

Planning by	Reviewed	Performed by	Final review

Client details

Client name: Ditsobotla Local Municipality
Year end: June 30, 2014

File details

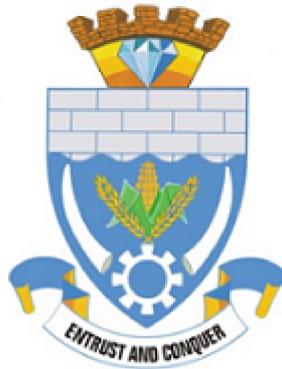
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Last update: 32

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Balance Check		Controlling entity	
		2014	2013
	Statement of financial position is out of balance	Diff (9)	3
	Cash flow statement is out of balance	Diff (12)	141,076
	Net Surplus per the Statement of Financial Performance does not agree with the NETINC account	Diff (8)	1
	Opening Accumulated Surplus (deficit) does not match the closing balance for the prior year	Diff 657,900,389	128,300,768

Print details

Printed by
Date printed



DITSOBOTLA LOCAL MUNICIPALITY

Annual Financial Statements
for the year ended June 30, 2014
Auditor General of South Africa (North West)

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Municipality
Mayoral committee	
Executive Mayor	Honorable Holele LE
Councillors	Councillor Bogatsu TE Councillor Dila VS Councillor Dipholo DO Councillor Dithareng HK Councillor Engelbrecht R Councillor Fourie JPG Councillor Khambula GF Councillor Koloko GA Councillor Lethoko IE Councillor Maitshotlo PJ Councillor Maretlwa BB Councillor Masekoa W Councillor Mathipe ML Councillor Matlaba NG Councillor Matlholoa RB Councillor Melamu TK Councillor Mqgamqo QE Councillor Mqguba MV Councillor Mmota MA Councillor Mmota ME Councillor Moeketsane SE Councillor Mogonediwa IM Councillor Moheta BJ Councillor Moilwa DG Councillor Montsho MK Councillor Morutse MW Councillor Moseki MS Councillor Mothibedi LH Councillor Mothibi ML Councillor Mpame DS Councillor Naweta F Councillor Ngesman AW Councillor Njakanjaka KS Councillor Ntoagae PR Councillor Schnepel AR Councillor Senokwane AM Councillor Seribe KM Councillor Thabane RE Councillor Tootla KM Councillor Van Der Linde WG
Grading of local authority	Grade B
Chief Finance Officer (CFO)	Dintwe LJ
Accounting Officer	Mrs Zandamela KRJ (Acting)

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

General Information

Registered office	Civic Centre Cnr Nelson Mandela and Transvaal Streets Lichtenburg North West 2740
Postal address	PO Box 7 Lichtenburg 2740
Bankers	ABSA Bank
Auditors	Auditor General of South Africa (North West)
Municipal demarcation code	NW384
Capacity of local authority	Low

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Index

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

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Abbreviations

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

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2015 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on November 30, 2015 and were signed on its behalf by:

Mrs Zandamela KRJ (Acting)
Accounting Officer

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Accounting Officer's Report

The accounting officer submits her report for the year ended June 30, 2014.

1. Review of activities

Main business and operations

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

2. Going concern

The 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.

3. Subsequent events

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

4. Accounting policies

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

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

5. Bankers

The municipality banks primarily with ABSA Bank.

6. Auditors

Auditor General of South Africa (North West) will continue in office for the next financial period.

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Statement of Financial Position as at June 30, 2014

Figures in Rand		Note(s)	2014	2013
Assets				
Current Assets				
Inventories	30.20	12	3,125,778	15,072,192
Trade and other receivables	31.20	13	206,512,871	16,375,371
VAT receivable	31.20	15	1,206,139	-
Consumer debtors	31.20	16	96,043,567	179,537,398
Cash and cash equivalents	32.20	17	4,848,474	6,938,045
			311,736,829	217,923,006
Non-Current Assets				
Investment property	21.20	4	92,190,220	146,433
Property, plant and equipment	20.20	5	682,678,856	119,259,144
Intangible assets	23.22	6	1,050,224	362,375
Heritage assets	26.22	7	506,794	506,794
Capital projects	27.28	11	28,906,700	31,596,967
			805,332,794	151,871,713
Total Assets			1,117,069,623	369,794,719
Liabilities				
Current Liabilities				
Finance lease obligation	25.29	19	6,756	6,756
Payables from exchange transactions	51.20	22	65,129,562	66,905,085
VAT payable	51.20	23	-	4,834,263
Consumer deposits	51.20	24	3,547,833	69,845,686
Unspent conditional grants and receipts	43.20	20	19,361,132	1,033,327
Bank overdraft	32.20	17	241,308,158	15,844,043
			329,353,441	158,469,160
Non-Current Liabilities				
Other financial liabilities	41.27-28		82,097	82,097
Finance lease obligation	25.29	19	41,024	19,663
Employee benefit obligation	27.22	9	-	34,985,702
Provisions	52.20	21	2,241,150	2,241,150
			2,364,271	37,328,612
Total Liabilities			331,717,712	195,797,772
Net Assets			785,351,911	173,996,947
Accumulated surplus	40.24	18	785,351,902	173,996,950

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
Revenue			
Revenue from exchange transactions			
Sale of goods		-	(2,977)
Service charges	27	148,511,596	209,145,781
Rendering of services		-	317,722
Rental of facilities and equipment		2,477,137	673,067
Interest received (trading)		349,378	2,034,538
Income from agency services		4,234,886	739,196
Licences and permits		1,669,688	609,220
Miscellaneous other revenue		-	10,143
Administration and management fees received		-	82,423
Fees earned		-	26,330
Other income	30	6,833,907	-
Interest received - investment		481,780	513,929
Gains on disposal of assets		367,104	18,156
Total revenue from exchange transactions		164,925,476	214,167,528
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	37,114,935	131,661,201
Property rates - penalties imposed	26	(1,271)	-
Transfer revenue			
Government grants & subsidies	28	93,729,542	92,019,311
Public contributions and donations		-	146,433
Fines		428,861	364,398
Total revenue from non-exchange transactions		131,272,067	224,191,343
Total revenue	25	296,197,543	438,358,871
Expenditure			
Personnel	32	(138,408,873)	(120,590,236)
Remuneration of councillors	33	(5,039,740)	(9,826,766)
Depreciation and amortisation	36	(32,531,004)	(8,871,303)
Finance costs	37	(3,395,732)	(6,130,246)
Debt impairment	34	-	(133,669,580)
Repairs and maintenance		(6,830,232)	(6,462,645)
Bulk purchases	41	(107,139,208)	(94,155,106)
Contracted services	39	(12,940,482)	(789,424)
Grants and subsidies paid	40	10,494,438	(6,446,695)
General Expenses	31	(46,952,146)	(13,022,216)
Total expenditure		(342,742,979)	(399,964,217)
Operating (deficit) surplus		(46,545,436)	38,394,654
Income from equity accounted investments (Filtered)		-	7,301,528
(Deficit) surplus for the year		(46,545,436)	45,696,182

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2012	128,300,768	128,300,768
Changes in net assets		
Surplus for the year	45,696,182	45,696,182
Total changes	45,696,182	45,696,182
Balance at July 01, 2013	831,897,338	831,897,338
Changes in net assets		
Surplus for the year	(46,545,436)	(46,545,436)
Total changes	(46,545,436)	(46,545,436)
Balance at June 30, 2014	785,351,902	785,351,902

Note(s)

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013
Cash flows from operating activities			
Receipts			
Taxation		37,113,664	-
Sale of goods and services		164,443,696	238,454,225
Grants		94,158,403	120,871,574
Interest income		481,780	513,929
Interest on arrears		-	2,034,538
		296,197,543	361,874,266
Payments			
Employee costs		(143,448,613)	(127,145,449)
Suppliers		(107,139,208)	(497,949,492)
Finance costs		(3,395,732)	(6,116,098)
Other payments		(88,759,426)	(2,376,256)
Other cash item	43	(34,985,702)	250,615,263
		(377,728,681)	(382,972,032)
Undefined difference compared to the cash generated from operations note		542,495,012	16,598,413
Net cash flows from operating activities	42	460,963,874	(4,499,353)
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(2,935,790)	(3,412,785)
Proceeds from sale of property, plant and equipment	5	-	18,156
Proceeds from sale of investment property	4	367,104	-
Purchase of capital projects		-	(31,596,967)
Proceeds from sale of capital projects		2,690,267	-
Other cash item	43	(685,264,782)	-
Net cash flows from investing activities		(685,143,201)	(34,991,596)
Cash flows from financing activities			
Repayment of other financial liabilities		-	82,097
Finance lease payments		21,361	12,271
Other cash item	43	(3,395,732)	-
Net cash flows from financing activities		(3,374,371)	94,368
Net increase/(decrease) in cash and cash equivalents		(227,553,698)	(39,396,581)
Cash and cash equivalents at the beginning of the year		(8,905,998)	30,631,659
Cash and cash equivalents at the end of the year	17	(236,459,696)	(8,764,922)

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	5,275	-	5,275	-	(5,275)	
Service charges	173,919,180	-	173,919,180	148,511,596	(25,407,584)	
Rental of facilities and equipment	664,650	1,000,000	1,664,650	2,477,137	812,487	
Interest received (trading)	11,731,600	-	11,731,600	349,378	(11,382,222)	
Income from agency services	1,060,000	3,310,000	4,370,000	4,234,886	(135,114)	
Licences and permits	400,000	1,350,000	1,750,000	1,669,688	(80,312)	
Other income - (rollup)	8,889,869	(6,464,705)	2,425,164	6,833,907	4,408,743	
Interest received - investment	2,110,000	-	2,110,000	481,780	(1,628,220)	
Total revenue from exchange transactions	198,780,574	(804,705)	197,975,869	164,558,372	(33,417,497)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	35,291,431	2,760,000	38,051,431	37,114,935	(936,496)	
Property rates - penalties imposed	-	-	-	(1,271)	(1,271)	
Government grants & subsidies	123,030,000	1,026,000	124,056,000	93,729,542	(30,326,458)	
Transfer revenue						
Fines	10,550,000	(8,948,218)	1,601,782	428,861	(1,172,921)	
Total revenue from non-exchange transactions	168,871,431	(5,162,218)	163,709,213	131,272,067	(32,437,146)	
Total revenue	367,652,005	(5,966,923)	361,685,082	295,830,439	(65,854,643)	
Expenditure						
Personnel	(142,499,341)	14,074,403	(128,424,938)	(138,408,873)	(9,983,935)	
Remuneration of councillors	-	(5,802,809)	(5,802,809)	(5,039,740)	763,069	
Administration	-	22,239	22,239	-	(22,239)	
Depreciation and amortisation	(87,140,000)	78,426,000	(8,714,000)	(32,531,004)	(23,817,004)	
Finance costs	-	(3,500,000)	(3,500,000)	(3,395,732)	104,268	
Debt impairment	(28,485,000)	8,000,000	(20,485,000)	-	20,485,000	
Repairs and maintenance	(17,530,923)	12,334,565	(5,196,358)	(6,830,232)	(1,633,874)	
Bulk purchases	(95,896,600)	(9,770,000)	(105,666,600)	(107,139,208)	(1,472,608)	
Contracted Services	(4,700,000)	(3,210,567)	(7,910,567)	(12,940,482)	(5,029,915)	

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

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						
Grants and subsidies paid	(3,069,187)	(3,082,788)	(6,151,975)	10,494,438	16,646,413	
General Expenses	(55,460,249)	110,975,166	55,514,917	(46,952,146)	(102,467,063)	
Total expenditure	(434,781,300)	198,466,209	(236,315,091)	(342,742,979)	(106,427,888)	
Operating deficit	(67,129,295)	192,499,286	125,369,991	(46,912,540)	(172,282,531)	
Gain on disposal of assets and liabilities	-	200,000	200,000	367,104	167,104	
Deficit before taxation	(67,129,295)	192,699,286	125,569,991	(46,545,436)	(172,115,427)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(67,129,295)	192,699,286	125,569,991	(46,545,436)	(172,115,427)	

Reconciliation

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Consolidation

Entity combinations

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

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

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

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

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

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

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

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

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

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

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.2 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 and other receivables

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

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

Impairment testing

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

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

Useful lives of property, plant and equipment and intangible assets

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

Effective interest rate

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

Allowance for impairment

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

1.3 Biological assets that form part of an agricultural activity

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 point-of-sale costs.

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

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

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

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

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

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 point-of-sale costs and from a change in fair value less point-of-sale costs of a biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

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

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

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

1.4 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

Ditsobotla Local Municipality

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1.4 Property, plant and equipment (continued)

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

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

Investment Property.

Investment property includes (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

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

At initial recognition, the economic entity measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Fair Value Model

Investment Property is subsequently measured using the fair value model. Under the fair value, investment property is carried at a price that reflect market conditions at reporting date.

The fair value is determined with reference to current prices in an active market for similar property in a similar condition and location and used for similar purpose .

If the current prices cannot be determined in the market, reference to current prices of properties of different nature in active markets is made or recent prices for similar property in less active markets, discounted cash flow projections of future cash flows are used and adjusted to reflect differences in conditions and locations to get most suitable estimate.

Gains or losses recognised in surplus or deficit

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

Additional text

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

1.5 Site restoration and dismantling cost

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

Ditsobotla Local Municipality

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Accounting Policies

1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

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

1.6 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.

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

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

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.

Ditsobotla Local Municipality

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Accounting Policies

1.6 Intangible assets (continued)

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:

Item	Useful life
Computer software	5 years

1.7 Heritage assets

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

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

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

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

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 an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

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

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

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

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Ditsobotla Local Municipality

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Accounting Policies

1.7 Heritage assets (continued)

Subsequent measurement

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

Impairment

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

Derecognition

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

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

1.8 Financial instruments

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

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

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).

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Accounting Policies

1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

Classification

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

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

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

Class	Category
Trade and other payables	Financial liability measured at amortised cost
Bank overdraft and borrowings	Financial liability measured at amortised cost

Ditsobotla Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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.

The entity recognises financial assets using trade date accounting.

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 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.

Ditsobotla Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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 amortised cost.

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the 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, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Ditsobotla Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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.

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.

Ditsobotla Local Municipality

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Accounting Policies

1.8 Financial instruments (continued)

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

Presentation

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

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

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

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

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

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

1.9 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

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

Ditsobotla Local Municipality

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Accounting Policies

1.9 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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

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

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

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

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

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

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

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

1.11 Non-current assets held for sale and disposal groups

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

Ditsobotla Local Municipality

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Accounting Policies

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

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

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

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

1.12 Impairment of cash-generating assets

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

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

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

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

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

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

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

Useful life is either:

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

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

Identification

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

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

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

Value in use

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

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

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1.12 Impairment of cash-generating assets (continued)

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

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1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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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:

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an 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.

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.

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Accounting Policies

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

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 Share capital / contributed capital

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

1.15 Employee benefits

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

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

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

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

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

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

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

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

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

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1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the 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.

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Accounting Policies

1.15 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.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Ditsobotla Local Municipality

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1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.17 Revenue from exchange transactions

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

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

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1.17 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest

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.

1.18 Revenue from non-exchange transactions

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

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

Ditsobotla Local Municipality

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Accounting Policies

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.

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

1.19 Investment income

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

1.20 Borrowing costs

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

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

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

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

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

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

Extended periods are periods that exceed 12 months.

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

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.20 Borrowing costs (continued)

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

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

1.21 Comparative figures

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

1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.23 Fruitless and wasteful expenditure

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

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

1.24 Irregular expenditure

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

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

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

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

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

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Accounting Policies

1.25 Offsetting

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

1.26 Budget information

Municipalities 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 municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

The approved budget covers the fiscal period from 7/1/2013 to 6/30/2014.

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.

1.27 Related parties

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

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

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

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

1.28 Capital commitments

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

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

- approved and contracted commitments.

Ditsobotla Local Municipality

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Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 7 (as revised 2012): Investments in Associates

Paragraph .17 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions.

All amendments to be applied prospectively.

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

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

The impact of the amendment is not material.

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

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3. Biological assets that form part of an agricultural activity

4. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	92,190,220	-	92,190,220	146,433	-	146,433

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
 - the fact that the entity has disposed of investment property not carried at fair value,
 - the carrying amount of that investment property at the time of sale, and
 - the amount of gain or loss recognised.

5. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	179,357,182	-	179,357,182	89,904,550	-	89,904,550
Plant and machinery	-	-	-	11,509,144	(6,080,018)	5,429,126
Furniture and fixtures	129,657	-	129,657	19,058,853	(12,398,870)	6,659,983
Motor vehicles	-	-	-	30,166,484	(16,134,836)	14,031,648
IT equipment	-	-	-	1,953,619	(928,417)	1,025,202
Infrastructure	455,580,798	-	455,580,798	2,208,635	-	2,208,635
Community	28,109,607	-	28,109,607	-	-	-
Other property, plant and equipment # 4	19,501,612	-	19,501,612	-	-	-
Total	682,678,856	-	682,678,856	154,801,285	(35,542,141)	119,259,144

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

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5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Difference	Additions	Additions through entity combinations	Total
Land	89,904,550	89,452,632	-	-	179,357,182
Plant and machinery	5,429,126	(5,429,126)	-	-	-
Furniture and fixtures	6,659,983	(6,530,326)	-	-	129,657
Motor vehicles	14,031,648	(14,031,648)	-	-	-
IT equipment	1,025,202	(1,025,202)	-	-	-
Infrastructure	2,208,635	450,436,373	2,777,058	158,732	455,580,798
Community	-	28,109,607	-	-	28,109,607
Other property, plant and equipment # 4	-	19,501,612	-	-	19,501,612
	119,259,144	560,483,922	2,777,058	158,732	682,678,856

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Land	89,904,550	-	-	89,904,550
Plant and machinery	6,488,542	231,268	(1,290,684)	5,429,126
Furniture and fixtures	9,346,083	135,627	(2,821,727)	6,659,983
Motor vehicles	17,549,542	437,579	(3,955,473)	14,031,648
IT equipment	965,850	399,676	(340,324)	1,025,202
Infrastructure	-	2,208,635	-	2,208,635
	124,254,567	3,412,785	(8,408,208)	119,259,144

Pledged as security

None of the assets have been pledged as security.

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

6. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,710,183	(659,959)	1,050,224	960,242	(597,867)	362,375

Reconciliation of intangible assets - 2014

	Opening balance	Difference	Total
Computer software	362,375	687,849	1,050,224

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6. Intangible assets (continued)

Reconciliation of intangible assets - 2013

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

Pledged as security

None of the intangible assets have been pledged as security.

7. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Other	506,794	-	506,794	506,794	-	506,794

Reconciliation of heritage assets 2014

	Opening balance	Total
Other	506,794	506,794

Reconciliation of heritage assets 2013

	Opening balance	Total
Other	506,794	506,794

8. Operating lease asset (accrual)

9. Employee benefit obligations

Defined benefit plan

The defined benefit plan, to which -% (2013: -%) belong, consists of the (specify Pension Fund) governed by the Pension Fund Act of 1956.

The actuarial valuation determined that the retirement plan was in a sound financial position, however that it was recommended that the contribution should be increased by -% for - months. This recommendation is presently being implemented.

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

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

Carrying value

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

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Annual Financial Statements for the year ended June 30, 2014

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Figures in Rand	2014	2013
9. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	-	1,081,125
Interest cost	-	2,362,108
Actuarial (gains) losses	-	2,603,683
	-	6,046,916

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.77 %	7.77 %
Expected increase in salaries	5.77 %	5.77 %
Expected increase in healthcare costs	6.27 %	6.27 %

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

The effect of the major categories of plan assets is as follow: [state effect]

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

The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets, is as follows:

10. Other asset 1

11. Capital projects

12. Inventories

Consumable stores	3,231,348	2,609,060
Water	-	12,663,132
	3,231,348	15,272,192
Inventories (write-downs)	(105,570)	(200,000)
	3,125,778	15,072,192

13. Trade and other receivables

Trade debtors	9,108,601	9,107,049
Employee costs in advance	(5,388,722)	5,991,852
Prepayments	211,905,981	1,273,260
Deposits	3,210	3,210
Housing debtors	(9,116,199)	-
	206,512,871	16,375,371

14. Receivables from non-exchange transactions

15. VAT receivable

VAT	1,206,139	-
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Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
16. Consumer debtors		
Gross balances		
Rates	16,078,262	214,090,792
Electricity	59,497,991	30,128,850
Water	84,296,234	53,524,640
Sewerage	16,273,613	3,901,197
Refuse	15,910,488	3,085,150
Housing rental	-	107,963
Other (specify)	33,986,979	4,698,806
	226,043,567	309,537,398
Less: Allowance for impairment		
Consumer debtors bad debt provision	(130,000,000)	(130,000,000)
Net balance		
Rates	16,078,262	214,090,792
Electricity	59,497,991	30,128,850
Water	84,296,234	53,524,640
Sewerage	16,273,613	3,901,197
Refuse	15,910,488	3,085,150
Housing rental	-	107,963
Other including bad debt provision	(96,013,021)	(125,301,194)
	96,043,567	179,537,398
Rates		
Current (0 -30 days)	972,393	12,947,938
31 - 60 days	1,036,950	13,807,559
61 - 90 days	875,580	11,658,817
91 - 120 days	1,223,245	16,288,169
121 - 365 days	4,174,756	55,589,147
> 365 days	7,795,338	103,799,162
	16,078,262	214,090,792
Electricity		
Current (0 -30 days)	3,598,362	1,822,154
31 - 60 days	3,837,259	1,943,128
61 - 90 days	3,240,102	1,640,737
91 - 120 days	4,526,647	2,292,223
121 - 365 days	15,448,784	7,823,022
> 365 days	28,846,837	14,607,586
	59,497,991	30,128,850
Water		
Current (0 -30 days)	5,098,129	3,237,102
31 - 60 days	5,436,596	3,452,015
61 - 90 days	4,590,549	2,914,810
91 - 120 days	6,413,313	4,072,190
121 - 365 days	21,887,703	13,897,791
> 365 days	40,869,943	25,950,732
Undefined Difference	1	-
	84,296,234	53,524,640

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
16. Consumer debtors (continued)		
Sewerage		
Current (0 -30 days)	984,206	235,939
31 - 60 days	1,049,551	251,604
61 - 90 days	886,218	212,449
91 - 120 days	1,238,109	296,806
121 - 365 days	4,225,478	1,012,954
> 365 days	7,890,051	1,891,445
	16,273,613	3,901,197
Refuse		
Current (0 -30 days)	962,246	186,586
31 - 60 days	1,026,128	198,973
61 - 90 days	866,443	168,009
91 - 120 days	1,210,479	234,720
121 - 365 days	4,131,193	801,066
> 365 days	7,713,999	1,495,796
	15,910,488	3,085,150
Housing rental		
Current (0 -30 days)	-	6,529
31 - 60 days	-	6,963
61 - 90 days	-	5,879
91 - 120 days	-	8,214
121 - 365 days	-	28,033
> 365 days	-	52,345
	-	107,963
Other		
Current (0 -30 days)	96,013,021	(125,301,194)
Undefined Difference	(192,026,042)	-
	(96,013,021)	(125,301,194)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(130,000,000)	(130,000,000)
17. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	3,450	3,450
Bank balances	4,497,240	6,934,595
Short-term deposits	347,784	-
Bank overdraft	(241,308,158)	(15,844,043)
	(236,459,684)	(8,905,998)
Current assets	4,848,474	6,938,045
Current liabilities	(241,308,158)	(15,844,043)
	(236,459,684)	(8,905,998)

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
18. Accumulated surplus		
19. Finance lease obligation		
Minimum lease payments due		
- within one year	-	6,756
Present value of minimum lease payments due		
- within one year	-	6,756
Non-current liabilities	41,024	19,663
Current liabilities	6,756	6,756
	47,780	26,419

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

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

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

20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Library grant	8,607	7,607
Municipal infrastructure grant (MIG)	17,812,339	-
Municipal systems improvement grant (MSIG)	631,859	-
Infrastructure skills development grant (ISDG)	1,025,720	1,025,720
Unspent grants 6	(117,393)	-
	19,361,132	1,033,327

Movement during the year

Balance at the beginning of the year	1,033,327	599,898
Additions during the year	36,751,000	41,392,000
Income recognition during the year	(19,841,103)	(40,958,571)
Undefined Difference	1,417,908	-
	19,361,132	1,033,327

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

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

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

Ditsobotla Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013	
21. Provisions			
Reconciliation of provisions - 2014			
	Opening Balance	Total	
Environmental rehabilitation	2,241,150	2,241,150	
Reconciliation of provisions - 2013			
	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	-	2,241,150	2,241,150
22. Payables from exchange transactions			
Trade payables	55,433,050	52,785,039	
Accrued leave pay	10,054,134	10,466,935	
Accrued bonus	4,343,701	4,123,710	
Deposits received	316,043	138,225	
Salary creditors	(5,017,366)	(608,824)	
	65,129,562	66,905,085	
23. VAT payable			
Tax refunds payables	-	4,834,263	
VAT is payable or receivable on the cash basis and VAT is only paid over to SARS once payment is received or amount is refundable to the municipality.			
24. Consumer deposits			
Rates	3,547,833	69,845,686	
25. Revenue			
Sale of goods	-	(2,977)	
Rendering of services	-	317,722	
Service charges	148,511,596	209,145,781	
Rental income	2,477,137	673,067	
Interest received (trading)	349,378	2,034,538	
Income from agency services	4,234,886	739,196	
Licences and permits	1,669,688	609,220	
Miscellaneous other revenue	-	10,143	
Administration and management fees received	-	82,423	
Fees earned	-	26,330	
Other income - (rollup)	6,833,907	-	
Interest received - investment	481,780	513,929	
Property rates	37,114,935	131,661,201	
Property rates - penalties imposed	(1,271)	-	
Government grants & subsidies	93,729,542	92,019,311	
Public contributions and donations	-	146,433	
Fines	428,861	364,398	
	295,830,439	438,340,715	

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
25. Revenue (continued)		
The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	-	(2,977)
Service charges	148,511,596	209,145,781
Rendering of services	-	317,722
Rental of facilities and equipment	2,477,137	673,067
Interest received (trading)	349,378	2,034,538
Income from agency services	4,234,886	739,196
Licences and permits	1,669,688	609,220
Miscellaneous other revenue	-	10,143
Administration and management fees received	-	82,423
Fees earned	-	26,330
Other income - (rollup)	6,833,907	-
Interest received - investment	481,780	513,929
	164,558,372	214,149,372
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	37,114,935	131,661,201
Property rates - penalties imposed	(1,271)	-
Transfer revenue		
Government grants & subsidies	93,729,542	92,019,311
Public contributions and donations	-	146,433
Fines	428,861	364,398
	131,272,067	224,191,343
26. Property rates		
Rates received		
Residential	20,318,618	38,642,681
Commercial	10,149,557	11,042,002
State	1,139,401	3,753,479
Small holdings and farms	6,596,903	78,223,039
Less: Income forgone	(1,089,544)	-
	37,114,935	131,661,201
Property rates - penalties imposed	(1,271)	-
	37,113,664	131,661,201
27. Service charges		
Sale of electricity	96,927,534	115,623,065
Sale of water	33,086,642	75,045,214
Sewerage and sanitation charges	7,608,447	9,954,920
Refuse removal	10,888,973	8,522,582
	148,511,596	209,145,781

Ditsobotla Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
28. Government grants and subsidies		
Operating grants		
Equitable share	83,080,814	79,407,000
	83,080,814	79,407,000
Capital grants		
National: Financial Management Grant	2,341,008	3,909,951
National: Municipal Infrastructure Grant	-	715,433
National: MSIG	-	1,124,647
Provincial: EPWP	1,982,000	2,488,000
Government grant (capital) 5	500,000	-
Infrastructure skill development Grant (ISDG)	5,825,720	4,374,280
	10,648,728	12,612,311
	93,729,542	92,019,311
29. Public contributions and donations		
Public contributions and donations 1	-	146,433
Conditions still to be met - remain liabilities (see note 20)		
Provide explanations of conditions still to be met and other relevant information		
30. Other income		
Building plan fees	43,846	-
Connection Fees	50,095	-
Clearance Certificate	4,906	-
Cemetary Fees	347,545	-
Admin Fees	352,764	-
Sundries	6,382,924	-
Reference Fees	96,844	-
Surplus Cash	16,558	-
Other revenue	(475,911)	-
Rezoning	9,316	-
Valuation Certificates	5,020	-
	6,833,907	-

Ditsobotla Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
31. General expenses		
Auditors remuneration	7,504,587	4,115,358
Bank charges	629,536	218,332
Commission paid	8,064	2,133,185
Consulting and professional fees	11,267,250	10,354,489
Consumables	12,683,755	(9,089,008)
Entertainment	250,988	281,471
Insurance	1,016,901	303,009
Lease rentals on operating lease	1,601,962	1,248,433
Skills Development	1,756,840	2,434,941
Medical expenses	36,305	62,315
Pest control	-	38,462
Fuel and oil	4,750,081	3,929,906
Adverts Printing and stationery	1,229,398	984,562
Research and development costs	60,000	-
Royalties and license fees	1,670,586	325,958
Subscriptions and membership fees	93,056	1,209,635
Post Stamps & Telephone	1,882,128	1,247,997
Training	489,711	512,741
Travel - local	1,186,740	1,343,091
Electricity	-	2,946
Uniforms	381,329	531,396
Rezoning Fees	-	14,020
Grant Expenses	(3,384,657)	(26,055,560)
Other expenses	1,837,586	16,874,537
	46,952,146	13,022,216

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
32. Employee related costs		
Basic	86,873,745	66,339,816
Bonus	7,470,818	5,367,009
Medical aid - company contributions	5,689,853	6,272,673
UIF	799,897	637,689
Actuarial Gains/Losses on Employee	-	2,603,683
Leave pay provision charge	(244,811)	1,058,705
Allowance: Non-pensionable	1,804,386	-
Allowance: Personal	62,364	-
Allowance: Protective Clothing	55	2,580
Industrial Council	-	878
Defined contribution plans	16,423,230	14,146,718
Travel, motor car, accommodation, subsistence and other allowances	1,390,774	6,415,934
Overtime payments	10,719,896	9,903,430
Long-service awards	714,065	605,131
Acting allowances	2,028,511	-
Housing benefits and allowances	155,098	161,903
Nightshift allowance	159,488	-
Standby allowance	4,361,504	1,748,247
Temporary workers	-	1,548,602
	138,408,873	116,812,998
Remuneration of municipal manager		
Annual Remuneration	765,000	-
Contributions to UIF, Medical and Pension Funds	204,377	-
Undefined Difference	(969,377)	1,149,350
	-	1,149,350
Remuneration of chief finance officer		
Annual Remuneration	251,212	-
Undefined Difference	(251,212)	615,493
	-	615,493
Remuneration of executive directors		
33. Remuneration of councillors		
Executive Mayor	640,469	626,482
Mayoral Committee Members	-	3,513,740
Speaker	-	526,215
Councillors	4,399,271	5,160,329
	5,039,740	9,826,766
34. Debt impairment		
Debts impaired	-	133,669,580

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
35. Investment revenue		
Interest revenue		
Bank	481,780	513,929
The amount included in Investment revenue arising from exchange transactions amounted to R -.		
The amount included in Investment revenue arising from non-exchange transactions amounted to R -.		
Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to Rxxx (PY: Rxxx).		
36. Depreciation and amortisation		
Property, plant and equipment	32,188,967	8,409,106
Intangible assets	342,037	462,197
	32,531,004	8,871,303
37. Finance costs		
Finance leases	-	14,148
Other interest paid	3,395,732	6,116,098
	3,395,732	6,130,246
Capitalisation rates used during the period were -% on specific borrowings for capital projects and -% being the weighted average cost of funds borrowed generally by the municipality.		
Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2013: R -).		
38. Auditors' remuneration		
Fees	7,504,587	4,115,358
39. Contracted services		
Other Contractors	12,940,482	789,424
40. Grants and subsidies paid		
Other subsidies		
Indigent Support	402,123	3,134,240
Free basic services	(10,896,561)	3,312,455
	(10,494,438)	6,446,695
41. Bulk purchases		
Electricity	103,698,243	91,480,269
Water	3,440,965	2,674,837
	107,139,208	94,155,106

Ditsobotla Local Municipality

Annual Financial Statements for the year ended June 30, 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
42. Cash generated from (used in) operations		
(Deficit) surplus	(46,545,436)	45,696,182
Adjustments for:		
Depreciation and amortisation	32,531,004	8,871,303
Loss on sale of assets and liabilities	(367,104)	(18,156)
Income from equity accounted investments	-	(7,301,528)
Finance costs - Finance leases	-	14,148
Debt impairment	-	133,669,580
Movements in operating lease assets and accruals	-	(41,024)
Movements in retirement benefit assets and liabilities	(34,985,702)	4,365,388
Movements in provisions	-	2,241,150
Other non-cash items	658,281,900	(16,801,939)
Other non-cash items	2,532,440	-
Changes in working capital:		
Inventories	11,946,414	(12,569,097)
Trade and other receivables	(190,137,500)	(3,838,949)
Consumer debtors	83,493,831	(239,184,925)
Other receivables from non-exchange transactions	-	9,547,000
Payables from exchange transactions	(1,775,523)	53,704,606
VAT	(6,040,402)	19,628,253
Unspent conditional grants and receipts	18,327,805	(2,566,571)
Consumer deposits	(66,297,853)	85,226
	460,963,874	(4,499,353)

43. Other cash item 1