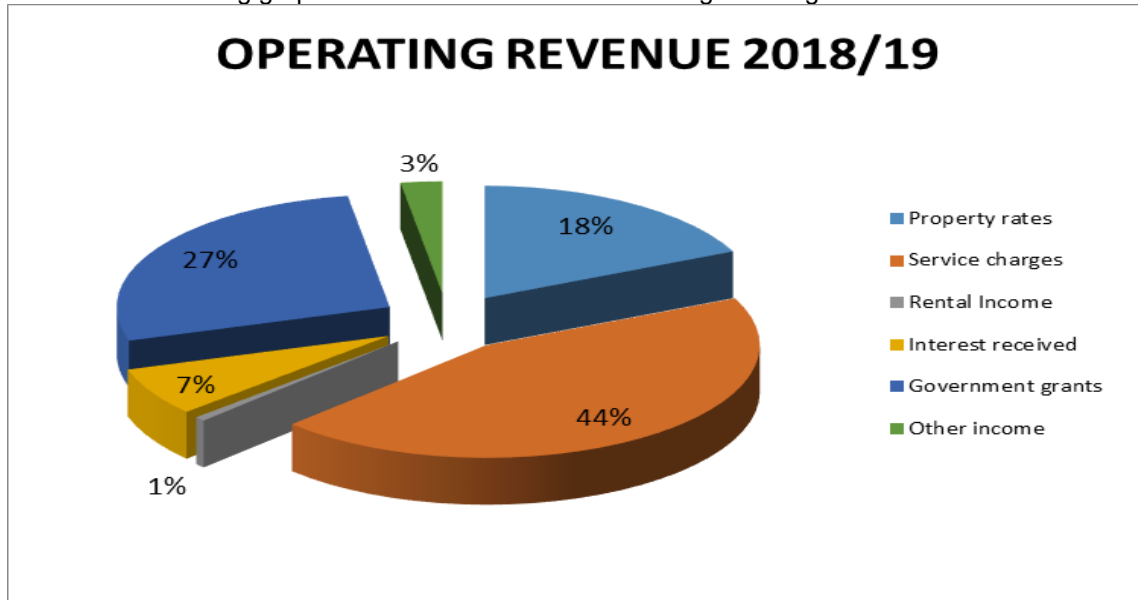
The largest increase on expenditure occurred on personnel costs (15%), depreciation (107%), contracted services (16%) Bulk Purchases (14%), general expenses (13%).

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

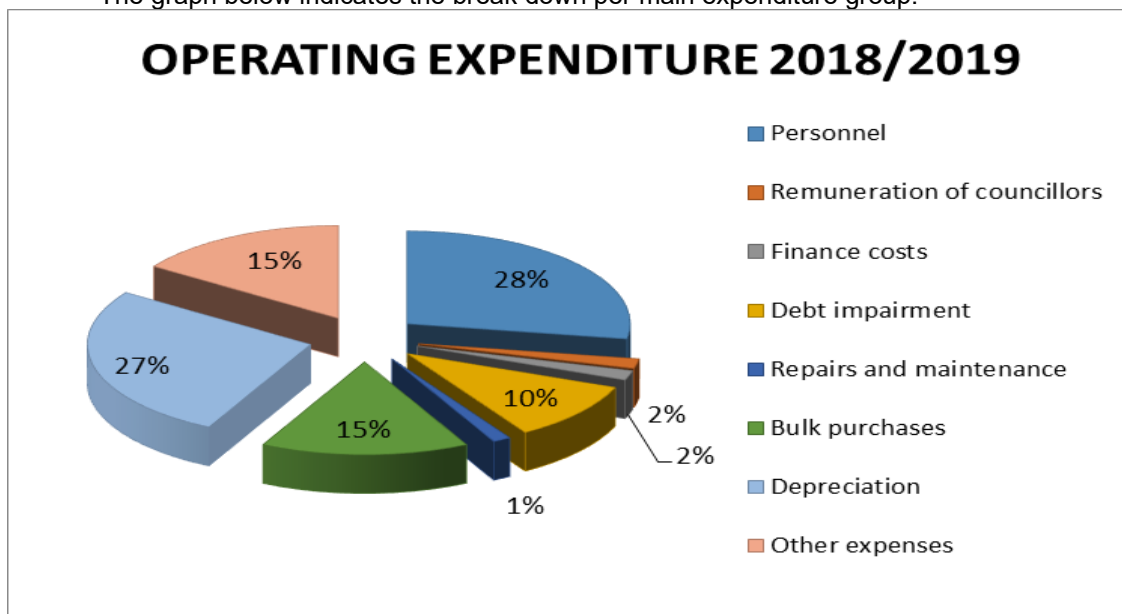
## 2.2 Operating Revenue

The following graph indicates a breakdown of the largest categories of revenue.



## 2.3 Operating expenditure

The graph below indicates the break down per main expenditure group.





# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Remuneration

The actual expenditure on remuneration expressed as a percentage of the total expenditure shows an increase from 28.13% in 2017/18 to 27.28% in 2018/19. These figures have a large impact on the going concern capabilities of the municipality. The total remuneration cost and the allocation of individual items in a remuneration package differ from municipality to municipality for example; certain municipalities are more contract intensive whilst others might be more labour intensive. The target for remuneration as a percentage of expenditure is 30%.

Description	2018/19 R'000	2017/18 R'000
Total operating expenditure	1 013 439	855 562
Total operating revenue	802 231	726 977
Employee remuneration	276 470	240 649
Ratio: % of total expenditure	27,28%	28,13%
Ratio: % of total revenue	34,46%	33,10%
% in/decrease in remuneration	14,89%	15,43%



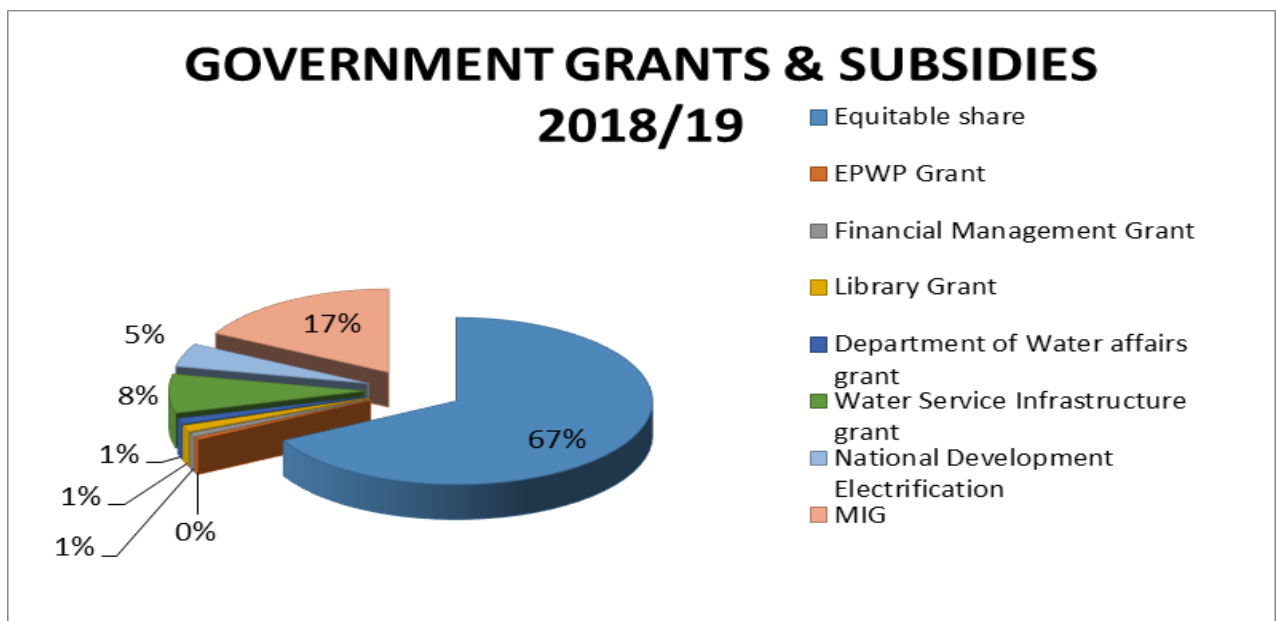
# Dhlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Government grants and subsidies

The following table and graph show the amounts received in terms of grants, contributions and subsidies from the Central Government and the Free State Provincial Government, which have been included in the total revenue:

Description	2018/19	2017/18
Equitable share	147 861 000	129 764 000
EPWP Grant	1 000 000	1 000 000
Financial Management Grant	1 770 000	1 700 000
Library Grant	2 750 000	2 500 000
Department of Water affairs grant	2 443 765	2 448 517
Water Service Infrastructure grant	16 550 000	15 000 000
National Development Electrification	10 000 000	
MIG	37 914 000	39 281 000
	220 288 765	191 693 517



# Dihlabeng Local Municipality

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## 2.4 Operating statement analysis

The following differences occurred with regards to the operating results for the 2018/19 financial year. Please refer to pages 22 of the financial statements.

Descriptions	Final Adjustmen t budget	Virements (i.t.o council approved policy)	Final budget	Actual outcomes	Unauthorize d expenditure	Variances	Actual outcome as % of final budget	Reasons for variances
Property rates	156 035	-	156 035	146 336	-	-9 699	94%	within 10% Due to decrease in utilization of water and electricity /Over budget Due to non-payment of debts by consumers  Due to less revenue received than anticipated.
Services charges	402 299	-	402 299	357 686	-	-44 613	89%	
Interest received	43 509	-	43 509	55 874	-	12 365	128%	
Transfers recognised – operational	153 381	-	153 381	153 381	-	-	100%	
Other own revenue	133 582	-	133 582	28 893	-	-104 689	22%	
<b>TOTAL REVENUE (Excluding capital transfers and contributions)</b>	<b>888 806</b>	<b>-</b>	<b>888 806</b>	<b>742 170</b>	<b>-</b>	<b>-146 636</b>	<b>84%</b>	

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

Descriptions	Final Adjustment budget	Virements (i.t.o council approved policy)	Final budget	Actual outcomes	Unauthorized expenditure	Variances	Actual outcome as % of final budget	Reasons for variances
Employees cost	246 274	-	246 274	276 470	30 196	-30 196	112%	Due to annual increases
Remuneration of councilors	15 730	-	15 730	16 858	1 128	-1 128	107%	within 10%
Debt impairment	117 112	-	117 112	102 120	-14 992	14 992	87%	Due to non-payment of debts by consumers
Depreciation and asset impairment	77 806	-	77 806	270 006	192 200	-192 200	347%	Due to Assets audit performed during the year/all assets Due to cash flow problems, payments could not be made as required to Eskom and Hydro.
Finance charges	8 500	-	8 500	16 581	8 081	-8 081	195%	
Materials and bulk purchases	161 998	-	161 998	150 682	-11 316	11 316	93%	within 10%
Other expenditure	234 212	-	234 212	169 712	-64 500	64 500	72%	Due to low cash flow and non-payment of services by consumers
<b>TOTAL EXPENDITURE</b>	<b>888 806</b>	<b>-</b>	<b>888 806</b>	<b>1 014 204</b>	<b>125 398</b>	<b>-125 398</b>	<b>114%</b>	

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## 2.5 Financial Position statement analysis

The following difference occurred with regards to the operating results for the 2018/19 financial year. Please refer to pages 18 to 23 of the financial statements.

	Approved budget	Adjustments	Final budget	Actual amounts	Variations	Actual outcome as % of final budget	Reasons for variations
<b>CURRENT ASSETS</b>							
Other financial assets	1 117 000	-	1 117 000	1 194 539	(77 539)	107%	within 10%
Inventories	426 000	-	426 000	1 138 065	(712 065)	267%	more stock items needed
Receivables from exchange transactions	-	-	-	10 557 249	(10 557 249)		
Other receivables from non-exchange transactions	-	-	-	3 263 211	(3 263 211)		
VAT Receivable	-	-	-	11 867 428	(11 867 428)		
Consumer debtors	114 524 000	-	114 524 000	116 235 825	(1 711 825)	101%	within 10%
Trade receivables from exchange	-	-	-	26 045 037	(26 045 037)		
Cash and cash equivalents	-	-	-	2 889 113	113 177 887		
<b>NON CURRENT ASSETS</b>	<b>116 067 000</b>		<b>116 067 000</b>	<b>173 190 467</b>	<b>58 943 533</b>		
Investment property	97 027 000	-	97 027 000	660 157 824	(563 130 824)	680%	Re-classification of assets in the assets register
Property, plant and equipment	3 034 334 000	-	3 034 334 000	1 693 134 776	1 341 199 224	56%	Over budgeting
Biological assets	4 638 000	-	4 638 000	4 148 275	489 725	89%	Decrease in market value
Heritage assets	-	-	-	46 260 000	(46 260 000)		
Intangible assets	81 000	-	81 000	1 152 177	(1 071 177)	1422%	Upgrade in IT infrastructure
Other financial assets	1 094 000	-	1 094 000	584 027	509 973	53%	Over budgeting
<b>CURRENT LIABILITES</b>							
Other financial liabilities	3 673 000	-	3 673 000	4 627 040	(954 040)	126%	Under budgeting
Finance Lease obligation	-	-	-	307 523	(307 523)		
Payables from exchange	285 564 000	-	285 564 000	481 897 288	(196 333 288)	169%	VAT was also included in the budget figures
Consumer deposits	5 875 000	-	5 875 000	8 733 153	(2 858 153)	149%	Improved data cleansing and collections

# Dihlabeng Local Municipality

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<b>NON CURRENT LIABILITIES</b>							
Retirement benefit obligations	47 153 000	-	47 153 000	22 000 000	25 153 000	47%	Over provision/budget
Finance Lease obligation	-	-	-	1 102 193	(1 102 213)		
Long service awards	-	-	-	17 946 000	(17 946 000)		
Other financial liabilities	37 153 000	-	37 153 000	29 097 963	8 055 037	78%	DBSA loans restructuring
Provisions				6 972 342	(6 972 342)		

# Dihlabeng Local Municipality

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## 3. DEBTORS

The following is an indication of the effectiveness of credit control measures, as well as the ability to convert debtors into cash:

Description	2018/19	2017/18
Consumer debtors	564 958 868	530 257 852
Balance on 1 July	649 856 887	627 375 389
Balance on 30 June	847 728 152	755 328 781
Average balance	748 792 520	691 352 085
Days in the financial year	365	365
Turnover: Number of days	484	476
Turnover: Number of times (levies/average balance)	0,75	0,77

From the table it is clear that, the number of days to recover increased from 476 to 484 since 2017/18. This high turnover has serious implications on the cash flow of the Municipality. A collection rate calculated on the total levies for a period compared to the total payments received during the same period is used to measure revenue recovery. The credit control by-law and the actions taken in terms of the by-law started producing better results. Measures have been put in place to recover the debts and the legal actions taken are starting to have an impact on the poor payment culture within our municipality. The increase in debtors has a serious impact on the going concern of the municipality.

## 4. CAPITAL EXPENDITURE AND FINANCING

The Municipality's original approved Capital Expenditure Budget for 2018/19 amounted to R66.9 million and was accepted by National Treasury.

Of these funds the MIG funding of R37.9 million was spent in the 2018/19 financial year and R18.9 million was spent from DWA funding and R10 million on Electrification.

### Conclusion:

When comparing the actual expenditure to the budgeted expenditure the financing source of capital projects plays an important role. The funding from own sources can largely influence the following aspects:

- The raising of loans
- The cash flow of the Municipality

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## 5. ACCOUNTING RATIOS

### 5.1 Current asset ratio

This ratio mainly involves the financial resources used in the operating cycle of a local authority. Operating capital represents the surplus of current assets over current liabilities. This is a useful indicator when determining the ability to fund operating expenditure. This ratio measures the extent to which the current liabilities are covered by the current assets. A larger coverage means a lower risk since short-term debt can be paid out of short-term assets. The following table shows the calculation of the operating capital ratio:

Description	2018/19	2017/18
<b>CURRENT ASSETS:</b>		
Cash	2 889 113	1 630 243
Inventory	1 138 065	1 563 579
Consumer Debtors	116 235 825	49 928 112
Receivables from exchange transactions	10 557 249	11 116 232
Receivables from non-exchange transactions	26 045 037	8 566 611
Other financial assets	1 194 539	1 125 441
Other receivables from exchange transactions	3 263 211	2 547 248
VAT Receivable	11 867 428	20 203 215
Total	173 190 467	96 680 681
<b>CURRENT LIABILITIES:</b>		
Creditors	481 897 288	393 735 836
Unspent conditional grants and receipts	-	-
Other financial liabilities	4 627 040	4 542 573
Taxes and transfers payable	-	-
Consumer deposits	8 733 153	7 380 924
Overdrawn cash book balance	-	-
Total	495 565 004	405 937 867
Net Operating Capital	(322 374 537)	(309 257 186)
Current asset Ratio	0,35 : 1	0,24 : 1

The ratio increased slightly since 2017/18. This is due to the fact that the current liabilities increased by 22% whilst the current assets increased with 79%. The impact in current assets can mainly be ascribed to the large provisions that had to be made towards debt impairment of R102 million, which equates to R8.5 million per month, more than our bulk electricity purchases per month. The municipality has prioritised this fact of its business to ensure the sustainability of the municipality.

The private sector sets a ratio of 2:1 as being acceptable, however a norm for local government is currently not available.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## 5.2 Quick asset ratio (Acid test)

This ratio is a more accurate test of a local authority's ability to settle its short-term debt. When calculating this ratio, only assets that can be converted into cash are taken into account. Since material and stock are for the local authority's own use and are not for sale, they are not included in the calculations. The private sector sets a ratio of 1:1 as being acceptable. The figures that follow reflect the Municipality's quick asset ratio for the following years:

DESCRIPTION	2018/19	2017/18
Current assets	173 190 467	96 680 681
Less: Inventory	1 138 065	1 563 579
Total	172 052 402	95 117 102
Current liabilities	495 565 004	405 937 867
Quick asset ratio	0,35 : 1	0,23 :1

The ratio decreased due to increase in the current liabilities, serious attention will be required to increase the ratio even further in this area to ensure the going concern of the municipality.

## 5.3 Solvability

In this ratio, the total assets are compared to the total liabilities, and it shows the ability of the Municipality to meet its obligations in the long term. A ratio of less than one is an indication of insolvency. The following table shows the calculation of the solvency ratio:

DESCRIPTION	2018/19	2017/18
<b>TOTAL ASSETS:</b>		
Current assets	173 190 467	96 680 681
Non-current assets	2 405 437 079	2 603 315 937
Total	2 578 627 546	2 700 032 618
<b>TOTAL LIABILITIES:</b>		
Current liabilities	495 565 004	405 937 867
Plus: Long-term loans	29 097 963	33 364 079
Non-current provisions	6 972 342	6 791 554
Total	531 635 309	446 093 500
Solvability Ratio	4,85 : 1	6,05 : 1

The total assets of the Municipality decreased by 4.85% in the current financial year while the total liabilities increased with 19% resulting in a decrease in the solvability ratio as stated above. Non-current assets decreased with 7.6% while external loans decreased with 13%.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## 5.4 Total debt to total revenue ratio

According to credit rating companies, the benchmark for local government is a ratio of less than 50%. The ratio decreased from 5.22% to 4.21% since 2017/18. This decrease can be ascribed to the fact that the total debt decreased with 11% and increase of 10% in total revenue.

DESCRIPTION	2018/19	2017/18
Total debt	33 725 003	37 906 652
Total revenue	805 108 990	727 389 966
Ratio	4,19%	5,21%

## 5.5 Cashbook balance plus short-term loans to total operating revenue

DESCRIPTION	2018/19	2017/18
Short term debt	4 627 040	4 542 573
Total revenue	805 108 990	727 389 966
Ratio	0.57%	0.62%

According to credit rating companies, the benchmark is a ratio of less than 5%. The ratio decreased due to an improvement in the cash book balance at the end of the financial year and the increase in the revenue.

## 5.6 Cash to interest coverage

This ratio indicates to what extent a local authority can generate sufficient cash from its normal activities to cover its external interest liabilities. If the ratio is less than 1:1, it may indicate future cash flow problems. The ratio for the past two financial years is as follows:

DESCRIPTION	2018/19	2017/18
Cash generated from operations (Nett cash flow)	77 563 453	63 186 549
Interest paid on external loans	16 581 385	21 733 327
Ratio	4,68 : 1	2,91 : 1

The ratio shows an increase as the interest paid on external loans decreased with 24% and the cash generated from operations shows a 23% increase since 2017/18.

## 5.7 Net debtors to total annual operating revenue

DESCRIPTIONS	2018/19	2017/18
Annual operating revenue	805 108 990	727 389 966
Debtors (excluding provision for bad debt)	847 728 152	755 328 781
Percentage	105,29%	103,84%

This ratio had an increase of 1.45%. This is a clear indication that the debt collection process of the municipality has problems and still needs to be improved even more.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## 6. CHALLENGES EXPERIENCED DURING 2018/19

### 6.1 GOING CONCERN ISSUES

The going concern of the municipality remains an issue that management needs to address; the following areas are of concern:

- The government subsidies equate to 27% of our income. The situation improved by 1% from the 2017/18 financial year (i.e 26%). This means that there was a lesser reliance by the municipality on government grants.
- With reference to 5.2 (Quick asset ratio), the ratio of 0,34 : 1 is still a poor given the norm of 1: 1. The recoverability of our debtors still remains a problem hence the large provision for doubtful debts.
- Our overdrawn cash book balance plus short term portion of long-term debt to operating revenue ratio (section 5.5 above) shows and decrease from 5.21% (2017/18) to 4.19% (2018/19).
- Although the personnel costs are within the norm of 35%. The ratio is still too high due to the impairment of debt and the municipality should make all possible efforts to reduce it to at least 27.75% excluding impairment of debt in the next financial year to ensure that the municipality is able to meet all its financial obligations. (Refer to 2.3 for more detail)
- We draw attention to the fact that at 30 June 2019, the municipality had incurred a net loss of R209,095,467 (2018:R178,547,580) during the year and that the municipality's total liabilities exceed its current assets by R399,493,035 (2018:R388,312,426). In addition, the municipality owed Eskom R263,047,090 (2018: R196,787,501) and Bethlehem Hydro (Pty)Ltd R27,502,989 (2018: R15,089,242) at 30 June 2019 which is long overdue. The municipality is not able to timeously recover outstanding amounts from consumer debtors and this is resulting in the inability to pay their suppliers within the 30day time period.
- These conditions, along with other matters as set out in the financial statements indicate the existence of a material uncertainty about the municipality's ability to operate as a going concern

### 6.2 IMPLEMENTATION OF ACCOUNTING STANDARDS

The Municipality had to comply with the accounting framework as set out in paragraph 1 of the Accounting policies as contained in the Annual Financial Statements of 2018/19. This accounting framework was determined in Directive 5 issued by the Accounting Standards Board on 31 March 2009.

## 7. APPRECIATION

I am grateful to the Executive Mayor, Members of the Mayoral Committee, Councillors, office of the Municipal Manager, CFO, Directors, Managers and Staff members. A special word of appreciation to everybody for the months of hard work, sacrifices and concentrated efforts during the financial year to enable my office to finalise and submit the annual financial statements within the prescribed period of 2 months after year end (i.e. 31 August).

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**NP MONDI**  
**ACTING MUNICIPAL MANAGER**

Dihlabeng Local Municipality  
Annual financial statements  
for the year ended 30 June 2019

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## General Information

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### Members of the Executive committee

Chairperson

### Registered office

9 Muller Street East  
Bethlehem  
9701

### Business address

9 Muller Street East  
Bethlehem  
9701

### Postal address

Po Box 551  
Bethlehem  
9701

### Bankers

ABSA

### Auditors

Auditor General of South Africa

### Other 2

#### Ward no:

1  
2  
3  
4  
5  
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#### Councillor

Mrs MA Mokoena  
Mr S Msimanga  
Mr NN Nzimande  
Mr PP Mokoena  
Mr MD Shabalala  
Mr MJ Tshabalala  
Ms TM Mofokeng  
Mr TMH Mofokeng  
Mr RP Mofokeng  
Mr GJ Roetz  
Mr TA Masoeu  
Mr JM Radebe  
Mr TJ Seekane  
Mr TJ Tseki  
Ms ME Sempe  
Mrs SM Jacobs  
Mrs AL Rakhothule - Mkhwanazi  
Mr JF Bonthuys  
Mr M St V Mofokeng  
Ms MR Mokoena

#### Public Representative Councillors

Ms MA Noosi  
Mr LA Mhlambi  
Mrs HE Mokoena  
Ms LU Makhalema  
Mr PD Lengoabala  
Mrs TJ Tshabalala  
Mr LJ Lemako  
Mr JJH Pienaar  
Mr CC Harrington  
Ms MK Mofokeng

Ms NE Mabizela  
Mr LJ Mosikili  
Mr MJ Mokoena  
Mr BDL Venter  
Mr PT Ramaele  
Mrs M Prior  
Mr PA Maasdorp  
Mr TV Mofokeng  
Mr PHJ Olivier  
Mr D Stevens

#### Executive Mayor:

Councillor TMH Mofokeng

#### Speaker:

Councillor PD Lengoabala

#### Council WIP:

Councillor LU Makhalema

# **Dihlabeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **General Information**

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### **Other 3**

Mr G Mahlatsi (Chairperson)

Mr T Kometsi

Mr D Mofokeng

Mr R Levhengo

Mr E Siwakwi







# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Index

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

# **Dihlabeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **General information**

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# **Dihlabeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June 2019.

The annual financial statements set out on pages 7 to 93, which have been prepared on the going concern basis, were approved by the accounting officer on 01 March 1900 and were signed on its behalf by:

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**Accounting Officer**  
**Designation**























# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
Current Assets			
Inventories	2	1,138,065	1,563,579
Other financial assets	3	1,194,539	1,125,441
Receivables from exchange transactions	4	10,557,249	11,116,232
Receivables from non-exchange transactions	5	3,263,211	2,547,248
VAT receivable	15	11,867,428	20,203,215
Trade receivables from exchange transactions	6	116,235,825	49,928,112
Trade receivable from non-exchange transactions	6	26,045,037	8,566,611
Cash and cash equivalents	7	2,889,113	1,630,243
		<b>173,190,467</b>	<b>96,680,681</b>
Non-Current Assets			
Biological assets that form part of an agricultural activity	8	4,148,275	3,231,570
Investment property	9	660,157,824	660,157,824
Property, plant and equipment	10	1,693,134,776	1,891,478,922
Intangible assets	11	1,152,177	1,686,129
Heritage assets	12	46,260,000	46,260,000
Other financial assets	3	584,027	537,492
		<b>2,405,437,079</b>	<b>2,603,351,937</b>
<b>Total Assets</b>		<b>2,578,627,546</b>	<b>2,700,032,618</b>
<b>Liabilities</b>			
Current Liabilities			
Other financial liabilities	13	4,627,040	4,542,573
Finance lease obligation	55	307,523	278,534
Payables from exchange transactions	14	481,897,288	393,735,835
Consumer deposits	16	8,733,153	7,380,924
		<b>495,565,004</b>	<b>405,937,866</b>
Non-Current Liabilities			
Other financial liabilities	13	29,097,963	33,364,079
Finance lease obligation	55	1,102,193	1,409,607
Employee benefit obligation	18	22,000,000	21,981,000
Provisions	17	6,972,342	6,791,554
Long service leave award	19	17,946,000	15,509,000
		<b>77,118,498</b>	<b>79,055,240</b>
<b>Total Liabilities</b>		<b>572,683,502</b>	<b>484,993,106</b>
<b>Net Assets</b>		<b>2,005,944,044</b>	<b>2,215,039,512</b>
Accumulated surplus		2,005,944,044	2,215,039,512

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	357,686,363	336,353,598
Rendering of services		1,549,638	1,519,625
Rental of facilities and equipment	22	5,062,736	4,734,142
Interest received (trading)		55,873,791	48,616,972
Licenses and permits		152,674	55,639
Other income	23	14,121,375	2,917,946
Interest received - investment	24	51,288	293,483
Gain on disposal of assets and liabilities		1,845,948	-
Fair value adjustments on investments		115,827	114,019
Gain on biological asset		916,705	298,960
Dividends received	24	9,900	8,485
<b>Total revenue from exchange transactions</b>		<b>437,386,245</b>	<b>394,912,869</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	146,335,678	140,553,140
<b>Transfer revenue</b>			
Government grants and subsidies	26	220,288,765	191,693,517
Traffic fines		1,098,302	230,440
<b>Total revenue from non-exchange transactions</b>		<b>367,722,745</b>	<b>332,477,097</b>
<b>Total revenue</b>	20	<b>805,108,990</b>	<b>727,389,966</b>
<b>Expenditure</b>			
Employee costs	27	(276,470,161)	(240,648,832)
Remuneration of councillors	28	(16,858,102)	(16,329,665)
Depreciation, impairment and amortisation	29	(270,006,297)	(130,729,139)
Finance costs	30	(16,581,385)	(21,733,327)
Debt Impairment	31	(102,119,588)	(154,174,414)
Bulk purchases	32	(150,681,704)	(132,536,845)
Contracted services	33	(77,310,724)	(66,523,877)
Repairs and maintenance		(11,775,432)	(11,741,106)
Loss on disposal of assets and liabilities		-	(46,889,975)
Actuarial losses		(765,000)	(3,486,000)
General expenses	34	(91,636,064)	(81,144,366)
<b>Total expenditure</b>		<b>(1,014,204,457)</b>	<b>(905,937,546)</b>
<b>Deficit for the year</b>		<b>(209,095,467)</b>	<b>(178,547,580)</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,619,898,085	1,619,898,085
Adjustments		
Correction of errors - Note 44	773,689,007	773,689,007
<b>Balance at 01 July 2017 as restated*</b>	<b>2,393,587,092</b>	<b>2,393,587,092</b>
Changes in net assets		
Deficit for the year	(178,547,580)	(178,547,580)
Total changes	(178,547,580)	(178,547,580)
Opening balance as previously reported	1,495,231,621	1,495,231,621
Adjustments		
Correction of errors - Note 44	719,807,890	719,807,890
<b>Restated* Balance at 01 July 2018 as restated*</b>	<b>2,215,039,511</b>	<b>2,215,039,511</b>
Changes in net assets		
Deficit for the year	(209,095,467)	(209,095,467)
Total changes	(209,095,467)	(209,095,467)
<b>Balance at 30 June 2019</b>	<b>2,005,944,044</b>	<b>2,005,944,044</b>



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		366,241,847	383,962,116
Grants		220,288,765	191,693,517
Interest income		26,296,454	2,274,609
Dividends received		9,900	8,485
		<u>612,836,966</u>	<u>577,938,727</u>
<b>Payments</b>			
Employee costs		(287,277,572)	(248,481,381)
Suppliers		(237,966,220)	(246,253,022)
Finance costs		(12,591,981)	(18,074,730)
		<u>(537,835,773)</u>	<u>(512,809,133)</u>
<b>Net cash flows from operating activities</b>	38	<b><u>75,001,193</u></b>	<b><u>65,129,594</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(71,208,096)	(56,580,137)
Proceeds from sale of property, plant and equipment		1,925,848	998,511
		<u>(69,282,248)</u>	<u>(55,581,626)</u>
<b>Cash flows from financing activities</b>			
Decrease of other financial liabilities		(4,181,650)	(3,502,557)
Finance lease payments		(278,425)	(356,413)
		<u>(4,460,075)</u>	<u>(3,858,970)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,258,870</b>	<b>5,688,998</b>
Cash and cash equivalents at the beginning of the year		1,630,243	(4,058,755)
<b>Cash and cash equivalents at the end of the year</b>	7	<b><u>2,889,113</u></b>	<b><u>1,630,243</u></b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	402,299,000	-	<b>402,299,000</b>	357,686,363	<b>(44,612,637)</b>	Note 52
Rendering of services	-	-	-	1,549,638	<b>1,549,638</b>	Note 52
Rental of facilities and equipment	2,129,000	-	<b>2,129,000</b>	5,062,736	<b>2,933,736</b>	Note 52
Interest received (trading)	43,509,000	-	<b>43,509,000</b>	55,873,791	<b>12,364,791</b>	Note 52
Licences and permits	58,000	-	<b>58,000</b>	152,674	<b>94,674</b>	Note 52
Other income	132,352,000	-	<b>132,352,000</b>	14,121,375	<b>(118,230,625)</b>	Note 52
Interest received - investment	92,000	-	<b>92,000</b>	51,288	<b>(40,712)</b>	
Dividends received	-	-	-	9,900	<b>9,900</b>	
<b>Total revenue from exchange transactions</b>	<b>580,439,000</b>	-	<b>580,439,000</b>	<b>434,507,765</b>	<b>(145,931,235)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	156,035,000	-	<b>156,035,000</b>	146,335,678	<b>(9,699,322)</b>	Note 52
<b>Transfer revenue</b>						
Government grants & subsidies - operational	150,631,000	-	<b>150,631,000</b>	163,559,248	<b>12,928,248</b>	Note 52
Fines, Penalties and Forfeits	1,701,000	-	<b>1,701,000</b>	1,098,302	<b>(602,698)</b>	Note 52
<b>Total revenue from non-exchange transactions</b>	<b>308,367,000</b>	-	<b>308,367,000</b>	<b>310,993,228</b>	<b>2,626,228</b>	
<b>Total revenue</b>	<b>888,806,000</b>	-	<b>888,806,000</b>	<b>745,500,993</b>	<b>(143,305,007)</b>	
<b>Expenditure</b>						
Personnel	(246,274,000)	-	<b>(246,274,000)</b>	(276,470,161)	<b>(30,196,161)</b>	Note 52
Remuneration of councillors	(15,730,000)	-	<b>(15,730,000)</b>	(16,858,102)	<b>(1,128,102)</b>	Note 52
Depreciation and amortisation	(77,806,000)	-	<b>(77,806,000)</b>	(270,006,297)	<b>(192,200,297)</b>	Note 52
Finance costs	(8,500,000)	-	<b>(8,500,000)</b>	(16,581,385)	<b>(8,081,385)</b>	Note 52
Debt Impairment	(117,112,000)	-	<b>(117,112,000)</b>	(102,119,588)	<b>14,992,412</b>	Note 52
Bulk purchases	(161,998,000)	-	<b>(161,998,000)</b>	(150,681,704)	<b>11,316,296</b>	Note 52
Contracted Services	(112,311,000)	-	<b>(112,311,000)</b>	(77,310,724)	<b>35,000,276</b>	Note 52
Repairs and maintenance	(3,059,000)	-	<b>(3,059,000)</b>	(11,775,432)	<b>(8,716,432)</b>	Note 52
General Expenses	(136,535,000)	-	<b>(136,535,000)</b>	(91,636,064)	<b>44,898,936</b>	Note 52
<b>Total expenditure</b>	<b>(879,325,000)</b>	-	<b>(879,325,000)</b>	<b>(1,013,439,457)</b>	<b>(134,114,457)</b>	
<b>Operating deficit</b>	<b>9,481,000</b>	-	<b>9,481,000</b>	<b>(267,938,464)</b>	<b>(277,419,464)</b>	
Gain on disposal of assets and liabilities	-	-	-	1,845,948	<b>1,845,948</b>	Note 52
Fair value adjustments	-	-	-	115,827	<b>115,827</b>	Note 52
Actuarial gains/losses	-	-	-	(765,000)	<b>(765,000)</b>	
Gain on biological assets and agricultural produce	-	-	-	916,705	<b>916,705</b>	Note 52
	-	-	-	<b>2,113,480</b>	<b>2,113,480</b>	
<b>Deficit</b>	<b>9,481,000</b>	-	<b>9,481,000</b>	<b>(265,824,984)</b>	<b>(275,305,984)</b>	

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Transfers recognised - capital	72,914,000	-	<b>72,914,000</b>	56,729,517	<b>(16,184,483)</b>	Note 52
<b>con</b>	<b>82,395,000</b>	-	<b>82,395,000</b>	<b>(209,095,467)</b>	<b>(291,490,467)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>						

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	426,000	-	<b>426,000</b>	1,138,065	<b>712,065</b>	Note 52
Other financial assets	1,117,000	-	<b>1,117,000</b>	1,194,539	<b>77,539</b>	Note 52
Receivables from exchange transactions	-	-	-	10,557,249	<b>10,557,249</b>	Note 52
Receivables from non-exchange transactions	-	-	-	3,263,211	<b>3,263,211</b>	Note 52
VAT receivable	-	-	-	11,867,428	<b>11,867,428</b>	Note 52
Trade receivables	114,524,000	-	<b>114,524,000</b>	142,280,862	<b>27,756,862</b>	Note 52
Cash and cash equivalents	-	-	-	2,889,113	<b>2,889,113</b>	Note 52
	<b>116,067,000</b>	-	<b>116,067,000</b>	<b>173,190,467</b>	<b>57,123,467</b>	
<b>Non-Current Assets</b>						
Biological assets that form part of an agricultural activity	4,638,000	-	<b>4,638,000</b>	4,148,275	<b>(489,725)</b>	Note 52
Investment property	97,027,000	-	<b>97,027,000</b>	660,157,824	<b>563,130,824</b>	Note 52
Property, plant and equipment	3,034,334,000	-	<b>3,034,334,000</b>	1,693,134,776	<b>(1,341,199,224)</b>	Note 52
Intangible assets	81,000	-	<b>81,000</b>	1,152,177	<b>1,071,177</b>	Note 52
Heritage assets	-	-	-	46,260,000	<b>46,260,000</b>	Note 52
Other financial assets	1,094,000	-	<b>1,094,000</b>	584,027	<b>(509,973)</b>	Note 52
	<b>3,137,174,000</b>	-	<b>3,137,174,000</b>	<b>2,405,437,079</b>	<b>(731,736,921)</b>	
<b>Total Assets</b>	<b>3,253,241,000</b>	-	<b>3,253,241,000</b>	<b>2,578,627,546</b>	<b>(674,613,454)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	3,673,000	-	<b>3,673,000</b>	4,627,040	<b>954,040</b>	Note 52
Finance lease obligation	-	-	-	307,523	<b>307,523</b>	
Payables from exchange transactions	285,564,000	-	<b>285,564,000</b>	481,897,291	<b>196,333,291</b>	Note 52
Consumer deposits	5,875,000	-	<b>5,875,000</b>	8,733,153	<b>2,858,153</b>	Note 52
	<b>295,112,000</b>	-	<b>295,112,000</b>	<b>495,565,007</b>	<b>200,453,007</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	37,636,000	-	<b>37,636,000</b>	29,097,963	<b>(8,538,037)</b>	Note 52
Finance lease obligation	-	-	-	1,102,193	<b>1,102,193</b>	Note 52
Employee benefit obligation	47,153,000	-	<b>47,153,000</b>	22,000,000	<b>(25,153,000)</b>	Note 52
Provisions	-	-	-	6,972,342	<b>6,972,342</b>	Note 52
Long service leave award	-	-	-	17,946,000	<b>17,946,000</b>	Note 52
	<b>84,789,000</b>	-	<b>84,789,000</b>	<b>77,118,498</b>	<b>(7,670,502)</b>	
<b>Total Liabilities</b>	<b>379,901,000</b>	-	<b>379,901,000</b>	<b>572,683,505</b>	<b>192,782,505</b>	
<b>Net Assets</b>	<b>2,873,340,000</b>	-	<b>2,873,340,000</b>	<b>2,005,944,041</b>	<b>(867,395,959)</b>	

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	2,873,340,000		- 2,873,340,000	2,005,944,042	(867,395,958)	Note 52

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## 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 and rounded to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 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:

##### Trade receivables

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

##### Fair value estimation

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

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

---

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

#### Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

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

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

#### Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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

#### Effective interest rate

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

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the expected recoverable amounts. The recoverable amount is calculated by dividing the consumer debtors into categories based on their payment history and the impairment is then done on the outstanding days at year-end.

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

The entity recognises a biological assets that form part of an agricultural activity or agricultural produce when, and only when:

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

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

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

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

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

### 1.5 Investment property

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

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

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

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

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

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

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.



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### 1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

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

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

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

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

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

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

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

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

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Item	Depreciation method	Average useful life
Community assets - Buildings	Straight line	5 - 50 years
Community assets - Land		Infinite
Furniture and fixtures	Straight line	5 - 22 years
Motor vehicles	Straight line	5 - 22 years
Infrastructure - Electrical	Straight line	5 - 50 years
Infrastructure - Roads	Straight line	7 - 80 years
Infrastructure - Sewer	Straight line	5 - 50 years
Infrastructure - Water	Straight line	5 - 100 years
Infrastructure - Solid waste - Land		Infinite
Infrastructure - Solid waste - Buildings	Straight line	5 - 50 years
Land owned		Infinite
Office equipment	Straight line	5 - 22 years
Plant and equipment	Straight line	2 - 37 years
Railways	Straight line	5 - 50 years
Other assets	Straight line	5 - 22 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity 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 of the asset 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.

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

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

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. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

<b>Item</b>	<b>Useful life</b>
Computer software	3 years

### 1.8 Heritage assets

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

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Heritage assets (continued)

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

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

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

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

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

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

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

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

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

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

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

### Recognition

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

### Initial measurement

Heritage assets are measured at cost.

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

### Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, 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 heritage asset.

### Impairment

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.8 Heritage assets (continued)

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

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

### 1.9 Financial instruments

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

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

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

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

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

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

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

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

- derivatives;

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

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

#### Initial recognition

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

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

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

The entity measures a financial asset and financial liability initially at its fair value.

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

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

The entity 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.

#### 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 entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### 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.

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, 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 entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

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

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

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

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

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

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



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Financial liabilities

The entity 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).

#### Consumer deposits

Consumer deposits are subsequently recorded in accordance with the accounting policy of trade and other payables.

#### Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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

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

### 1.10 Leases

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

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

# Dihlabeng Local Municipality

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### 1.10 Leases (continued)

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.11 Inventories

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

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

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

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

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

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

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

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.11 Inventories (continued)

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

### 1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

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

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

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

Useful life is either:

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

#### Identification

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

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

#### Value in use

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

#### Reversal of impairment loss

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

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

#### Redesignation

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

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

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

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

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

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

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

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

Useful life is either:

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

#### Identification

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

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

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

#### Value in use

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

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

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current 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 oversized or overcapacity asset. Oversized 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.

#### Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.14 Employee benefits

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

Post-employment benefit plans are formal or informal arrangements under which an entity 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 entity 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 entity accounts for in the same way as for any other defined contribution plan.

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Employee benefits (continued)

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

Defined contribution plans are post-employment benefit plans under which an entity 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 entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

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

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

#### 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 entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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 entity recognise 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.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Employee benefits (continued)

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

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 entity measure 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 entity 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 entity 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;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity 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, an entity shall attribute 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, an entity shall attribute 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 entity 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 entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.14 Employee benefits (continued)

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 [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity 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.

#### Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

#### Long service award

A long service award is granted to municipal employees after the completion of a fixed periods of continuous service with the municipality. The said award comprises a certain number of accumulated vacation leave days and a fixed percentage of his or her basic salary applicable at the time the award become due.

The provision represents an estimate of the award to which employees in the service of the municipality at 30 June 2018 may become entitled to in future, based on actuarial valuation at that date.

### 1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

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

A constructive obligation to restructure arises only when an entity:

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42. A brief description of the nature of each class of contingent liability should be provided and where possible:

- (a) an estimate of its financial effect,
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement

### 1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.17 Revenue from exchange transactions

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

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

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

### Measurement

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest, royalties and dividends

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

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.18 Revenue from non-exchange transactions

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

### Recognition

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

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

### Measurement

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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

#### Fines

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

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

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

### 1.19 Investment income

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

### 1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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

### 1.21 Comparative figures

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

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.23 Fruitless and wasteful expenditure

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

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

### 1.24 Irregular expenditure

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

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

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Accounting Policies

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### 1.24 Irregular expenditure (continued)

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

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

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

### 1.25 Budget information

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

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

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

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

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

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.

### 1.26 Related parties

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.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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

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

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

# **Dihlabeng Local Municipality**

Annual Financial Statements for the year ended 30 June 2019

## **Accounting Policies**

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### **1.26 Related parties (continued)**

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>2. Inventories</b>		
Consumable stores	676,852	734,501
Water	165,272	118,262
Fuel (Diesel, Petrol)	192,969	645,004
Water chemicals	102,972	65,812
	<b>1,138,065</b>	<b>1,563,579</b>
Inventories recognised as an expense during the year	7,341,419	6,508,575
<b>3. Other financial assets</b>		
<b>Designated at fair value</b>		
Listed shares	325,849	292,122
4 169 shares in Sanlam @ R78.16 (2018: R70.07)		
Unlisted shares	258,178	245,370
8 662 shares in Oos Vrystaat Kaap Operations Ltd @ R15.65 (2018 : R14.90)		
9 016 shares in Oos Vrystaat Kaap Holdings Ltd @ R13.60 (2018 : R12.90)		
Sanlam short term deposit	1,038,263	969,165
The short term deposit at Sanlam is fixed and matures at a future date.		
ABSA short term deposit	156,276	156,276
The short term deposit at ABSA is fixed and matures at a future date.		
	<b>1,778,566</b>	<b>1,662,933</b>
<b>Total other financial assets</b>	<b>1,778,566</b>	<b>1,662,933</b>
<b>Non-current assets</b>		
Designated at fair value	584,027	537,492
<b>Current assets</b>		
Designated at fair value	1,194,539	1,125,441
<b>4. Receivables from exchange transactions</b>		
Unbilled consumption to trade debtors	8,241,662	8,644,458
Pre-paid electricity from third party vendors	1,525,286	1,763,155
Sale of property debtors	790,301	708,619
	<b>10,557,249</b>	<b>11,116,232</b>
<b>5. Receivables from non-exchange transactions</b>		
Post office and petrol deposits	170,000	170,000
Other receivables from non-exchange revenue	3,055,903	2,256,680
Unpaid traffic fines	60,832,947	59,979,511
Provision for traffic fines not recoverable	(60,795,639)	(59,858,943)
	<b>3,263,211</b>	<b>2,547,248</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>6. Trade receivables</b>		
<b>Trade receivables from non-exchange transactions:</b>		
Trade receivables from non-exchange transactions:		
Rates	155,179,764	110,618,662
Trade receivables from exchange transactions:		
Electricity	34,517,577	28,901,917
Water	264,346,406	238,503,575
Sewerage	154,802,963	137,806,576
Refuse	192,570,782	193,365,268
Rentals, advertising and sundry charges	46,310,660	46,132,783
	<b>847,728,152</b>	<b>755,328,781</b>
<b>Less: Allowance for impairment</b>		
Trade receivables from non-exchange transactions:		
Rates	(129,134,727)	(102,052,051)
Trade receivables from exchange transactions:		
Electricity	(28,724,222)	(26,663,673)
Water	(219,979,076)	(220,033,207)
Sewerage	(128,821,168)	(127,134,459)
Refuse	(160,250,118)	(178,390,533)
Rentals, advertising and sundry charges	(38,537,979)	(42,560,135)
	<b>(705,447,290)</b>	<b>(696,834,058)</b>
<b>Net balance</b>		
Trade receivables from non-exchange transactions:		
Rates	26,045,037	8,566,611
Trade receivables from exchange transactions:		
Electricity	5,793,355	2,238,244
Water	44,367,330	18,470,368
Sewerage	25,981,795	10,672,117
Refuse	32,320,664	14,974,735
Rentals, advertising and sundry charges	7,772,681	3,572,648
	<b>142,280,862</b>	<b>58,494,723</b>
Trade receivables from non-exchange transactions:		
<b>Rates</b>		
Current (0 -30 days)	7,726,000	7,556,258
31 - 60 days	4,166,972	3,467,008
61 - 90 days	3,422,975	2,847,377
91 - 120 days	3,048,220	2,527,871
121 - 365 days	49,512,455	44,218,536
> 365 days	87,303,142	50,001,612
Less: Debt impairment	(129,134,727)	(102,052,051)
	<b>26,045,037</b>	<b>8,566,611</b>
Trade receivables from exchange transactions:		
<b>Electricity</b>		
Current (0 -30 days)	11,591,669	11,983,015
31 - 60 days	2,445,360	2,435,106
61 - 90 days	2,055,836	1,142,313
91 - 120 days	1,578,108	787,576
121 - 365 days	6,399,754	3,922,857
> 365 days	10,446,850	8,631,050
Less: Debt impairment	(28,724,222)	(26,663,673)
	<b>5,793,355</b>	<b>2,238,244</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>6. Trade receivables (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	6,908,827	7,696,349
31 - 60 days	5,193,979	5,639,045
61 - 90 days	4,848,147	5,237,590
91 - 120 days	4,757,297	5,313,055
121 - 365 days	40,474,765	33,843,655
> 365 days	202,163,390	180,773,880
Less: Debt impairment	(219,979,075)	(220,033,206)
	<b>44,367,330</b>	<b>18,470,368</b>
<b>Sewerage</b>		
Current (0 -30 days)	4,745,350	4,652,935
31 - 60 days	3,633,148	3,290,156
61 - 90 days	3,340,517	2,973,039
91 - 120 days	3,197,665	2,713,073
121 - 365 days	25,722,790	16,628,282
> 365 days	114,163,493	107,549,091
Less: Debt impairment	(128,821,168)	(127,134,459)
	<b>25,981,795</b>	<b>10,672,117</b>
<b>Refuse</b>		
Current (0 -30 days)	4,821,802	4,299,688
31 - 60 days	4,066,536	3,555,260
61 - 90 days	3,901,539	3,421,208
91 - 120 days	3,816,578	3,363,993
121 - 365 days	30,767,860	20,340,947
> 365 days	145,196,467	158,384,172
> 365 days	(160,250,118)	(178,390,533)
	<b>32,320,664</b>	<b>14,974,735</b>
<b>Rental, advertising and sundry charges</b>		
Current (0 -30 days)	886,610	851,467
31 - 60 days	635,300	480,634
61 - 90 days	557,740	538,942
91 - 120 days	472,589	448,057
121 - 365 days	4,223,758	17,240,600
> 365 days	39,534,662	26,573,082
> 365 days	(38,537,978)	(42,560,134)
	<b>7,772,681</b>	<b>3,572,648</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>6. Trade receivables (continued)</b>		
<b>Summary of trade receivables by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	32,994,799	32,563,679
31 - 60 days	17,314,073	16,474,180
61 - 90 days	15,448,324	14,380,391
91 - 120 days	14,530,186	14,010,607
121 - 365 days	108,717,427	94,632,315
> 365 days	572,216,649	533,576,798
	<u>761,221,458</u>	<u>705,637,970</u>
Less: Allowance for impairment	(705,447,289)	(696,834,057)
	<b>55,774,169</b>	<b>8,803,913</b>
<b>National and provincial government</b>		
Current (0 -30 days)	3,685,459	4,476,033
31 - 60 days	2,827,221	2,393,029
61 - 90 days	2,678,430	1,780,077
91 - 120 days	2,340,271	1,143,019
121 - 365 days	37,000,461	31,300,844
> 365 days	37,974,852	8,597,808
	<u>86,506,694</u>	<u>49,690,810</u>
<b>Total</b>		
Current (0 -30 days)	36,680,257	37,039,712
31 - 60 days	20,141,294	18,867,209
61 - 90 days	18,126,754	16,160,468
91 - 120 days	16,870,457	15,153,626
121 - 365 days	145,717,888	125,933,159
> 365 days	610,191,501	542,174,607
	<u>847,728,151</u>	<u>755,328,781</u>
Less: Allowance for impairment	(705,447,289)	(696,834,058)
	<b>142,280,862</b>	<b>58,494,723</b>
<b>Less: Allowance for impairment</b>		
Current (0 -30 days)	(13,870,152)	(9,744,772)
31 - 60 days	(8,156,405)	(4,891,761)
61 - 90 days	(9,425,264)	(4,336,317)
91 - 120 days	(10,810,770)	(11,341,576)
121 - 365 days	(90,968,050)	(134,606,744)
> 365 days	(572,216,649)	(531,912,888)
	<u>(705,447,290)</u>	<u>(696,834,058)</u>
<b>Total debtor past due but not impaired</b>		
Current (0 -30 days)	22,810,105	27,294,940
31 - 60 days	11,984,889	13,975,448
61 - 90 days	8,701,491	11,824,151
91 - 120 days	6,059,688	3,812,051
121 - 365 days	92,724,690	1,588,133
	<u>142,280,863</u>	<u>58,494,723</u>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>6. Trade receivables (continued)</b>		
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(696,834,058)	(589,842,963)
Contributions to allowance	(8,613,232)	(106,991,095)
	<b>(705,447,290)</b>	<b>(696,834,058)</b>

### Consumer debtors impaired

As of 30 June 2019, consumer debtors of R705,447,290 (2018: R696,834,057) were impaired and provided for.

The amount of the provision was R8,613,232 as of 30 June 2019 (2018: R106,699,094).

### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	200,115	174,115
Bank balances	2,688,998	1,456,128
	<b>2,889,113</b>	<b>1,630,243</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	30 June 2018	30 June 2017	30 June 2019	30 June 2018	30 June 2017
ABSA Bank - Cheque account (Primary) - 405-289-8966	3,614,763	3,343,466	729,461	2,714,800	1,459,452	(4,217,297)
ABSA Bank - Cheque account (Project) - 100-001-0223	(914)	5,953	2,536	(26,024)	5,953	(22,574)
ABSA Bank - Cheque account - 40-8862-1820	222	50	3	222	50	-
<b>Total</b>	<b>3,614,071</b>	<b>3,349,469</b>	<b>732,000</b>	<b>2,688,998</b>	<b>1,465,455</b>	<b>(4,239,871)</b>

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

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game stock	4,148,275	-	4,148,275	3,231,570	-	3,231,570

### Reconciliation of biological assets that form part of an agricultural activity - 2019

	Opening balance	Gains or losses arising from changes in fair value	Total
Game stock	3,231,570	916,705	4,148,275

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

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

#### Reconciliation of biological assets that form part of an agricultural activity - 2018

	Opening balance	Gains or losses arising from changes in fair value	Total
Game stock	2,932,610	298,960	3,231,570

#### Non-financial information

##### Quantities of each biological asset

Game stock	1,970	1,550
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A stock count was performed by the Community Services department in June 2019. The Department of Economic, Small Business development, tourist and environmental affairs of the Free State (DESTEA) assisted the municipality in the management of the Wohuterskop Private Nature Reserve by giving a report indicating which animals should be removed and / culled during the next financial year.

### 9. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	660,157,824	-	660,157,824	660,157,824	-	660,157,824

#### Reconciliation of investment property - 2019

Investment property	660,157,824	660,157,824

#### Reconciliation of investment property - 2018

Investment property	660,157,824	660,157,824

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.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Community assets - Buildings	235,688,904	(110,916,638)	124,772,266	232,297,898	(67,199,625)	165,098,273
Furniture and fittings	5,137,013	(3,587,960)	1,549,053	4,927,885	(3,125,673)	1,802,212
Infrastructure - Electrical	222,163,357	(109,008,816)	113,154,541	206,568,517	(100,685,106)	105,883,411
Infrastructure - Roads	978,967,396	(585,165,348)	393,802,048	973,297,100	(482,807,852)	490,489,248
Infrastructure - Sewer	515,172,492	(249,933,707)	265,238,785	496,318,272	(184,602,078)	311,716,194
Infrastructure - Solid waste	18,465,936	(9,607,497)	8,858,439	18,465,936	(7,658,137)	10,807,799
Infrastructure - Storm water	124,723,182	(64,615,561)	60,107,621	117,520,518	(47,808,986)	69,711,532
Infrastructure - Water	635,156,414	(190,588,525)	444,567,889	617,919,191	(170,691,175)	447,228,016
Land - owned	213,557,384	-	213,557,384	213,557,383	-	213,557,383
Motor vehicles	15,226,078	(10,013,806)	5,212,272	14,921,921	(9,051,491)	5,870,430
Office equipment	14,421,172	(10,453,664)	3,967,508	12,277,152	(8,423,597)	3,853,555
Operational buildings	68,990,674	(34,255,133)	34,735,541	68,557,334	(30,541,298)	38,016,036
Other assets	993,233	(910,620)	82,613	1,540,934	(1,322,999)	217,935
Plant and equipment	16,148,869	(11,569,401)	4,579,468	15,981,663	(10,504,970)	5,476,693
Railways	48,921,029	(29,971,681)	18,949,348	48,921,029	(27,170,824)	21,750,205
<b>Total</b>	<b>3,113,733,133</b>	<b>(1,420,598,357)</b>	<b>1,693,134,776</b>	<b>3,043,072,733</b>	<b>(1,151,593,811)</b>	<b>1,891,478,922</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Movements in work in progress	Depreciation	Impairment loss	Total
Community assets - Buildings	165,098,273	2,410,430	-	980,576	(8,651,518)	(35,065,495)	124,772,266
Furniture and fixtures	1,802,212	209,128	-	-	(446,387)	(15,900)	1,549,053
Infrastructure - Electrical	105,883,411	127,098	-	15,467,742	(5,512,974)	(2,810,736)	113,154,541
Infrastructure - Roads	490,489,248	20,195,932	-	(14,525,636)	(34,364,771)	(67,992,725)	393,802,048
Infrastructure - Sewer	311,716,194	5,102,609	-	13,751,611	(12,146,025)	(53,185,604)	265,238,785
Infrastructure - Solid waste	10,807,799	-	-	-	(612,735)	(1,336,625)	8,858,439
Infrastructure - Storm water	69,711,532	6,692,214	-	510,449	(2,146,702)	(14,659,872)	60,107,621
Infrastructure - Water	447,228,016	-	-	17,237,223	(15,664,607)	(4,232,743)	444,567,889
Land - owned	213,557,384	-	-	-	-	-	213,557,384
Motor vehicles	5,870,430	304,158	-	-	(962,316)	-	5,212,272
Office equipment	3,853,555	2,144,020	-	-	(1,671,705)	(358,362)	3,967,508
Operational Buildings	38,016,035	-	-	433,340	(1,272,253)	(2,441,581)	34,735,541
Other assets	217,935	-	(79,900)	-	(55,422)	-	82,613
Plant and equipment	5,476,693	167,206	-	-	(1,064,431)	-	4,579,468
Railways	21,750,205	-	-	-	(2,800,857)	-	18,949,348
	<b>1,891,478,922</b>	<b>37,352,795</b>	<b>(79,900)</b>	<b>33,855,305</b>	<b>(87,372,703)</b>	<b>(182,099,643)</b>	<b>1,693,134,776</b>



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Other transfers	Movements in work in progress	Depreciation	Total
Bins and containers	224,256	-	-	(224,256)	-	-	-
Community assets - Buildings	164,560,669	12,795,157	-	-	(4,241,175)	(8,016,378)	165,098,273
Emergency equipment	86,137	-	-	(86,137)	-	-	-
Furniture and fixtures	1,708,942	579,258	-	-	-	(485,988)	1,802,212
Infrastructure - Electrical	128,410,012	1,075,124	-	-	7,524,668	(31,126,393)	105,883,411
Infrastructure - Roads	508,246,335	11,057,779	-	-	10,301,220	(39,116,086)	490,489,248
Infrastructure - Sewer	330,393,977	-	-	-	-	(18,677,783)	311,716,194
Infrastructure - Solid waste	11,535,990	-	-	-	-	(728,191)	10,807,799
Infrastructure - Storm water	72,285,645	-	-	-	-	(2,574,113)	69,711,532
Infrastructure - Water	452,659,350	15,159,267	-	-	-	(20,590,601)	447,228,016
Land - owned	261,368,882	-	(47,811,499)	-	-	-	213,557,383
Motor vehicles	3,999,323	2,753,045	(39,720)	-	-	(842,218)	5,870,430
Office equipment	4,288,918	1,018,737	(37,267)	-	-	(1,416,833)	3,853,555
Operational Buildings	40,701,557	74,852	-	-	-	(2,760,373)	38,016,036
Other assets	-	-	-	310,393	-	(92,458)	217,935
Plant and equipment	5,901,986	507,481	-	2	-	(932,776)	5,476,693
Railways	24,465,464	-	-	-	-	(2,715,259)	21,750,205
Security equipment	2	-	-	(2)	-	-	-
	<b>2,010,837,445</b>	<b>45,020,700</b>	<b>(47,888,486)</b>	<b>-</b>	<b>13,584,713</b>	<b>(130,075,450)</b>	<b>1,891,478,922</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

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

#### Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	35,065,507	513,043	35,578,550
Additions/capital expenditure	32,672,463	1,897,386	34,569,849
Transferred to completed items	(31,636,026)	(2,410,429)	(34,046,455)
	<b>36,101,944</b>	<b>-</b>	<b>36,101,944</b>

#### Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Included within Community	Total
Opening balance	17,239,618	4,754,218	21,993,836
Additions/capital expenditure	46,185,700	7,560,891	53,746,591
Transferred to completed items	(28,359,811)	(11,802,066)	(40,161,877)
	<b>35,065,507</b>	<b>513,043</b>	<b>35,578,550</b>

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.

### 11. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4,129,511	(2,977,334)	1,152,177	4,129,511	(2,443,382)	1,686,129

#### Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	1,686,129	(533,952)	1,152,177

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	2,343,924	(657,795)	1,686,129

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 12. Heritage assets

	2019			2018		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	46,260,000	-	46,260,000	46,260,000	-	46,260,000

#### Reconciliation of heritage assets 2019

	Opening balance	Total
Historical buildings	46,260,000	46,260,000

#### Reconciliation of heritage assets 2018

	Opening balance	Total
Historical buildings	46,260,000	46,260,000

#### Valuation of heritage assets

Revaluations were performed by an independent valuator, Mr Athur Lelosa, who holds a recognised and relevant qualification, during 2015. A certificate to this extent was received from the above-mentioned valuator.

The municipality had assessed the heritage assets at year-end and confirms that there was no need for these assets to be impaired at the end of the financial period:

#### Heritage assets used for more than one purpose

The following heritage assets are used by the entity for more than one purpose:

- Erf 172 in President Boshoff street in Bethlehem is used as offices for the Traffic department
- Erf 318 in Market street in Clarens is used as municipal offices

### 13. Other financial liabilities

#### At amortised cost

Development Bank of Southern Africa (DBSA)	33,725,003	37,906,652
Interest will be charged at 10% per year. The loan is repayable in monthly instalments of R621,615 over a period of 6 years.		

#### Non-current liabilities

At amortised cost	29,097,963	33,364,079
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#### Current liabilities

At amortised cost	4,627,040	4,542,573
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# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>14. Payables from exchange transactions</b>		
Trade payables	413,484,192	326,822,280
Trade receivables with credit balances	5,143,544	6,569,710
Deposit on land sales	5,120,725	5,120,725
Deposits received	299,832	288,959
Sundry creditors	2,975,662	10,326,161
Salary related creditors	18,861,304	13,819,791
Accrued bonus	6,074,310	5,538,154
Accrued leave	25,355,306	20,931,639
Retention on projects	4,582,413	4,318,416
	<b>481,897,288</b>	<b>393,735,835</b>
<b>15. VAT receivable</b>		
VAT accrued on accounts receivable	8,187,939	2,606,739
VAT accrued on accounts payable	(33,395,180)	(27,661,449)
VAT payable to / (refundable by) SARS	13,339,813	4,851,495
	<b>(11,867,428)</b>	<b>(20,203,215)</b>
<b>16. Consumer deposits</b>		
Water and electricity	8,733,153	7,353,166
Sundry	-	27,758
	<b>8,733,153</b>	<b>7,380,924</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 17. Provisions

#### Reconciliation of provisions - 2019

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	6,791,554	180,788	6,972,342

#### Reconciliation of provisions - 2018

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	6,314,235	477,319	6,791,554

#### Environmental rehabilitation provision

##### Bethlehem Dumping Site:

The new dumping site in Bethlehem became operational on 1 December 2010 as the old dumping site was closed. On a monthly basis the site is filled with approximately 6 200 cubic meters of cover material, garden waste, industrial waste and building rubble. The landfill site was assessed by Metsi Metseng Geological & Environmental Services and based on the assessment, the provision for the rehabilitation and the closure of the landfill site was calculated over a period of 20 years, but due to the decrease in the amount of waste (due to recycling) the lifespan will increase to 23 years.

The following key assumptions were made that can impact considerably on the calculation of the provision if they change:

- provision was made to dispose of 2 985 100 cubic metre waste that will fill an area of 115 600 square metres x 18 metres high over a lifespan of 23 years
- an average disposal tempo of 200 cubic metres per day over the 23 years (2018 : 20 year) lifespan was used for costing calculations
- an annual inflationary increase of 4.3% (2018: 4.9%) was used for the projected cost

##### Mashaeng Dumping Site:

The site was developed in 1992 with a lifespan of approximately 30 years. On a monthly basis the site is filled with approximately 210 cubic meters of cover material, garden waste, industrial waste and building rubble. The landfill site was assessed by EnviroMatrix and based on the assessment, the provision for the rehabilitation and the closure of the landfill site will have an estimated life span of 3 years.

The following key assumptions were made that can impact considerably on the calculation of the provision if they change:

- provision was made to dispose of 55 270 cubic metre waste that will fill the area within the remaining life span of 3 years
- an average disposal tempo of 7 cubic metres per day over the 3 years lifespan was used for costing calculations
- an annual inflationary increase of 4.3% (2018: 4.9%) was used for the projected cost

##### General:

Proper management of the site will increase the number of years of operation and will ensure that environmental compliance is adhered to. The timing of the cashflow is uncertain.

An assessment was done on 20 August 2019 by the firm EnviroMatrix (Pty) Ltd to estimate the total closure cost of the current dumping site in accordance with it's licence agreement.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>18. Employee benefit obligations</b>		
<b>The amounts recognised in the statement of financial position are as follows:</b>		
<b>Carrying value</b>		
Present value of the defined benefit obligation-wholly unfunded	(22,000,000)	(21,981,000)
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening balance	(21,981,000)	(18,884,000)
Benefits paid	2,264,000	2,185,000
Net expense recognised in the statement of financial performance	(2,283,000)	(5,282,000)
	<b>(22,000,000)</b>	<b>(21,981,000)</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	-	(79,000)
Past service cost	(2,007,000)	(1,806,000)
Actuarial (gains) losses	(276,000)	(3,397,000)
	<b>(2,283,000)</b>	<b>(5,282,000)</b>

### Key assumptions used

The post retirement medical aid liability is valued on a generally accepted actuarial valuation method. The liability was calculated on a member-by-member basis, taking into account the liabilities arising in respect of principal members and their spouses. Ages are calculated as per age on 30 June 2019.

The projected unit credit method was used as prescribed by IAS 19 and GRAP 25. This method is based on the approximation that the post-retirement benefit is notionally built up over the employees' working life.

The actuarial valuation of the PRMA (post-retirement medical aid) liability involves the following:

- the projection of future post-retirement medical contribution subsidy cash flows, taking into account the probabilities of survival, withdrawal, ill-health retirement, early retirement and death in service.
- the medical contribution subsidies arising in respect of adult dependents of employees.
- increasing the projected subsidy cashflows in line with expected long-term contribution escalation.
- discounting these cashflows in order to express the PRMA liability in current Rand terms.

**Discount rate used:** 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.

**CPI used** (Consumer Price Inflation): Difference between nominal and yield curves.

**Medical Aid Contribution Inflation:** CPI + 1%

**Net effective discount rate:** Yield curve based.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 18. Employee benefit obligations (continued)

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. All councillors and employees belong to three defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 are in the process of being finalised and will be submitted to the Municipality once approved by the executive committee of the fund. Information could not be obtained for the other two funds regarding the administrators no the actuaries.

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

### 19. Long service leave award

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

Opening balance	(15,509,000)	(13,691,000)
Benefits paid	1,287,000	1,129,000
Net expense recognised in the statement of financial performance	(3,724,000)	(2,947,000)
	<b>(17,946,000)</b>	<b>(15,509,000)</b>

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

Current service cost	(1,717,000)	(1,502,000)
Interest cost	(1,518,000)	(1,356,000)
Actuarial (gains) losses	(489,000)	(89,000)
	<b>(3,724,000)</b>	<b>(2,947,000)</b>

#### Key assumptions used

The long service leave liability is valued on a generally accepted actuarial valuation method. Ages and gender information as at 30 June 2019 were used.

The projected unit credit method was used as prescribed by IAS 19 and GRAP 25. This method is based on the expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

The actuarial valuation of the Long service leave liability involves the following:

- long service benefits are awarded in the form of leave days and a percentage of salary.
- the calculated award values are then discounted at the assumed discount interest rate to the date of the calculation.
- mortality, retirements and withdrawals from service are also taken into account.
- the liability is determined on the basis that each employee's long service benefits accrues uniformly over the working life of an employee up to the end of the interval at which the benefits becomes payable.
- the current policy for awarding long service awards remains unchanged in the future.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>20. Revenue</b>		
Rendering of services	1,549,638	1,519,625
Service charges	357,686,363	336,353,598
Rental of facilities and equipment	5,062,736	4,734,142
Interest received (trading)	55,873,791	48,616,972
Licences and permits	152,674	55,639
Other income	14,121,375	2,917,946
Interest received - investment	51,288	293,483
Dividends received	9,900	8,485
Property rates	146,335,678	140,553,140
Government grants and subsidies	220,288,765	191,693,517
Fines and penalties	1,098,302	230,440
	<b>802,230,510</b>	<b>726,976,987</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	357,686,363	336,353,598
Rendering of services	1,549,638	1,519,625
Rental of facilities and equipment	5,062,736	4,734,142
Interest received (trading)	55,873,791	48,616,972
Licences and permits	152,674	55,639
Other income	14,121,375	2,917,946
Interest received - investment	51,288	293,483
Dividends received	9,900	8,485
	<b>434,507,765</b>	<b>394,499,890</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	146,335,678	140,553,140
<b>Transfer revenue</b>		
Government grants and subsidies	220,288,765	191,693,517
Fines and penalties	1,098,302	230,440
	<b>367,722,745</b>	<b>332,477,097</b>
<b>21. Service charges</b>		
Sale of electricity	193,022,083	183,139,386
Sale of water	69,403,152	65,230,451
Sewerage and sanitation charges	48,725,127	47,492,049
Refuse removal	46,536,001	40,491,712
	<b>357,686,363</b>	<b>336,353,598</b>
<b>22. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	4,633,250	4,298,404
<b>Facilities and equipment</b>		
Rental of equipment	429,486	435,738
	<b>5,062,736</b>	<b>4,734,142</b>



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>23. Other income</b>		
Building plan fees	510,720	518,898
Clearance certificates	529,746	286,940
Encroachment charges	1,152,114	1,097,625
Escorting of abnormal freights	199,258	162,331
Insurance claim received	84,354	(28,781)
Awards received	250,000	-
Donations received	-	290,900
Tender documents photocopies and faxes	387,755	90,585
Skills development levies received	2,372,195	154,243
Sundry income	8,635,233	345,205
	<b>14,121,375</b>	<b>2,917,946</b>
<b>24. Investment revenue</b>		
<b>Dividend revenue</b>		
Investments	9,900	8,485
<b>Interest revenue</b>		
Bank	(30,394)	218,196
Investment	81,682	75,287
	<b>51,288</b>	<b>293,483</b>
	<b>61,188</b>	<b>301,968</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 25. Property rates

#### Rates received

Residential	46,695,617	44,320,214
Commercial	53,554,795	52,398,087
State	41,644,217	39,057,775
Small holdings and farms	4,441,049	4,777,064
	<b>146,335,678</b>	<b>140,553,140</b>

#### Valuations

##### Values per valuation roll

	R '000	R '000
Residential	7,134,686	7,053,788
Commercial	2,173,255	2,177,620
Government Municipal	1,748,034	1,744,953
	752,795	757,046
Small holdings and farms	3,748,060	3,901,570
	<b>15,556,830</b>	<b>15,634,977</b>

Valuations on land and buildings are performed every four years. The latest general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.0083 (2018: R0.008034) is applied to residential and small holding property valuations to determine assessment rates. Rebates of R40,000 (2018: R40,000) are granted to residential properties and a further 25% (2018: 25%) rebate to pensioners.

A general rate of R0.0249 (2018: R0.024102) is applied to business, industrial, commercial and public service infrastructure property valuations to determine assessment rates. Rebates of 80% (2018: 75%) are granted to public service infrastructure only.

A general rate of R0.0083 (2018: R0.008034) is applied to farm property valuations to determine assessment rates. Rebates of 85% (2018: 85%) are granted to farmers and 75% (2018: 75%) for small holdings. The rebates granted to farmers are done in accordance with Section 21 of the Municipal Property Rates Act (Act no 6 of 2004).

Rates to farmers and national government are levied on an annual basis with the final date for payment being 7 August 2019. Rates for all other consumers are levied on a monthly basis with the final date for payment before the 7th of each month. Interest at prime plus 1% per annum (2018: prime plus 1%) is levied on rates outstanding after the due date.

The new general valuation will be implemented on 01 July 2021.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>26. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	147,861,000	129,764,000
Expanded Public Works Programme Grant	1,000,000	1,000,000
Financial Management Grant	1,770,000	1,700,000
Library Grant	2,750,000	2,500,000
	<b>153,381,000</b>	<b>134,964,000</b>
<b>Capital grants</b>		
Municipal infrastructure grant (MIG)	37,914,000	39,281,000
Department of Water affairs grant (DWAf)	2,443,765	2,448,517
Water service infrastructure grant	16,550,000	15,000,000
National Development Electrification Grant	10,000,000	-
	<b>66,907,765</b>	<b>56,729,517</b>
	<b>220,288,765</b>	<b>191,693,517</b>
<b>Conditional and Unconditional</b>		
Included in the above are the following grants and subsidies received:		
Conditional grants received	72,427,765	61,929,517
Unconditional grants received	147,861,000	129,764,000
	<b>220,288,765</b>	<b>191,693,517</b>
<b>Equitable Share</b>		
Current-year receipts	147,861,000	129,764,000
Conditions met - transferred to revenue	(147,861,000)	(129,764,000)
	-	-
The equitable share allocation was fully utilised during the financial year.		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	37,914,000	39,281,000
Conditions met - transferred to revenue	(37,914,000)	(39,281,000)
	-	-
This grant was fully utilised for the upgrading of sports facilities, sanitation (upgrading of waste water treatment works) and the construction of roads during the year.		
<b>Financial Management Grant</b>		
Current-year receipts	1,770,000	1,700,000
Conditions met - transferred to revenue	(1,770,000)	(1,700,000)
	-	-

The municipal management grant was fully utilised during the financial year.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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### 26. Government grants and subsidies (continued)

#### Expanded Public Works Programme Grant

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

The expanded public works programme grant was fully utilised during the financial year.

#### Department of Water Affairs Grant (DWAf)

Current-year receipts	2,443,765	2,448,517
Conditions met - transferred to revenue	(2,443,765)	(2,448,517)
	-	-

This grant was utilised during the year for the upgrading of the water infrastructure network to Paul Roux and Rosendal.

#### Water Services Infrastructure Grant

Current-year receipts	16,550,000	15,000,000
Conditions met - transferred to revenue	(16,550,000)	(15,000,000)
	-	-

The water service infrastructure grant was fully utilised during the financial year for the upgrading of reservoirs in Clarens and Bohlokong.

#### Library Grant

Current-year receipts	2,750,000	2,500,000
Conditions met - transferred to revenue	(2,750,000)	(2,500,000)
	-	-

The library grant was fully utilised during the financial year.

#### National Development Electrification Grant

Current-year receipts	10,000,000	-
Conditions met - transferred to revenue	(10,000,000)	-
	-	-

This grant was fully utilized during the year under review.

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2018) no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>27. Employee costs</b>		
Basic	162,526,486	146,003,272
Bonus	12,871,059	11,552,397
Medical aid - company contributions	21,113,175	18,934,754
UIF company contributions	1,516,255	1,422,101
SDL	2,367,579	2,094,641
Other payroll levies	86,643	78,416
Leave pay provision charge	5,200,372	3,904,725
Defined contribution plans	4,256,037	3,816,777
Overtime payments	11,115,842	6,049,845
Long-service awards	297,163	558,267
Standby allowances	6,699,649	4,645,147
Acting allowances	3,729,316	4,246,743
Car allowance	5,923,206	5,275,497
Housing benefits and allowances	1,801,707	523,507
Arbitration awards and other incidental costs	243,036	506,137
Group life insurance	728,653	273,300
Pensionfund contributions	26,978,690	24,392,999
Other allowances	534,478	423,444
Telephone allowances	359,900	332,400
	<b>268,349,246</b>	<b>235,034,369</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	1,139,539	1,029,972
Car Allowance	380,441	380,441
Leave paid out	85,219	231,318
Contributions to UIF, Medical and Pension Funds	1,785	1,969
Cellphone allowance	18,000	18,000
	<b>1,624,984</b>	<b>1,661,700</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	915,939	854,077
Car Allowance	305,908	285,287
Leave paid out	73,418	69,656
Contributions to UIF, Medical and Pension Funds	1,785	1,785
Cellphone allowance	12,000	12,000
	<b>1,309,050</b>	<b>1,222,805</b>
<b>Remuneration of director public works</b>		
Annual Remuneration	915,939	651,691
Car Allowance	305,908	217,676
Leave paid out	73,418	-
Contributions to UIF, Medical and Pension Funds	1,785	1,338
Cellphone allowance	12,000	9,000
Acting allowance	-	25,979
	<b>1,309,050</b>	<b>905,684</b>

Mr NE Shabalala from 1 October 2017 to 30 June 2019.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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	2019	2018
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### 27. Employee costs (continued)

#### Remuneration of director corporate services

Annual Remuneration	915,939	506,871
Car Allowance	305,908	169,304
Contributions to UIF, Medical and Pension Funds	1,785	892
Cellphone allowance	12,000	7,000
Leave paid out	48,945	27,862
Acting allowance	14,311	-
	<b>1,298,888</b>	<b>711,929</b>

Me MS Mabula from 1 December 2017 to 30 June 2019.

#### Remuneration of director community services

Annual Remuneration	915,939	651,691
Car Allowance	305,908	217,676
Leave paid out	48,945	37,150
Contributions to UIF, Medical and Pension Funds	1,785	1,338
Cellphone allowance	12,000	9,000
	<b>1,284,577</b>	<b>916,855</b>

Mrs MAB Mosima from 1 October 2017 to 30 June 2019.

#### Remuneration director of local economic development

Annual Remuneration	915,939	144,820
Car Allowance	305,908	48,373
Leave paid out	58,734	-
Contributions to UIF, Medical and Pension Funds	1,785	297
Cellphone allowance	12,000	2,000
	<b>1,294,366</b>	<b>195,490</b>

Mr NP Mondi from 1 May 2018 to 30 June 2019.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 28. Remuneration of councillors

2019	Allowance	Travel allowance	Cell phone allowance	Total
Executive Mayor	859,471	-	40,800	900,271
Speaker	687,575	-	40,800	728,375
Chairman Public Accounts committee	274,106	68,527	40,800	383,433
Chairman Policy committee	342,633	-	40,800	383,433
Mayoral executive committee	3,953,565	558,656	285,600	4,797,821
Councillors	7,650,883	883,968	1,129,918	9,664,769
	<b>13,768,233</b>	<b>1,511,151</b>	<b>1,578,718</b>	<b>16,858,102</b>

2018	Allowance	Travel allowance	Cell phone allowance	Total
Executive Mayor	826,414	-	40,800	867,214
Speaker	661,129	-	40,800	701,929
Mayoral executive committee	3,922,709	497,896	297,171	4,717,776
Councillors	8,050,277	793,305	1,199,165	10,042,747
	<b>13,460,529</b>	<b>1,291,201</b>	<b>1,577,936</b>	<b>16,329,666</b>

### In-kind benefits

The Mayor, Speaker, Chief whip, Chairpersons of committees and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

### 29. Depreciation, impairment and amortisation

Intangible assets	533,952	657,794
Property, plant and equipment	269,472,345	130,071,345
	<b>270,006,297</b>	<b>130,729,139</b>

### 30. Finance costs

Penalties and Interest on late payment of VAT	2,055,857	(208,966)
Other interest paid	14,525,528	21,942,293
	<b>16,581,385</b>	<b>21,733,327</b>

### 31. Debt impairment

Contributions to debt impairment on consumer debtors and exchange debtors	(17,091,961)	64,609,487
Contributions to debt impairment on non-exchange debtors	28,019,372	34,974,118
Bad debts written off	91,192,177	54,590,809
	<b>102,119,588</b>	<b>154,174,414</b>

### 32. Bulk purchases

Electricity - Eskom	149,560,579	130,454,188
Water	1,121,125	2,082,657
	<b>150,681,704</b>	<b>132,536,845</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>33. Contracted services</b>		
<b>Outsourced Services</b>		
Burial Services	174,422	93,672
Catering Services	233,372	1,139,683
Commissions and committees	81,454	23,000
Meter Management	2,942,067	2,484,155
Occupational health and safety	32,550	-
Project management	65,040	130,080
Refuse Removal	6,955,855	6,178,024
Security Services	25,423,719	21,936,923
<b>Consultants and Professional Services</b>		
Business and Advisory	22,032,840	16,732,498
Infrastructure and Planning	2,308,450	1,625,451
Legal Cost	3,422,287	3,438,531
<b>Contractors</b>		
Artists and Performers	208,087	945,000
Audio-visual Services	259,699	691,650
Catering Services	4,771,141	4,130,978
Electrical	3,330,838	1,011,021
Employee Wellness	186,550	103,623
Event Promoters	465,550	132,182
Gas	895	-
Photographer	42,160	29,740
Prepaid Electricity Vendors	2,981,719	3,262,700
Transportation	8,400	-
Sports and Recreation	270,829	2,610
Stage and Sound Crew	1,112,800	2,432,356
	<b>77,310,724</b>	<b>66,523,877</b>



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>34. General expenses</b>		
Advertising	785,404	783,615
Artists and performers	638,825	118,615
Auditors remuneration	7,379,146	6,508,575
Bank charges	1,526,347	1,609,144
Bursaries	2,240,736	2,549,790
Catering services	-	206,462
Consultation and professional fees	-	22,368
Consumables	7,341,419	4,124,426
Donations	3,388,342	1,964,639
Electricity expense	9,017,655	9,977,891
Entertainment	44,030	656,635
Fines and penalties	-	283
Fuel and oil	7,839,143	6,160,938
Insurance	1,856,099	5,610,543
Lease expenditure	-	1,570,662
License fees	571,637	510,696
Management of landfill site	-	4,309
Postage and courier	4,082,782	1,757,354
Printing and stationary	1,742,060	2,470,235
Promotions and marketing	1,819,401	909,000
Property lease payment	591,368	-
Rental of equipment	27,132,194	16,814,975
Subscriptions and membership fees	2,965,146	1,628,526
Telephone and fax	1,532,079	1,845,411
Transport costs	4,966,230	5,544,982
Travel - local	2,059,993	3,111,101
Travel - overseas	51,736	7,838
Uniforms	2,064,292	4,675,353
	<b>91,636,064</b>	<b>81,144,366</b>
<b>35. Fair value adjustments</b>		
Other financial assets / liabilities		
• Investments	115,827	114,019
<b>36. Auditors' remuneration</b>		
Fees	7,379,146	6,508,575
<b>37. Operating lease income</b>		
<b>Projected income from operating lease agreements</b>		
- Within one year	642,885	531,174
- In second to fifth year (inclusive)	1,407,594	1,961,250
	<b>2,050,479</b>	<b>2,492,424</b>

Rental contracts for the different flats (100), vacant land (7) and houses (160) are signed for a period of 12 months, thereafter the contract is done on a month to month basis. All the house and flat contracts have a month notice period. New tenants are normally found within that period. The projected income are thus only included in the period within one year. Contacts for business premises (7) rental are signed for periods of 3 years to 9 years and 11 months. Escalation on these contracts are done on an annual basis linked to the inflation rate.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>38. Cash generated from operations</b>		
Deficit	(209,095,467)	(178,547,580)
<b>Adjustments for:</b>		
Depreciation and amortisation	270,006,297	130,729,139
(Loss) / Profit on sale of assets and liabilities	(1,845,948)	46,889,975
Gain (loss) on game stock	(916,705)	(298,960)
Actuarial loss / (gain)	765,000	3,486,000
Fair value adjustments on investments	(115,827)	(114,019)
Debt impairment	102,119,588	154,174,414
Movements in provisions	(123,403)	-
<b>Changes in working capital:</b>		
Inventories	425,514	75,817
Receivables from exchange transactions	558,983	6,841,802
Consumer debtors	(184,969,030)	(153,635,758)
Other receivables from non-exchange transactions	(799,223)	(2,213,825)
Payables from exchange transactions	88,999,207	62,263,683
VAT	8,335,787	(5,727,053)
Provisions	1,352,229	728,640
Provisions	304,191	477,319
	<b>75,001,193</b>	<b>65,129,594</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 39. Financial instruments

#### Categories of financial instruments

#### 2019

##### Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1,778,566	-	-	1,778,566
Trade and other receivables from exchange transactions	-	10,557,249	-	10,557,249
Other receivables from non-exchange transactions	-	3,176,471	170,000	3,346,471
Consumer debtors	-	142,279,862	-	142,279,862
Cash and cash equivalents	-	2,889,113	-	2,889,113
	<b>1,778,566</b>	<b>158,902,695</b>	<b>170,000</b>	<b>160,851,261</b>

##### Financial liabilities

	At amortised cost	Total
Other financial liabilities	33,725,003	33,725,003
Trade and other payables from exchange transactions	481,170,532	481,170,532
Consumer deposits	8,733,153	8,733,153
Finance lease liability	1,409,716	1,409,716
	<b>525,038,404</b>	<b>525,038,404</b>

#### 2018

##### Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1,662,933	-	-	1,662,933
Trade and other receivables from exchange transactions	-	11,116,232	-	11,116,232
Other receivables from non-exchange transactions	-	2,377,248	170,000	2,547,248
Consumer debtors	-	58,494,724	-	58,494,724
Cash and cash equivalents	-	1,630,244	-	1,630,244
	<b>1,662,933</b>	<b>73,618,448</b>	<b>170,000</b>	<b>75,451,381</b>

##### Financial liabilities

	At amortised cost	Total
Other financial liabilities	37,906,652	37,906,652
Trade and other payables from exchange transactions	393,735,836	393,735,836
Consumer deposits	7,380,924	7,380,924
Financial lease obligation	1,688,141	1,688,141
	<b>440,711,553</b>	<b>440,711,553</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 40. Risk management

#### Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

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

The table below analyses the municipality's financial liabilities and net-settled derivative 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 12 months equal their carrying balances as the impact of discounting is not significant.

<b>At 30 June 2019</b>	<b>Contractual cash flow</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Borrowings	33,725,003	4,645,316	4,726,956	17,331,573	7,021,158
Trade and other payables	481,170,532	481,170,532	-	-	-
Finance lease liability	1,409,716	307,503	341,313	760,900	-
<b>At 30 June 2018</b>	<b>Contractual cash flow</b>	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>
Borrowings	37,906,652	4,562,719	4,273,960	15,704,268	13,365,705
Trade and other payables	393,735,836	393,735,836	-	-	-
Finance lease liability	1,688,141	278,534	308,116	1,101,491	-

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due dates are cut immediately.

#### Market risk

#### Interest rate risk

The municipality's interest rate risk arises from consumer debtors. Consumer debtors are levied at variable rates expose the municipality to cash flow interest rate risk. The interest rate is linked to the prime interest rate and the risk is not considered to be material at this stage. Long term borrowings was done at a fixed rate and interest rate risk will not impact the financial position of the municipality.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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### 40. Risk management (continued)

#### Price risk

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

The municipality's investments in equity of other entities that are publicly traded on the JSE, but does not have a material effect on the municipality's income.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>41. Committed expenditure</b>		
<b>Authorised capital and operational expenditure</b>		
<b>Capital expenditure</b>		
• Property, plant and equipment	35,862,544	10,961,654
<b>Operational expenditure</b>		
• Land audit and asset registers	2,196,031	-
• Town planning	-	199,745
• Landfill site management	-	8,621,004
	<b>2,196,031</b>	<b>8,820,749</b>
<b>Total capital commitments</b>		
Capital expenditure	35,862,544	10,961,654
Operational expenditure	2,196,031	8,820,749
	<b>38,058,575</b>	<b>19,782,403</b>

This committed expenditure of the following cannot be determined due to the variable nature of the contract:

Project Description:	Walking Tall Trading and Projects - Events management services	
Project Value:	As per pricing schedule	
Expenditure to date:	R5,308,290 (2019)	R7 652 732 (2018)
Project Description:	Marwin Marketing - Supply and delivery of chemicals for water purification	
Project Value:	As per pricing schedule	
Expenditure to date:	R1,508,720 (2019)	R1 607 642 (2018)
Project Description:	Configen CC - Appointment of Service Provider for Provision of Physical Security Services	
Project Value:	As per pricing schedule	
Expenditure to date:	R29,189,846 (2019)	R24 649 591 (2018)
Project Description:	EMTP Trading - Supply and Installation of a Performance Management Electronic System	
Project Value:	As per pricing schedule	
Expenditure to date:	R390,881 (2019)	R610 016 (2018)
Project Description:	Manna Holdings-Appointment of professional valuer for compilation and maintenance of the valuation roll and supplementary valuation roll	
Project Value:	As per pricing schedule	
Expenditure to date:	R2,007,095 (2019)	R2 208 855 (2018)
Project Description:	Aqua Transport & Plant Hire (Pty) Ltd / Ethos Transport / Midmar Plant Hire / Oos Vrystaat / Premier Attraction - Appointment of water tankers	
Project Value:	As per pricing schedule	
Expenditure to date:	R2,824,901 (2019)	R- (2018)

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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Figures in Rand	2019	2018
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### 41. Committed expenditure (continued)

Project Description: Carboncor Distributor / Supper Patch / Wide in Tide -Supply & delivery of 25kg bags of cold mix asphalt on an as and when required basis for a period of 3 years

Project Value: As per pricing schedule

Expenditure to date: R2,990,709 (2019) R- (2018)

Project Description: Amaphiko Ejuba Transport Enterprises, Aqua Transport & Plant Hire, Midmaar Plant Hire, Oos Vrystaat & Premier Attraction, Ekene Investment - Hire of Plant & Equipment on an as and when required Basis for a period of 3 years

Project Value: As per pricing schedule

Expenditure to date: R11,157,495 (2019) R- (2018)

Project Description: Kunene & Makopo Risk Solution - Short term Insurance for a period of three (3) years

Project Value: As per pricing schedule

Expenditure to date: R1,946,822 (2019) R- (2018)

Project Description: Aquatico Laboratories - rendering of Laboratory Service for the analysis of water & wastewater samples for a period of three (3) years

Project Value: As per pricing schedule

Expenditure to date: R- (2019) R- (2018)

Project Description: Appconverge & Pontmas Trading - Supply & delivery of Computers for a period of three (3) years

Project Value: As per pricing schedule

Expenditure to date: R1,281,318 (2019) R- (2018)

Project Description: Maluti Chartered Accountants - Compilation of Annual Financial Statement for a period of 3 years

Project Value: As per pricing schedule

Expenditure to date: R- (2019) R- (2018)

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand	2019	2018
<b>42. Contingent liabilities</b>		
<b>The following civil cases are currently being finalised:</b>		
Telkom Limited SA: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the amount of R141 514. Telkom claim that a sewerage spillage damaged their equipment. Possible liability of R141 514.	141,514	141,514
Udumo Trading 147 CC: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Udumo Trading lodged against the Dihlabeng Local Municipality for R3 700 000. Udumo claim that they completed a reservoir in Clarens and was not fully paid. Possible liability of R3 700 000.	3,700,000	3,700,000
Wage curve agreements: Dihlabeng has not been task graded as yet and therefore the new T scales cannot be implemented. No job grade evaluations has been done either for the posts at DLM. Since this information is not available yet, no financial implications can be established. Only after the job evaluations has been accepted and approved by all the applicable parties a financial implication can be calculated.	-	-
Damcivils (Pty) Ltd: This case is handled by Niemann Grobbelaar Attorneys and is regarding an outstanding payment for services rendered by Damcivils for the roads and stormwater project in Bakenpark ext 5. Possible liability of R31 925 142.	31,925,142	31,925,142
MP Mofokeng and NE Chitja: This case is handled by Niemann Grobbelaar Attorneys and is regarding a child that fell in an open manhole and died. Possible liability of R600,000.	600,000	600,000
Telkom SA Soc Ltd and Icon Construction (Pty) Ltd: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the total amount of R211 669. Telkom claim that telecommunication cables and/or telecommunication infrastructure was damaged at or near Stands 36, 60, 102 and 145, Fateng tse Ntsho, Paul Roux. Possible liability of R211,669.	211,669	211,669
GA and N Schoombie: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim for water damages after a municipal pump bust into their house. Possible liability of R43 196.	43,196	43,196
Rudnat Projects CC: This case is handled by Niemann Grobbelaar Attorneys and is regarding an outstanding payment from the water services infrastructure grant. Possible liability of R4 856 544.	4,856,544	4,856,544
Emendo Inc: Development Agreement: Bakenpark Extensions 5, 6 & 7: This case is handled by Niemann Grobbelaar Attorneys and is regarding the lodging of a High Court Application regarding the appointment of Emendo Inc to nullify the agreement of the land availability and development agreement for Bakenpark Extensions 5, 6 & 7.	-	-
Ke a Dira Construction: This case is handled by Niemann Grobbelaar Attorneys and is regarding the appointment of another service provider for the construction of 1,8 km block paved roads and storm water drains in Bohlokong, Bethlehem. Possible liability not yet established.	7,961,411	-
MVD Xariep Raadgewende Ingeneurs CC: This case is handled by Niemann Grobbelaar Inc and is regarding an outstanding payment for professional services rendered to the municipality. Possible liability of R106 018.	106,018	106,018
Telkom SA Soc Ltd and Mapitsi Civil Works CC: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the amount of R25 486. Telkom claim that telecommunication cables and/or telecommunication infrastructure was damaged at or near Stand 400, Fateng tse Ntsho, Paul Roux. Possible liability of R25 486.	25,486	25,486



# Dihlabeng Local Municipality

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## Notes to the Annual Financial Statements

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<b>42. Contingent liabilities (continued)</b>		
MS Sithole / Donald Ndwandwe: This is regarding an eviction matter. The amount of R83 543 is claimed from the municipality for losses and/or from the employee who were responsible for the eviction. The case is handled by Niemann Grobbelaar and were paid during the year under review.	-	83,543
TJ Ramakatan: This case is regarding the outstanding amount for buying another portion of the farm. The case is handled by Niemann Grobbelaar Possible liability of R900 000.	900,000	900,000
Hexing Electrical SA (Pty) Ltd: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim against the municipality for cancellation of a contract to install electrical meters around Dihlabeng.	99,508,065	-
Sonja KC This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim for back-pay from 3 July 2008 till 5 March 2015.	390,000	-
HT Pelatona Projects (Pty) Ltd: This case is handled Niemann Grobbelaar and is regarding outstanding payments for services rendered regarding the upgrading of the Clarens Waterworks.	612,000	-
Waco Africa (Pty) Ltd t/a Sanitech: This case is handled by Niemann Grobbelaar Attorneys and is regarding a claim for outstanding payments for the hire of portable toilets.	1,542,000	-
Cybko Security Services CC: This case is handled by Niemann Grobbelaar Attorneys and is regarding the awarding of a tender to Zero Tolerance Security for the provision of physical security services for a period of three years. This case was resolved during the year and no payments were made.	-	-
	<b>152,523,045</b>	<b>42,593,112</b>

### 43. Related parties

#### Relationships

Members of key management  
Councillors

All Section 57 managers  
All municipal councillors

The municipality also provides municipal services to the Councillors and Section 57 managers. These services are provided at normal terms and conditions. This does not represent a significant part of the income of the municipality.

#### Related party balances

##### Amounts included in Trade receivable regarding related parties

Councillors in arrears (refer to Note 53) 315,647 378,448

#### Related party transactions

##### Remuneration paid to related parties

Section 57 Managers (refer to Note 29) 8,195,821 5,614,463  
Councillors (refer to Note 30) 16,858,102 16,329,665

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand 2019 2018

### 44. Prior period errors

A full land audit were done during the year and all the related asset register were updated and corrected.

Immovable and infrastructure assets were verified and the related asset registers were updated and corrected.

Property classification were corrected between Land owned and investment property.

Suspense accounts with no movements were written off.

The correction of the error(s) results in adjustments as follows:

<b>Statement of financial position</b>	<b>2018</b>	<b>2017</b>
Property, plant and equipment	111,129,174	165,010,289
Investment property	607,331,424	607,331,424
Payables from exchange transactions	1,347,294	1,347,294
Opening Accumulated Surplus or Deficit	(773,689,007)	(773,689,007)
<b>Statement of Financial Performance</b>		
Depreciation expense	24,223,729	-
Loss on disposal of assets and liabilities	30,876,499	-
Repairs and maintenance	(1,219,113)	-
<b>Cash flow statement</b>		
<b>Cash flow from operating activities</b>		
Payments to suppliers	1,219,113	-
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	(1,219,113)	-

### 45. Comparative figures

Certain comparative figures have been reclassified.

Arbitration awards were not correctly classified in the previous financial statements.

The electricity used by the municipality were incorrectly included in bulk purchases on the previous financial statements.

Various contracted services were incorrectly included as part of general expenditure and service charges in the previous financial statements.

The effects of the reclassification are as follows:

#### Statement of financial position - extract

#### Statement of financial performance - extract

	<b>Comparative figures previously reported</b>	<b>Reclassificati on</b>	<b>After reclassificatio n</b>
Service charges	335,342,577	1,011,021	336,353,598
Bulk purchases	(142,514,736)	9,977,891	(132,536,845)
Employee related costs	(240,142,695)	(506,137)	(240,648,832)
General expenses	(131,243,186)	50,098,820	(81,144,366)
Contracted services	(5,942,282)	(60,581,595)	(66,523,877)
<b>Total</b>	<b>(184,500,322)</b>	<b>-</b>	<b>(184,500,322)</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 46. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had incurred a net loss of R209,095,467 (2018: R178,547,580) during the year and that the municipality's total liabilities exceed its current assets by R322,374,537 (2018: R309,257,185). In addition, the municipality owed Eskom R263,047,090 (2018: R196,787,501), Bethlehem Hydro (Pty) Ltd R27,502,989 (2018: R15,089,242) and Free State Fleet Management Trading Entity R63 482 218 (2018: R57 356 911) and the Department of Water Affairs R8 464 543 (2018: R7 175 249) at 30 June 2019 which is long overdue. The municipality is not able to timeously recover outstanding amounts from consumer debtors and this is resulting in the inability to pay their suppliers within the 30 day time period.

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.

### 47. Events after the reporting date

There is no events after the reporting date.

### 48. Unauthorised expenditure

Opening balance as previously reported	321,296,714	150,705,542
<b>Opening balance as restated</b>	<b>321,296,714</b>	<b>150,705,542</b>
Add: Unauthorised Expenditure - current period	241,087,377	170,591,172
Less: Amount written off - current	(321,296,714)	-
<b>Closing balance</b>	<b>241,087,377</b>	<b>321,296,714</b>

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	192,965,297	97,641,299
Cash	48,122,080	72,949,873
	<b>241,087,377</b>	<b>170,591,172</b>

#### Analysed as follows: non-cash

Depreciation and amortisation	192,200,297	32,404,409
Loss on disposal of property, plant and equipment	-	16,013,476
Provision of impairment	-	45,737,414
Actuarial losses	765,000	3,486,000
	<b>192,965,297</b>	<b>97,641,299</b>

#### Analysed as follows: cash

Repairs and maintenance	8,716,432	-
General expenditure	-	52,017,186
Employee related costs	30,196,161	7,809,695
Remuneration of Councillors	1,128,102	1,489,665
Finance charges	8,081,385	11,633,327
	<b>48,122,080</b>	<b>72,949,873</b>

#### Disciplinary steps taken/criminal proceedings

No disciplinary steps were taken during the year under review

#### Recoverability of unauthorised expenditure

No amounts will be recovered.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

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Figures in Rand

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### 49. Fruitless and wasteful expenditure

Opening balance as previously reported	68,729,530	48,677,198
<b>Opening balance as restated</b>	<b>68,729,530</b>	<b>48,677,198</b>
Add: Fruitless Expenditure - current period	12,611,666	20,261,298
Less: Interest and penalties written back by SARS during the year	-	(208,966)
<b>Closing balance</b>	<b>81,341,196</b>	<b>68,729,530</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

Interest paid		12,611,666	20,261,298
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### 50. Irregular expenditure

Opening balance	90,255,329	85,891,480
<b>Opening balance as restated</b>	<b>90,255,329</b>	<b>85,891,480</b>
Less: Amounts written off by Council	(36,618,626)	(32,254,777)
Add: Irregular Expenditure - current period	53,694,085	36,618,626
<b>Closing balance</b>	<b>107,330,788</b>	<b>90,255,329</b>

Incidents/cases identified in the current year include those listed below:

Competitive bidding not invited	10,345,026	8,323,053
SCM Regulation 32 were made that did not adhere to the requirements	8,990,062	5,886,830
Three written quotations not invited	332,500	602,210
Tax clearances not obtained	34,385	216,708
Actual expenditure exceeded the contract amount	21,135,575	18,838,721
Payment made before the invoice	-	199,000
Incorrect deviation reason given	-	508,246
Vehicle purchase without council approval	-	2,025,276
Declaration of interest not submitted	316,719	538,412
Composition of bid committee	12,253,195	-
Supplier in service of the state	69,668	-
Deviation to supply chain not reported at next council meeting	216,955	-
	<b>53,694,085</b>	<b>37,138,456</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Contributions to organised local government

Opening balance	3,219,277	1,907,070
Current year subscription / fee	2,637,707	2,167,270
Previous year subscription fee adjustment	291,800	144,937
Amount paid - previous years	(3,397,308)	(1,000,000)
	<b>2,751,476</b>	<b>3,219,277</b>

#### Audit fees

Opening balance	1,308,880	1,314,621
Current year invoices and interest	7,040,091	6,502,833
Amount paid - current year	(3,737,781)	(5,193,953)
Amount paid - previous years	(1,308,880)	(1,314,621)
	<b>3,302,310</b>	<b>1,308,880</b>

#### PAYE and UIF

Opening balance	2,566,954	2,034,803
Current year subscription / fee	35,813,245	29,628,181
Amount paid - current year	(32,729,884)	(27,061,227)
Amount paid - previous years	(2,566,954)	(2,034,803)
	<b>3,083,361</b>	<b>2,566,954</b>

#### Pension and Medical Aid Deductions

Opening balance	8,695,795	5,161,769
Current year subscription / fee	74,647,698	69,680,740
Amount paid - current year	(61,578,856)	(60,984,945)
Amount paid - previous years	(8,695,795)	(5,161,769)
	<b>13,068,842</b>	<b>8,695,795</b>

#### VAT

VAT receivable	11,867,428	20,203,215
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VAT output payables and VAT input receivables are shown in note 15.

Not all the VAT returns have been submitted by the due date throughout the year.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PD Lengoabala	6,220	131,749	137,969
KJ Rathebe	2,897	60,848	63,745
TMH Mofokeng	4,372	100,623	104,995
J Nhlapo	2,565	6,373	8,938
	<b>16,054</b>	<b>299,593</b>	<b>315,647</b>

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PD Lengoabala	15,472	130,133	145,605
KJ Rathebe	8,764	85,756	94,520
DB Michaels	3,096	1,236	4,332
TM Mofokeng	1,993	412	2,405
TMH Mofokeng	8,764	122,822	131,586
	<b>38,089</b>	<b>340,359</b>	<b>378,448</b>

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

30 June 2019	Highest outstanding amount	Aging (in days)
PD Lengoabala	137,969	270
KJ Rathebe	63,745	270
TMH Mofokeng	104,995	270
J Nhlapo	8,938	270
	<b>315,647</b>	

30 June 2018	Highest outstanding amount	Aging (in days)
PD Lengoabala	145,605	270
KJ Rathebe	96,347	270
DB Michaels	5,593	120
TM Mofokeng	2,405	90
THM Mofokeng	131,778	270
	<b>381,728</b>	

Distribution losses:

Water distribution losses for the year R10,389,244 - 24.27% (2018: R6,542,104 - 31.71%)

Electricity distribution losses for the year R16,992,056 - 11.36% (2018: R3,166,032 - 2.48%)

The main reasons for the losses are due to the ageing infrastructure of the networks, also the leakages in the water network and the illegal connections in the electricity network.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 52. Budget differences

#### Material differences between budget and actual amounts

Refer to paragraph 2.4 of the Accounting officers report for the detail explanations of the material variances.

### 53. In-kind donations and assistance

#### Details of donation

	Rand value
900 School uniforms were donated to various schools	195,750
200 Food parcels for celebration of international Mandela Day were donated in June 2019	198,700
Publishing of book for local author in June 2019	4,802
3 Soccer attires and 5 soccer balls were donated in April 2019	17,423
500 Calculators were donated to disadvantaged school kids in April 2019	198,950
200 Food parcels for destitute families in April 2019	198,700
500 Basic food parcels were donated for Mandela Day in June 2019	197,500
In February 2019 training were done for 30 Youth SMME's	149,550
In December 2018 food packs were donated for X-mas to 100 kids	4,000
School shoes were donated to needy learners in January 2019	46,632
20 laptops and 20 cellphones to were donated to different schools in Janaury 2019	198,450
350 Scientific calculators were donated to various schools in December 2018	140,800
School shoes were donated in April 2019 to needy learners	104,620
Sanitary towels were donated to needy learners in January 2019	199,200
Cash amount donated to Lengau Choral Music Association for the Political Icons Choral Music Festival	100,000
Cash amount donated to Modimo o utlwile for transportation, catering, accomodation, artists and a PA system	20,000
Cash amount donated to Motshepuwa Primary School for tekkies, socks and refreshments	7,000
Cash amount donated to Makepeja for the Sol Plaatjie Marathon	120,000
Cash amount donated to Mohlamosa Projects for Bethlehem Carnival Music Event	350,000
Cash amount donated to Sefi Music Entertainment for the recording of a Album	15,000
Cash amount donated to 1KRCommunications for the Golf Challenge	130,000
Cash amounts to Big Fellas for Saka le Yona event	350,000
	<u>2,947,077</u>

### 54. Operating lease expense

#### Minimum lease payments due

- within one year	-	<u>328,040</u>
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# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2019

## Notes to the Annual Financial Statements

Figures in Rand

### 55. Finance lease obligation

#### Minimum lease payments due

- within one year	307,503	278,534
- in second to fifth year inclusive	1,102,213	1,409,769

#### Present value of minimum lease payments

<b>1,409,716</b>	<b>1,688,303</b>
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Non-current liabilities

1,102,193

Current liabilities

307,523

**1,409,716**

**1,688,141**

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

The average lease term was 5 years and the average effective borrowing rate was 10.25%.

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

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

### 56. Change in estimate

#### Provisions

The projected construction section inflation percentage was changed in the current year from 4.8% to 4.9%. The effect of this revision has increased the interest paid for the current year by R20,596.

### 57. 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.

Emergency	216,955	1,116,422
Sole provider	-	160,888
Impractical	-	45,715
	<b>216,955</b>	<b>1,323,025</b>

**Dihlabeng Local Municipality**

**Appendix A**

June 2019

**Schedule of external loans as at 30 June 2019**

<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at Saturday, 30 June 2018</b>	<b>Received during the period</b>	<b>Redeemed written off during the period</b>	<b>Balance at Sunday, 30 June 2019</b>	<b>Carrying Value of Property, Plant &amp; Equip</b>	<b>Other Costs in accordance with the MFMA</b>
		<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>
<b>Development Bank of South Africa</b>							
Long term loan	61007269 30/06/2025	37,906,652	-	4,181,649	33,725,003	-	-
		<b>37,906,652</b>	<b>-</b>	<b>4,181,649</b>	<b>33,725,003</b>	<b>-</b>	<b>-</b>
<b>Total external loans</b>							
Development Bank of South Africa		37,906,652	-	4,181,649	33,725,003	-	-
		<b>37,906,652</b>	<b>-</b>	<b>4,181,649</b>	<b>33,725,003</b>	<b>-</b>	<b>-</b>

**Dhlabeng Local Municipality**  
**Dhlabeng Local Municipality**  
**Appendix B**

June 2019

**Analysis of property, plant and equipment as at 30 June 2018**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land Owned	439,943,410	-	-	-	-	-	439,943,410	-	-	-	-	-	-	439,943,410
Land - Solid waste	4,605,363	-	-	-	-	-	4,605,363	-	-	-	-	-	-	4,605,363
Buildings - Solid waste	17,643,660	-	-	-	-	-	17,643,660	(5,762,481)	-	-	(757,398)	-	(6,519,879)	11,123,781
	<b>462,192,433</b>	-	-	-	-	-	<b>462,192,433</b>	<b>(5,762,481)</b>	-	-	<b>(757,398)</b>	-	<b>(6,519,879)</b>	<b>455,672,554</b>
<b>Infrastructure</b>														
Water	454,719,647	3,539,929	(176,821)	63,291,477	-	-	521,374,232	(105,878,792)	92,345	-	(16,410,719)	-	(122,197,166)	399,177,066
Sewer	386,030,855	-	-	17,423,810	-	-	403,454,665	(107,186,739)	-	-	(17,657,897)	-	(124,844,636)	278,610,029
Roads	381,299,617	1,027,362	-	16,371,408	-	-	398,698,387	(144,345,446)	-	-	(15,757,823)	-	(160,103,269)	238,595,118
Electricity	154,195,285	93,435	-	8,292,833	-	-	162,581,553	(52,130,659)	-	-	(6,050,057)	-	(58,180,716)	104,400,837
Railways	48,755,739	-	-	-	-	-	48,755,739	(21,669,217)	-	-	(2,708,653)	-	(24,377,870)	24,377,869
Work in progress	76,664,891	65,906,525	-	(119,108,832)	-	-	23,462,584	-	-	-	-	(741,650)	(741,650)	22,720,934
	<b>1,501,666,034</b>	<b>70,567,251</b>	<b>(176,821)</b>	<b>(13,729,304)</b>	-	-	<b>1,558,327,160</b>	<b>(431,210,853)</b>	<b>92,345</b>	-	<b>(58,585,149)</b>	<b>(741,650)</b>	<b>(490,445,307)</b>	<b>1,067,881,853</b>
<b>Community Assets</b>														
Land	138,671,863	-	-	-	-	-	138,671,863	-	-	-	-	-	-	138,671,863
Buildings	248,586,318	1,676,305	-	13,729,304	-	-	263,991,927	(70,243,940)	-	-	(9,678,280)	-	(79,922,220)	184,069,707
	<b>387,258,181</b>	<b>1,676,305</b>	-	<b>13,729,304</b>	-	-	<b>402,663,790</b>	<b>(70,243,940)</b>	-	-	<b>(9,678,280)</b>	-	<b>(79,922,220)</b>	<b>322,741,570</b>

**Dihlabeng Local Municipality**  
**Dihlabeng Local Municipality**  
**Appendix B**

June 2019

**Analysis of property, plant and equipment as at 30 June 2018**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Other assets</b>														
Motor vehicles	12,207,571	347,165	(277,509)	-	-	-	<b>12,277,227</b>	(8,572,290)	250,687	-	(597,440)	-	<b>(8,919,043)</b>	3,358,184
Office equipment	9,783,797	1,903,577	(380,731)	-	-	-	<b>11,306,643</b>	(7,448,894)	284,553	-	(1,082,101)	-	<b>(8,246,442)</b>	3,060,201
Bins and containers	1,257,645	-	-	-	-	-	<b>1,257,645</b>	(960,184)	-	-	(73,205)	-	<b>(1,033,389)</b>	224,256
Emergency equipment	283,172	-	-	-	-	-	<b>283,172</b>	(180,825)	-	-	(16,210)	-	<b>(197,035)</b>	86,137
Furniture & Fittings	4,300,963	51,472	(7,756)	-	-	-	<b>4,344,679</b>	(2,998,861)	5,475	-	(396,790)	-	<b>(3,390,176)</b>	954,503
Security equipment	6,139	-	-	-	-	-	<b>6,139</b>	(6,137)	-	-	-	-	<b>(6,137)</b>	2
Plant and equipment	15,080,709	403,081	(18,754)	-	-	-	<b>15,465,036</b>	(10,461,955)	16,819	-	(745,682)	-	<b>(11,190,818)</b>	4,274,218
	<b>42,919,996</b>	<b>2,705,295</b>	<b>(684,750)</b>	-	-	-	<b>44,940,541</b>	<b>(30,629,146)</b>	<b>557,534</b>	-	<b>(2,911,428)</b>	-	<b>(32,983,040)</b>	<b>11,957,501</b>

**Dhlabeng Local Municipality**  
**Dhlabeng Local Municipality**

**Appendix B**

June 2019

**Analysis of property, plant and equipment as at 30 June 2018**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Total property plant and equipment</b>														
Land and buildings	462,192,433	-	-	-	-	-	462,192,433	(5,762,481)	-	-	(757,398)	-	(6,519,879)	455,672,554
Infrastructure	1,501,666,034	70,567,251	(176,821)	(13,729,304)	-	-	1,558,327,160	(431,210,853)	92,345	-	(58,585,149)	(741,650)	(490,445,307)	1,067,881,853
Community Assets	387,258,181	1,676,305	-	13,729,304	-	-	402,663,790	(70,243,940)	-	-	(9,678,280)	-	(79,922,220)	322,741,570
Other assets	42,919,996	2,705,295	(684,750)	-	-	-	44,940,541	(30,629,146)	557,534	-	(2,911,428)	-	(32,983,040)	11,957,501
	<b>2,394,036,644</b>	<b>74,948,851</b>	<b>(861,571)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,468,123,924</b>	<b>(537,846,420)</b>	<b>649,879</b>	<b>-</b>	<b>(71,932,255)</b>	<b>(741,650)</b>	<b>(609,870,446)</b>	<b>1,858,253,478</b>
<b>Agricultural/Biological assets</b>														
Game stock	3,726,075	-	-	-	(72,750)	-	3,653,325	-	-	-	-	-	-	3,653,325
	<b>3,726,075</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(72,750)</b>	<b>-</b>	<b>3,653,325</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,653,325</b>
<b>Intangible assets</b>														
Computers - software & programming	3,002,432	1,137,171	-	-	-	-	4,139,603	(1,137,955)	-	-	(647,632)	-	(1,785,587)	2,354,016
	<b>3,002,432</b>	<b>1,137,171</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,139,603</b>	<b>(1,137,955)</b>	<b>-</b>	<b>-</b>	<b>(647,632)</b>	<b>-</b>	<b>(1,785,587)</b>	<b>2,354,016</b>
<b>Investment properties</b>														
Investment property	51,996,400	-	-	-	-	-	51,996,400	-	-	-	-	-	-	51,996,400
	<b>51,996,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,996,400</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>51,996,400</b>
<b>Total</b>														
Land and buildings	462,192,433	-	-	-	-	-	462,192,433	(5,762,481)	-	-	(757,398)	-	(6,519,879)	455,672,554
Infrastructure	1,501,666,034	70,567,251	(176,821)	(13,729,304)	-	-	1,558,327,160	(431,210,853)	92,345	-	(58,585,149)	(741,650)	(490,445,307)	1,067,881,853
Community Assets	387,258,181	1,676,305	-	13,729,304	-	-	402,663,790	(70,243,940)	-	-	(9,678,280)	-	(79,922,220)	322,741,570
Other assets	42,919,996	2,705,295	(684,750)	-	-	-	44,940,541	(30,629,146)	557,534	-	(2,911,428)	-	(32,983,040)	11,957,501
Agricultural/Biological assets	3,726,075	-	-	-	(72,750)	-	3,653,325	-	-	-	-	-	-	3,653,325
Intangible assets	3,002,432	1,137,171	-	-	-	-	4,139,603	(1,137,955)	-	-	(647,632)	-	(1,785,587)	2,354,016
Investment properties	51,996,400	-	-	-	-	-	51,996,400	-	-	-	-	-	-	51,996,400
	<b>2,452,761,551</b>	<b>76,086,022</b>	<b>(861,571)</b>	<b>-</b>	<b>(72,750)</b>	<b>-</b>	<b>2,527,913,252</b>	<b>(538,984,375)</b>	<b>649,879</b>	<b>-</b>	<b>(72,579,887)</b>	<b>(741,650)</b>	<b>(611,656,033)</b>	<b>1,916,257,219</b>

**Dihlabeng Local Municipality**  
**Dihlabeng Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2017**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Land and buildings</b>														
Land Owned	439,943,410	-	-	-	-	-	439,943,410	-	-	-	-	-	-	439,943,410
Land - Solid waste	4,605,363	-	-	-	-	-	4,605,363	-	-	-	-	-	-	4,605,363
Building - Solid waste	17,643,660	-	-	-	-	-	17,643,660	(5,019,969)	-	-	(742,512)	-	(5,762,481)	11,881,179
	<b>462,192,433</b>	-	-	-	-	-	<b>462,192,433</b>	<b>(5,019,969)</b>	-	-	<b>(742,512)</b>	-	<b>(5,762,481)</b>	<b>456,429,952</b>
<b>Infrastructure</b>														
Water	422,527,595	14,198,415	-	17,993,637	-	-	454,719,647	(90,631,706)	-	-	(15,247,086)	-	(105,878,792)	348,840,855
Sewer	386,030,855	-	-	-	-	-	386,030,855	(92,317,890)	-	-	(14,868,849)	-	(107,186,739)	278,844,116
Roads	375,389,766	1,489,480	-	4,420,371	-	-	381,299,617	(128,928,850)	-	-	(15,416,596)	-	(144,345,446)	236,954,171
Electricity	154,195,285	-	-	-	-	-	154,195,285	(46,156,094)	-	-	(5,974,565)	-	(52,130,659)	102,064,626
Railways	48,755,739	-	-	-	-	-	48,755,739	(18,960,565)	-	-	(2,708,652)	-	(21,669,217)	27,086,522
Work in progress	48,706,176	55,899,174	-	(27,940,459)	-	-	76,664,891	-	-	-	-	-	-	76,664,891
	<b>1,435,605,416</b>	<b>71,587,069</b>	-	<b>(5,526,451)</b>	-	-	<b>1,501,666,034</b>	<b>(376,995,105)</b>	-	-	<b>(54,215,748)</b>	-	<b>(431,210,853)</b>	<b>1,070,455,181</b>
<b>Community Assets</b>														
Land	138,671,863	-	-	-	-	-	138,671,863	-	-	-	-	-	-	138,671,863
Buildings	250,269,135	322,183	(7,580,945)	5,575,945	-	-	248,586,318	(60,706,993)	-	-	(9,536,947)	-	(70,243,940)	178,342,378
	<b>388,940,998</b>	<b>322,183</b>	<b>(7,580,945)</b>	<b>5,575,945</b>	-	-	<b>387,258,181</b>	<b>(60,706,993)</b>	-	-	<b>(9,536,947)</b>	-	<b>(70,243,940)</b>	<b>317,014,241</b>

**Dihlabeng Local Municipality**  
**Dihlabeng Local Municipality**  
**Appendix B**

June 2019

**Analysis of property, plant and equipment as at 30 June 2017**  
**Cost/Revaluation** **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Other assets</b>														
Motor vehicles	12,924,362	-	(848,356)	-	-	131,565	12,207,571	(8,628,776)	705,970	-	(649,484)	-	(8,572,290)	3,635,281
Office equipment	10,190,278	1,141,786	(1,548,267)	-	-	-	9,783,797	(8,035,384)	1,508,489	-	(921,998)	-	(7,448,893)	2,334,904
Bins and containers	1,257,505	-	-	-	-	140	1,257,645	(883,814)	-	-	(76,346)	(24)	(960,184)	297,461
Emergency equipment	340,347	(57,175)	-	-	-	-	283,172	(220,124)	57,105	-	(17,806)	-	(180,825)	102,347
Security equipment	6,139	-	-	-	-	-	6,139	(5,862)	-	-	(275)	-	(6,137)	2
Plant and equipment	16,134,148	581,586	(1,635,025)	-	-	-	15,080,709	(10,925,481)	1,609,295	-	(1,145,769)	-	(10,461,955)	4,618,754
Furniture and fixtures	4,455,261	320,739	(91,565)	-	-	(383,472)	4,300,963	(2,930,820)	89,151	-	(491,171)	333,979	(2,998,861)	1,302,102
	<b>45,308,040</b>	<b>1,986,936</b>	<b>(4,123,213)</b>	<b>-</b>	<b>-</b>	<b>(251,767)</b>	<b>42,919,996</b>	<b>(31,630,261)</b>	<b>3,970,010</b>	<b>-</b>	<b>(3,302,849)</b>	<b>333,955</b>	<b>(30,629,145)</b>	<b>12,290,851</b>





