



**Setsoto Local Municipality**  
Financial statements  
for the year ended 30 June 2012

Auditor-General of South Africa (AGSA)

# Setsoto Local Municipality

## General Information

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<b>Legal form of entity</b>	A Municipality which is an organ of state within the local sphere of government exercising legislative and executive authority.
<b>Nature of business and principal activities</b>	A Local Authority providing municipal services and maintaining the best interest of the community in the Setsoto Municipal area.
<b>Mayor</b>	Jakobo, Tshediso
Executive Committee	Koalane, Komane Mthimkhulu, Motena Mahlangu, Matseliso Lithebe, Moeletsi Makae, Thabang Strydom, Evert
Councillors	Mohlomi, Molefi - Speaker Mothibeli, Moselantja Mohapi, Dieketseng Mokhuoane, Krog Motsei, Matlakala Selasi, Motsamai Modire, Lehlaku Nakasi, Mojabeng Bath, Henry Thamae, Motsamai Makhalanyane, Tieho Mohala, Vunga Kere, Lefa Mavaliso, Pakalitha Maduna, Mbothoma Semahla, Mookho Maphisa, Mapuleng Musu, Tshepiso Tsolo, Thabiso Malebo, Matsiliso Fuso, Sabata Raboroko, Mantwa Mohase, Teboho Selai, Lithebe Lubbe, Cornelias Du Toit, Benjamin Marwick, Clive (Dr) Bester, Catherine
<b>Grading of local authority</b>	06
<b>Accounting Officer</b>	S T R Ramakarane
<b>Chief Finance Officer (CFO)</b>	D J Van Tonder (Acting)

# Setsoto Local Municipality

## General Information

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<b>Business address</b>	27 Voortrekker Street Ficksburg 9730
<b>Postal address</b>	P O Box 116 Ficksburg 9730
<b>Bankers</b>	First National Bank (FNB)
<b>Auditors</b>	Auditor-General of South Africa (AGSA)
<b>Telephone Number</b>	(051) 933 9300
<b>Fax Number</b>	(051) 933 9343
<b>E-mail Address</b>	manager@setsoto.co.za

# Setsoto Local Municipality

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern 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
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act [ Act No. 56 of 2003 ]
MIG	Municipal Infrastructure Grant

## Setsoto Local Municipality

### Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officer 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 financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 6 to 74, which have been prepared on the going concern basis (Please refer to Note 52), were approved by the accounting officer on 31 August 2012 :

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**Accounting Officer**  
**S T R Ramakarane**



AUDITOR - GENERAL

## Report of the Auditor General

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**To the Auditor General of South Africa (AGSA) of Setsoto Local Municipality**

### **Report on the financial statements**

This report will be inserted after the completion of the audit.

**Auditor-General of South Africa (AGSA)**

**31 August 2012**

# Setsoto Local Municipality

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2012.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the Setsoto municipal area and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 69,180,119 (2011: deficit R 101,290,231).

### 2. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated surplus of R 2,202,798,534 and that the municipality's total liabilities exceed its assets by R 2,202,798,534.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### 4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

### 5. Accounting policies

The financial statements prepared in accordance with the South African Standards of Generally Recognized Accounting Practices (GRAP), including any interpretations and directives of such Standards 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.

### 6. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year were as follows:

The Annual Financial Statements of the Municipality this year reflects a significant increase in the value of non-current assets. This was brought about by the conclusion of a project embarked by the Municipality to compile a GRAP compliant Fixed Asset Register.

### 7. Accounting Officer

The current accounting officer of the municipality is as follows:

Name	Nationality
Mr S T R Ramakarane	South African

### 8. Auditors

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

**Setsoto Local Municipality**  
**Statement of Financial Position as at 30 June 2012**

	Note	2012	Restated 2011
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	1,616,233	1,744,376
Investments	4	-	10,006,881
Trade and Other Receivables from Exchange Transactions	5	66,508,234	59,622,343
Other receivables from non-exchange transactions	6	12,388,707	22,172,631
VAT receivable	7	41,163,561	17,731,372
Current Portion of Receivables	8	3,573	3,573
Cash and cash equivalents	9	6,791,111	4,300,406
		<b>128,471,419</b>	<b>115,581,582</b>
<b>Non-Current Assets</b>			
Investment property	10	14,635,448	16,058,925
Property, plant and equipment	11	2,156,383,140	2,275,383,854
Intangible assets	12	638,948	651,501
Investments	4	1,956,694	1,131,714
Non Current Receivables	8	4,866	8,439
		<b>2,173,619,096</b>	<b>2,293,234,433</b>
		<b>2,302,090,515</b>	<b>2,408,816,015</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Current Portion of Borrowings	13	369,369	3,342,020
Finance lease Liability	14	1,729,946	4,255,768
Trade Payables and other payables from exchange transactions	15	50,452,274	25,618,850
VAT Payable	16	14,112,547	16,927,633
Consumer deposits	17	2,168,198	1,997,051
Current Portion of Unspent conditional grants and receipts	18	16,925,219	28,062,562
Provisions	19	493,643	896,175
Bank overdraft	9	-	31,241,798
		<b>86,251,196</b>	<b>112,341,857</b>
<b>Non-Current Liabilities</b>			
Non Current Borrowings	13	7,722,733	8,075,240
Finance lease Liability	14	697,560	2,437,369
Provisions	19	4,620,492	3,957,634
		<b>13,040,785</b>	<b>14,470,243</b>
		<b>99,291,981</b>	<b>126,812,100</b>
<b>Net Assets</b>			
		<b>2,202,798,534</b>	<b>2,282,003,915</b>
<b>Net Assets</b>			
Accumulated surplus		2,202,798,534	2,282,003,915



## Setsoto Local Municipality

### Statement of Financial Performance for the year ended 30 June 2012

	Note(s)	2012	Restated 2011
<b>Revenue</b>			
Property rates	22	28,459,664	23,679,681
Service charges	23	84,643,854	95,427,270
Rental of facilities and equipment	55	130,661	435,891
Fines		386,664	296,925
Licences and permits		106,430	756
Government grants & subsidies	24	238,546,566	206,606,760
Sale of land		20,041	1,184,211
Other income	25	10,835,359	1,540,561
Interest earned	26	29,645,356	14,180,346
<b>Total Revenue</b>		<b>392,774,595</b>	<b>343,352,401</b>
<b>Expenses</b>			
Employee Related Cost	27	91,547,012	81,791,173
Remuneration of councillors	28	8,019,574	8,143,684
Depreciation and amortisation expense	29	192,450,464	192,383,706
Finance costs	30	1,879,220	2,850,122
Bad Debts	31	57,536,194	56,657,462
Repairs and maintenance		15,262,740	11,955,766
Bulk purchases	32	44,284,271	30,341,173
Contracted services	33	726,892	-
Grants and subsidies paid	34	7,894,262	13,384,929
General Expenses	35	42,354,085	47,134,617
<b>Total Expenses</b>		<b>461,954,714</b>	<b>444,642,632</b>
<b>Deficit for the year</b>		<b>(69,180,119)</b>	<b>(101,290,231)</b>

## Setsoto Local Municipality

### Statement of Changes in Net Assets

	Housing development fund	Accumulated surplus	Total net assets
Opening balance as previously reported	271,810	287,420,955	287,692,765
Adjustments			
Revaluation of assets and correction of prior period	-	5,340,586,212	5,340,586,212
<b>Balance at 01 July 2010 as restated</b>	<b>271,810</b>	<b>2,583,218,809</b>	<b>2,583,490,619</b>
Surplus/(deficit) for the period	-	(101,290,231)	(101,290,231)
Correction of prior period errors( See Note 54)	(513)	(200,195,960)	(200,196,473)
Transfer to Accumulated Surplus	(271,297)	271,297	-
Total changes	(271,810)	(301,214,894)	(301,486,704)
Opening balance as previously reported	-	2,282,003,915	2,282,003,915
Adjustments			
Correction of errors	-	(8,722,198)	(8,722,198)
<b>Balance at 01 July 2011 as restated</b>	<b>-</b>	<b>2,273,281,717</b>	<b>2,273,281,717</b>
Correction of errors	-	(1,303,064)	(1,303,064)
Net income (losses) recognised directly in net assets	-	(1,303,064)	(1,303,064)
Surplus/(deficit) for the period	-	(69,180,119)	(69,180,119)
Total recognised income and expenses for the year	-	(70,483,183)	(70,483,183)
Total changes	-	(70,483,183)	(70,483,183)
<b>Balance at 30 June 2012</b>	<b>-</b>	<b>2,202,798,534</b>	<b>2,202,798,534</b>
Note(s)			

# Setsoto Local Municipality

## Cash Flow Statement

	Note(s)	2012	Restated 2011
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property Rates		21,950,954	23,679,681
Sale of goods and services		57,589,897	95,427,271
Grants		238,546,566	198,301,938
Interest income received		29,645,356	2,344,364
Other receipts		-	15,220,663
		<b>347,732,773</b>	<b>334,973,917</b>
<b>Payments</b>			
Employee costs		(99,566,586)	(89,885,406)
Finance costs		(1,879,220)	(2,850,122)
Suppliers		(142,027,223)	(182,184,989)
		<b>(243,473,029)</b>	<b>(274,920,517)</b>
<b>Net cash flows from operating activities</b>	36	<b>104,259,744</b>	<b>60,053,400</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	(72,026,273)	(67,220,886)
Purchase of other intangible assets	12	(95,653)	(678,394)
Proceeds from Call Investments		9,181,901	4,336,032
Proceeds from Non Current receivables		3,573	3,573
<b>Net cash flows from investing activities</b>		<b>(62,936,452)</b>	<b>(63,559,675)</b>
<b>Cash flows from financing activities</b>			
Repayment of current portion of borrowings		(3,325,158)	(3,074,650)
Finance lease payments		(4,265,631)	(3,827,067)
<b>Net cash flows from financing activities</b>		<b>(7,590,789)</b>	<b>(6,901,717)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>33,732,503</b>	<b>(10,407,992)</b>
Cash and cash equivalents at the beginning of the year		(26,941,392)	(16,533,400)
<b>Cash and cash equivalents at the end of the year</b>	9	<b>6,791,111</b>	<b>(26,941,392)</b>

# Setsoto Local Municipality

## Accounting Policies

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### 1. Presentation of Financial Statements

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

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

A summary of the significant accounting policies, which have been consistently applied, are explained in the relevant policies below. These accounting policies are consistent with the previous period, unless explicitly stated.

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

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

##### **Trade receivables / Held to maturity investments and/or loans and receivables**

The municipality assesses its trade receivables, held to maturity investments and loans and 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 receivables, held to maturity investments and loans and 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.

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

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

##### **Fair value estimation**

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

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

##### **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 assumptions 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. They are significantly affected by a number of factors.

# Setsoto Local Municipality

## Accounting Policies

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

#### Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual value on an annual basis, considering the conditional and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 48.

#### Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

#### Allowance for doubtful debts

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

#### GRAP 24: Presentation of budget information

The municipality is required to present a comparison of the budget amounts for which it is held publicly accountable and actual. The comparison of budget and actual amounts present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and

### 1.2 Investment property

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

- use in the production or supply of goods or services or for

# Setsoto Local Municipality

## Accounting Policies

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### 1.2 Investment property (continued)

- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Investment Property - land	indefinite
Investment Property - buildings	5 - 30 years

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.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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

# Setsoto Local Municipality

## Accounting Policies

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

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

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

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

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

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

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

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

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

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

<b>Item</b>	<b>Estimated useful life</b>
Land	
• Land	Infinite
Buildings	
• Buildings	30 years
Infrastructure assets	
• Electricity	20 - 30 years
• Roads	10 - 30 years
• Water	15 - 20 years
Community assets	
• Buildings	30 years
• Recreational facilities	20 years
• Security measures	3 - 5 years
Other assets	
• Office equipment	3 - 7 years
• Furniture and fittings	7 - 10 years
• Motor vehicles	5 - 7 years

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

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

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

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

# Setsoto Local Municipality

## Accounting Policies

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.4 Heritage assets

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

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

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

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

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.



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### 1.4 Heritage assets (continued)

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

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

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### Impairment

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

#### Transfers

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

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

#### Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is 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.

### 1.5 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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### 1.5 Intangible assets (continued)

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

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

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

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

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

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

<b>Item</b>	<b>Useful life</b>
Computer software, other	3 -5 years

intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.6 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained or incurred and takes place at initial recognition. Classification is only re-assessed when contractual terms of the financial instrument have been changed.

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### 1.6 Financial instruments (continued)

#### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

#### Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Financial assets and financial liabilities are offset and the net amount reported on the financial position where there is a current legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

# Setsoto Local Municipality

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### 1.6 Financial instruments (continued)

#### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

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

#### Consumer deposits

Consumer deposits consists of deposits due by consumers upon opening of service accounts.

Consumer deposits are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Consumer deposits are classified as loans and receivables.

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

# Setsoto Local Municipality

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value. Cash and cash equivalents are classified as loans and receivables.

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

#### Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

#### Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

# Setsoto Local Municipality

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

#### Derecognition

##### Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

##### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

##### Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 1.7 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.

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### 1.7 Leases (continued)

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, 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.

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## Accounting Policies

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### 1.8 Inventories (continued)

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

### 1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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 still in progress.

### 1.10 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to state plans, retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.



# Setsoto Local Municipality

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### 1.10 Employee benefits (continued)

#### Other post retirement obligations

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

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

### 1.11 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.

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.

# Setsoto Local Municipality

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### 1.11 Provisions and contingencies (continued)

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.

### 1.12 Revenue from exchange transactions

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

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

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

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

#### 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.

# Setsoto Local Municipality

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### 1.12 Revenue from exchange transactions (continued)

#### 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.

Revenue from the rental of facilities and equipment is recognised on a straight-lined basis over the term of the lease agreement.

#### Interest and dividends

Revenue arising from the use by others of entity assets yielding interest and dividends 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.

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

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

Penalty interest is levied on unpaid amounts each month. This revenue is recognised when leviable in terms of law.

### 1.13 Revenue from non-exchange transactions

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

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

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

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.

# Setsoto Local Municipality

## Accounting Policies

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

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.

#### 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.

#### Assessment Rates

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
  - the amount of the revenue can be measured reliably, and
  - there has been compliance with the relevant legal requirements.
- Changes to property values during a reporting period, which are referred to as "interims", are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### 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

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
  - the amount of the revenue can be measured reliably.
- There are two types of fines: spot fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable.
- In respect of summonses the public prosecutor can decide whether to waive the made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

# Setsoto Local Municipality

## Accounting Policies

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

#### 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.

### 1.14 Borrowing costs

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.

### 1.15 Comparative figures

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

### 1.16 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.

### 1.17 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.

### 1.18 Irregular expenditure

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

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

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

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

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

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

# Setsoto Local Municipality

## Accounting Policies

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### 1.18 Irregular expenditure (continued)

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

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

### 1.19 Use of estimates

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

### 1.20 Offsetting

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

### 1.21 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.22 Revaluation reserve

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

### 1.23 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

# Setsoto Local Municipality

## Accounting Policies

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### 1.24 Conditional grants and receipts

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

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue should only be recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, whichever is earlier.

In certain circumstances government will only remit grants on a re-imburement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

### Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

### 1.25 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.

# Setsoto Local Municipality

## Accounting Policies

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### 1.26 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

### 1.27 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, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality. Additional text



**Setsoto Local Municipality**

**Notes to the Annual Financial Statements for the year ended 30 June 2012**

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2012	Restated 2011
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# Setsoto Local Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2012

### 2. New standards and interpretations

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

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IFRIC 14: IAS 19 - The Limit on Defined Benefit Asset, Minimum Funding Requirements - Amendment - Prepayments of minimum funding requirements	01 January 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IFRS 7: Financial Instruments: Disclosures - Amendments to disclosures	01 January 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 103: Heritage Assets	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue	01 April 2010	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 3: Determining Whether an Arrangement Contains a Lease	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 6: Loyalty Programmes	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 9: Distributions of Non-cash Assets to Owners	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 10: Assets Received from Customers	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

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

• IGRAP 13: Operating Leases – Incentives	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 1 (as revised 2010): Presentation of Financial Statements	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 2 (as revised 2010): Cash Flow Statements	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 9 (as revised 2010): Revenue from Exchange Transactions	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 11 (as revised 2010): Construction Contracts	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 12 (as revised 2010): Inventories	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 13 (as revised 2010): Leases	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 14 (as revised 2010): Events After the Reporting Date	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 16 (as revised 2010): Investment Property	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 17 (as revised 2010): Property, Plant and Equipment	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

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

- |   |  |               |   |
|---|--|---------------|---|
| • | IGRAP 11: Consolidation – Special purpose entities                             | 01 April 2014 | It is unlikely that the standard will have a material impact on the municipality's annual financial statements. |
| • | IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures | 01 April 2014 | It is unlikely that the standard will have a material impact on the municipality's annual financial statements. |

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• GRAP 18: Segment Reporting	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 26: Impairment of cash-generating assets	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 25: Employee benefits	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 104: Financial Instruments	01 April 2012	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 105: Transfers of functions between entities under common control	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 106: Transfers of functions between entities not under common control	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 107: Mergers	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 20: Related parties	no effective date determined	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

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

<ul style="list-style-type: none"> <li>• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures</li> </ul>	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements</li> </ul>	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 8 (as revised 2010): Interests in Joint Ventures</li> </ul>	01 April 2014	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 1 (as revised 2012): Presentation of Financial Statements</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 7 (as revised 2012): Investments in Associates</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 9 (as revised 2012): Revenue from Exchange Transactions</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 12 (as revised 2012): Inventories</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 13 (as revised 2012): Leases</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 16 (as revised 2012): Investment Property</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 17 (as revised 2012): Property, Plant and Equipment</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"> <li>• IGRAP16: Intangible assets website costs</li> </ul>	01 April 2013	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's financial statements is expected as presented in the following notes:

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>3. Inventories</b>		
Consumable stores	58,532	71,065
Maintenance materials	1,174,348	1,313,068
Water	383,353	360,243
	<b>1,616,233</b>	<b>1,744,376</b>
<p>No inventories were write-down during the prior and current year..</p> <p>The cost of inventories recognised as an expense during the period is R1,167,384.96 (2011 - R744,285.29).</p>		
<b>Inventory pledged as security</b>		
No inventory was pledged as security for the year under review.		
<b>4. Investments</b>		
<b>At fair value through profit or loss - held for trading</b>		
Listed shares	572,429	172,560
Sanlam Shares		
Unlisted shares	495,421	106,309
OVK / EFC Shares		
	<b>1,067,850</b>	<b>278,869</b>
<b>Held to maturity</b>		
Investments	888,844	10,859,726
Fixed Deposits		
	<b>888,844</b>	<b>10,859,726</b>
<b>Non-current assets</b>		
At fair value through profit or loss - held for trading	1,067,850	278,869
Held to maturity	888,844	852,845
	<b>1,956,694</b>	<b>1,131,714</b>
<b>Current assets</b>		
Held to maturity	-	10,006,881
	<b>1,956,694</b>	<b>11,138,595</b>
<b>5. Trade and Other Receivables from Exchange Transactions</b>		
<b>Gross balances</b>		
Electricity	35,541,915	28,718,156
Water	89,889,453	92,959,244
Sewerage	68,040,480	58,244,218
Refuse	94,694,215	80,926,665
Other	23,770,615	19,749,473
	<b>311,936,678</b>	<b>280,597,756</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>5. Trade and Other Receivables from Exchange Transactions (continued)</b>		
<b>Less: Provision for debt impairment</b>		
Electricity	(19,467,933)	(8,757,858)
Water	(74,270,417)	(80,449,170)
Sewerage	(55,690,882)	(49,885,667)
Refuse	(75,932,222)	(70,620,247)
Other (specify)	(20,066,990)	(11,262,471)
	<b>(245,428,444)</b>	<b>(220,975,413)</b>
<b>Net balance</b>		
Electricity	16,073,982	19,960,298
Water	15,619,036	12,510,074
Sewerage	12,349,598	8,358,551
Refuse	18,761,993	10,306,418
Other (specify)	3,703,625	8,487,002
	<b>66,508,234</b>	<b>59,622,343</b>
<b>Electricity</b>		
Current (0 -30 days)	14,934,883	6,002,243
31 - 60 days	4,012,949	1,553,960
61 - 90 days	2,235,166	1,690,075
91 - 120 days	917,490	6,117,216
121 - 365 days	13,441,426	7,212,846
Provision for bad debts	(19,467,932)	(8,757,858)
	<b>16,073,982</b>	<b>19,960,298</b>
<b>Water</b>		
Current (0 -30 days)	4,684,033	3,777,356
31 - 60 days	2,112,513	1,338,258
61 - 90 days	2,269,148	1,287,590
91 - 120 days	2,240,666	79,065,193
121 - 365 days	78,583,093	7,490,847
Provision for bad debts	(74,270,417)	(80,449,170)
	<b>15,619,036</b>	<b>12,510,074</b>
<b>Sewerage</b>		
Current (0 -30 days)	1,530,661	1,652,902
31 - 60 days	1,448,071	1,421,954
61 - 90 days	1,433,475	908,790
91 - 120 days	1,512,329	48,311,722
121 - 365 days	62,115,944	5,948,850
Provision for bad debts	(55,690,882)	(49,885,667)
	<b>12,349,598</b>	<b>8,358,551</b>
<b>Refuse</b>		
Current (0 -30 days)	1,967,618	1,955,445
31 - 60 days	1,815,527	1,141,475
61 - 90 days	1,864,262	1,117,422
91 - 120 days	1,960,621	68,574,869
121 - 365 days	87,086,187	8,137,448
Provision for bad debts	(75,932,222)	(70,620,241)
	<b>18,761,993</b>	<b>10,306,418</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>5. Trade and Other Receivables from Exchange Transactions (continued)</b>		
<b>Other</b>		
Current (0 -30 days)	248,323	225,664
31 - 60 days	255,449	73,130
61 - 90 days	236,971	53,620
91 - 120 days	243,552	1,688,659
121 - 365 days	22,786,320	17,708,401
Provision for bad debts	(20,066,990)	(11,262,472)
	<b>3,703,625</b>	<b>8,487,002</b>
<b>Summary of Trade and Other receivables by customer classification</b>		
<b>Consumers/Households</b>		
Current (0 -30 days)	26,578,876	8,262,669
31 - 60 days	6,952,798	5,075,614
61 - 90 days	8,005,186	4,813,202
91 - 120 days	6,800,492	209,216,218
121 - 365 days	263,144,190	48,074,783
	<b>311,481,542</b>	<b>275,442,486</b>
<b>Industrial / Commercial / Other</b>		
Current (0 -30 days)	1,078,834	537,532
31 - 60 days	3,127,823	439,390
61 - 90 days	446,686	503,903
91 - 120 days	511,986	4,270,831
121 - 365 days	5,790,616	1,523,930
	<b>10,955,945</b>	<b>7,275,586</b>
<b>National and provincial government</b>		
Current (0 -30 days)	1,821,855	461,260
31 - 60 days	1,906,177	498,892
61 - 90 days	1,375,659	191,481
91 - 120 days	604,996	4,017,570
121 - 365 days	5,857,507	770,055
	<b>11,566,194</b>	<b>5,939,258</b>
<b>Total</b>		
Current (0 -30 days)	29,479,562	20,649,694
31 - 60 days	11,986,799	6,023,635
61 - 90 days	9,827,531	5,515,287
91 - 120 days	7,917,474	217,734,921
121 - 365 days	274,792,315	50,379,912
	334,003,681	300,303,449
Less: Provision for debt impairment	(255,125,560)	(230,071,476)
	<b>78,878,121</b>	<b>70,231,973</b>
<b>Provision for debt impairment</b>		
Total	(245,428,444)	(220,975,413)



## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>5. Trade and Other Receivables from Exchange Transactions (continued)</b>		
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(220,975,637)	(169,012,591)
Contributions to provision	(48,682,995)	(53,603,409)
Debt impairment written off against provision	19,106,140	1,640,587
Correction of impairment between services	5,124,048	-
	<b>(245,428,444)</b>	<b>(220,975,413)</b>
<b>6. Other receivables from non-exchange transactions</b>		
Government grants and subsidies	466,471	233,236
LED contributions and subsidies	-	1,284,602
District contributions and subsidies	-	18,602,805
Sundry Debtors	10,921,397	1,823,098
Prepayments (Eskom and Fuel Deposits)	1,000,839	228,890
	<b>12,388,707</b>	<b>22,172,631</b>
<b>Consumer receivables from non-exchange transactions</b>		
Rates	27,054,861	19,705,693
Less: Provision for debt impairment	(24,994,833)	(9,096,063)
	<b>2,060,028</b>	<b>10,609,630</b>
<b>Rates - Ageing</b>		
Current (0 -30 days)	2,583,090	894,049
31 - 60 days	2,342,290	494,856
61 - 90 days	1,788,509	457,788
91 - 120 days	1,042,816	13,977,259
121 - 365 days	19,298,156	3,881,517
Provision for bad debts	(24,994,833)	(9,095,839)
	<b>2,060,028</b>	<b>10,609,630</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(9,095,839)	(12,104,115)
Contributions to provision	(10,774,946)	(3,054,053)
Correction of impairment between services	(5,124,048)	-
Debt impairment written off against provision	-	6,062,329
	<b>(24,994,833)</b>	<b>(9,095,839)</b>
<b>7. VAT receivable</b>		
VAT receivable	41,163,561	17,731,372
	<b>41,163,561</b>	<b>17,731,372</b>
<p>The Municipality is registered on the payment basis., therefore VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.</p>		
<b>8. Non Current Receivables</b>		
<p>Prior to the implementation of the MFMA, Council grant a long term loan to Ficksburg Squash Club for the building of a club house and squash courts. This loans is repayable to council on agreed terms and conditions.</p>		
<b>Non Current Receivables</b>		
Current portion from Receivables	3,573	3,573
Non-current portion from Receivables	4,866	8,439
	<b>8,439</b>	<b>12,012</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

#### 9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	8,988	242,381
Bank balances	2,254,288	5,423
Short-term deposits	4,527,835	4,052,602
Bank overdraft	-	(31,241,798)
	<b>6,791,111</b>	<b>(26,941,392)</b>
Current assets	6,791,111	4,300,406
Current liabilities	-	(31,241,798)
	<b>6,791,111</b>	<b>(26,941,392)</b>

#### The economic entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
FNB BANK - Current Account - 620 480 92647	941,019	4,053,603	(7,311,215)	2,254,288	(31,241,798)	(20,189,598)
FNB BANK - Business Money Market -621 517 83563	190,747	56,171	14,364,857	190,747	56,171	14,364,857
FNB BANK - Savings Account -620 490 46205	801,209	4,051,716	3,646,367	801,209	4,051,716	3,646,367
FNB BANK - Call Account -631 054 0465	3,535,879	9,947,862	-	3,535,879	9,947,862	-
<b>Total</b>	<b>5,468,854</b>	<b>18,109,352</b>	<b>10,700,009</b>	<b>6,782,123</b>	<b>(17,186,049)</b>	<b>(2,178,374)</b>

#### 10. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	21,752,834	(7,117,386)	14,635,448	21,752,834	(5,693,909)	16,058,925

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

#### 10. Investment property (continued)

##### Reconciliation of investment property - 2012

Investment property	Opening balance	Depreciation	Total
	16,058,925	(1,423,477)	14,635,448

##### Reconciliation of investment property - 2011

Investment property	Opening balance	Depreciation	Total
	17,482,402	(1,423,477)	16,058,925

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.

The were no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

#### 11. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Land and Buildings	73,657,842	-	73,657,842	73,657,842	-	73,657,842
Leasehold property	15,358,668	(11,642,314)	3,716,354	15,358,668	(8,721,738)	6,636,930
Infrastructure	2,857,036,536	(884,462,658)	1,972,573,878	2,793,859,678	(707,541,728)	2,086,317,950
Community	142,951,938	(45,503,069)	97,448,869	137,132,689	(36,402,455)	100,730,234
Other property, plant and equipment	19,991,487	(13,506,369)	6,485,118	17,883,663	(11,862,624)	6,021,039
Landfill Site	922,342	(42,059)	880,283	-	-	-
Heritage	3,616,110	(1,995,314)	1,620,796	3,616,110	(1,596,251)	2,019,859
<b>Total</b>	<b>3,113,534,923</b>	<b>(957,151,783)</b>	<b>2,156,383,140</b>	<b>3,041,508,650</b>	<b>(766,124,796)</b>	<b>2,275,383,854</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

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

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

	Opening balance	Additions	Work in Progress	Depreciation	Total
Land and Buildings	73,657,842	-	-	-	73,657,842
Leasehold property	6,636,930	-	-	(2,920,576)	3,716,354
Infrastructure	2,086,317,950	15,687,624	47,489,234	(176,920,930)	1,972,573,878
Community	100,730,234	5,819,249	-	(9,100,614)	97,448,869
Other property, plant and equipment	6,021,039	2,107,824	-	(1,643,745)	6,485,118
Landfill Site	-	922,342	-	(42,059)	880,283
Heritage	2,019,859	-	-	(399,063)	1,620,796
	<b>2,275,383,854</b>	<b>24,537,039</b>	<b>47,489,234</b>	<b>(191,026,987)</b>	<b>2,156,383,140</b>

# Setsoto Local Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Work in Progress	Depreciation	Total
Land and Buildings	73,047,842	610,000	-	-	73,657,842
Leasehold property	9,590,546	-	-	(2,953,616)	6,636,930
Infrastructure	2,201,116,626	-	62,086,756	(176,885,432)	2,086,317,950
Community	109,830,848	-	-	(9,100,614)	100,730,234
Other property, plant and equipment	3,118,413	4,524,130	-	(1,621,504)	6,021,039
Heritage	2,418,922	-	-	(399,063)	2,019,859
	<b>2,399,123,197</b>	<b>5,134,130</b>	<b>62,086,756</b>	<b>(190,960,229)</b>	<b>2,275,383,854</b>

#### Pledged as security

No Property, Plant and Equipment was pledged as security.

#### Assets subject to finance lease (Net carrying amount)

Leasehold property	3,716,354	6,636,930
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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.

The Council obtain the services of a valuer to revalue the assets. Due to unforeseen circumstances the valuation could not be completed, and thus will the change of asset valuations being done once the outcome are made available during the audit process.

### 12. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	824,047	(185,099)	638,948	728,394	(76,893)	651,501

# Setsoto Local Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

### 12. Intangible assets (continued)

#### Reconciliation of intangible assets - 2012

Computer software, other	Opening balance 651,501	Additions 95,653	Amortisation (108,206)	Total 638,948
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#### Reconciliation of intangible assets - 2011

Computer software, other	Opening balance 23,333	Additions 678,394	Amortisation (50,226)	Total 651,501
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#### Pledged as security

No intangible assets are pledged as security:

#### Details of valuation

The effective date of the revaluations was 30 June 2010.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>13. Current Portion of Borrowings</b>		
<b>Measured at amortised cost</b>		
Financial liabilities	8,092,102	11,417,260
Refer to Appendix A for further details on the borrowings.		
<b>Non-current liabilities</b>		
At amortised cost	7,722,733	8,075,240
<b>Current liabilities</b>		
At amortised cost	369,369	3,342,020
	<b>8,092,102</b>	<b>11,417,260</b>
<b>14. Finance lease Liability</b>		
<b>Minimum lease payments due</b>		
- within one year	1,878,996	4,712,091
- in second to fifth year inclusive	744,149	2,812,819
	2,623,145	7,524,910
less: future finance charges (in the second to fifth year)	(463,865)	(832,625)
<b>Present value of minimum lease payments</b>	<b>2,159,280</b>	<b>6,692,285</b>
<b>Present value of minimum lease payments due</b>		
- within one year	1,729,946	4,255,768
- in second to fifth year inclusive	429,334	2,436,517
	<b>2,159,280</b>	<b>6,692,285</b>
Non-current liabilities	697,560	2,437,369
Current liabilities	1,729,946	4,255,768
	<b>2,427,506</b>	<b>6,693,137</b>
Assets held under finance leases are vehicles, computers, faxes, and photo copy machines.		
The average lease term is 3 to 5 years and the average effective borrowing rate is 11.08-% (2011: 11.70-%).		
<b>15. Trade Payables and other payables from exchange transactions</b>		
Trade payables	23,214,801	2,708,216
Payments received in advance	6,744,651	6,141,816
Staff leave accrual	5,128,491	6,582,076
Bonus	2,091,547	2,074,198
Deposits received	2,000	3,200
Other payables	4,359,821	11,285,211
Salary Control	1,110,963	(3,175,867)
National Treasury - Repayment of MIG grants used for operations	7,800,000	-
	<b>50,452,274</b>	<b>25,618,850</b>
<b>16. VAT payable</b>		
VAT payable	14,112,547	16,927,633

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>17. Consumer deposits</b>		
Electricity	2,142,164	1,968,869
Other	26,034	28,182
	<b>2,168,198</b>	<b>1,997,051</b>
Guarantees held in lieu of electricity and other deposits	-	-
<b>18. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
MIG Grant	16,925,219	28,062,562
<b>Movement during the year</b>		
Balance at the beginning of the year	28,062,562	52,092,951
Received during the year	62,963,000	54,301,000
Income recognition during the year	(74,100,343)	(78,331,389)
	<b>16,925,219</b>	<b>28,062,562</b>
Non-current liabilities	-	-
Current liabilities	16,925,219	28,062,562
	<b>16,925,219</b>	<b>28,062,562</b>

The Council concluded with the National Treasury to repay an amount of R 11 million of unspent conditional grants (MIG) to the National Revenue Fund which will be payable within a period of twelve months. During the current financial year an amount of R4,000 000.00 was deducted from the Equitable Share in respect of the abovementioned agreement.



# **Setsoto Local Municipality**

## **Notes to the Annual Financial Statements for the year ended 30 June 2012**

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Figures in Rand

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### **19. Provisions**

# Setsoto Local Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2012

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### 19. Provisions (continued)

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation (long term portion)	2,412,070	739,566	(76,708)	3,074,928
Long service bonus (short term portion)	896,175	-	(402,532)	493,643
Long service bonus (long term portion)	1,545,564	-	-	1,545,564
	<b>4,853,809</b>	<b>739,566</b>	<b>(479,240)</b>	<b>5,114,135</b>

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	1,755,494	739,566	(82,990)	2,412,070
Long service bonus (short term portion)	760,007	136,168	-	896,175
Long service bonus (long term portion)	1,600,804	-	(55,240)	1,545,564
	<b>4,116,305</b>	<b>875,734</b>	<b>(138,230)</b>	<b>4,853,809</b>

Non-current provisions	4,620,492	3,957,634
Current provisions	493,643	896,175
	<b>5,114,135</b>	<b>4,853,809</b>

#### Long Service Bonus

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in future. Management is of the opinion according their fair value calculation that the provision made in respect of Long service bonus and Employee benefit are sufficient.

#### Environmental Rehabilitation (Landfill Sites)

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites and quarries at Ficksburg and Senekal. Provision has been made for this cost based on actual cost calculations received.

No judgment was made as quotations were obtained at the specified dates to determine this costs no significant changes have been noted till year end.

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>20. Revaluation reserve</b>		
This reserve forms part of accumulated surplus/(deficit) and was accordingly transferred to the accumulated surplus.		
Opening balance	-	28,471,476
Consolidated with Accumulated Surplus	-	(28,471,476)
	-	-
<b>21. Other NDR</b>		
This reserve forms part of accumulated surplus/(deficit).		
Housing Development Fund	-	271,297
Transfer to Accumulated Reserve	-	(271,297)
	-	-
<b>22. Property rates</b>		
<b>Rates received</b>		
Residential / Commercial	12,124,119	14,807,432
State	16,353,868	8,906,753
Income forgone	(18,323)	(34,504)
	<b>28,459,664</b>	<b>23,679,681</b>
<b>23. Service charges</b>		
Sale of electricity	45,331,417	42,262,616
Sale of water	10,225,156	22,360,537
Sewerage and sanitation charges	13,412,147	14,282,748
Refuse removal	15,387,900	16,355,977
Other service charges	287,234	165,392
	<b>84,643,854</b>	<b>95,427,270</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>24. Government grants and subsidies</b>		
Equitable share	147,875,000	133,873,936
MIG grant	72,455,741	70,782,824
DBSA Grant	2,064,454	-
EPWP Grant	2,316,000	-
Municipal systems improvement grant (MSIG)	790,000	750,000
Financial Management Grant (FMG)	1,450,000	1,200,000
Police, Roads and Transport Grant	3,075,980	-
Department of Water Affairs Grant	7,869,391	-
COGTA Grant	650,000	-
	<b>238,546,566</b>	<b>206,606,760</b>

#### Equitable Share

Current year receipts	147,875,000	133,873,936
Conditions met - transferred to revenue	(147,875,000)	(133,873,936)
	-	-

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

All registered indigents receive a monthly subsidy of R 214 (2011: R 179), which is funded from the grant.

#### MIG Grant

Balance unspent at beginning of year	28,062,562	48,978,206
Current year receipts	62,963,000	52,351,000
Conditions met - transferred to revenue	(74,100,343)	(73,266,644)
	<b>16,925,219</b>	<b>28,062,562</b>

Conditions still to be met - remain liabilities (see note 18)

In terms of the MFMA Circular No.48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The entity reports at year-end all unspent conditional grants were committed to identifiable projects.

The grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grants was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

#### DBSA Grant

Current-year receipts	2,064,454	-
Conditions met - transferred to revenue	(2,064,454)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

This grant was used to compile masterplans for Roads and Stormwater, Electricity Network, Water network and Sewer Network.

#### EPWP Grant

Conditions met - transferred to revenue	2,316,000	-
Other	(2,316,000)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

This grant is used in respect of job creation projects and programmes.

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

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

##### Municipal systems improvement grant (MSIG)

Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	-

Conditions still to be met - remain liabilities (see note 18)

The purpose of the grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government and the Municipal Systems Act.

##### Financial Management Grant (FMG)

Current-year receipts	1,450,000	1,200,000
Conditions met - transferred to revenue	(1,450,000)	(1,200,000)
	-	-

Conditions still to be met - remain liabilities (see note 18)

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

##### Police, Roads and Transport Grant

Current-year receipts	3,075,980	-
Conditions met - transferred to revenue	(3,075,980)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

Intervention from Province during the unrest period in Setsoto Local Municipality.

##### Department of Water Affairs Grant

Current-year receipts	7,869,391	-
Conditions met - transferred to revenue	(7,869,391)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

This grant was used to address water loss control and assisting with water shortages in Clocolan, Marquard and Senekal during drought period.

##### COGTA Grant

Current-year receipts	650,000	-
Conditions met - transferred to revenue	(650,000)	-
	-	-

Conditions still to be met - remain liabilities (see note 18)

Intervention from Province during the unrest period in Setsoto Local Municipality to buy vehicles.

##### Changes in level of government grants

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

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>25. Other income</b>		
Other Income	9,686,881	206,409
Skills Development Claims	529,583	488,657
Commission: Escom	183,424	551,973
Cementery Fees	243,654	271,449
Commission	191,817	22,073
	<b>10,835,359</b>	<b>1,540,561</b>
<b>26. Interest earned</b>		
<b>Interest revenue</b>		
Banks	2,364,950	2,344,364
Interest charged on trade and other receivables	27,280,406	11,835,982
	<b>29,645,356</b>	<b>14,180,346</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>27. Employee related costs</b>		
Basic	55,907,317	52,560,534
Medical contributions	5,599,583	4,770,125
UIF contributions	703,445	630,179
SDL	827,351	710,161
Pension contributions	9,741,567	7,955,318
Travel, motor car, accommodation, subsistence and other allowances	5,364,794	6,555,298
Overtime payments	3,980,295	3,073,742
Housing benefits and allowances	-	201,009
Bonus	4,150,733	2,532,071
Casual wages	5,064,627	555,763
Group insurance	-	133,928
Cellphone allowance	207,300	1,702,285
Long-service awards	-	410,760
	<b>91,547,012</b>	<b>81,791,173</b>

Included in the remuneration above are the following:

#### Remuneration of Municipal Manager

Annual Remuneration	219,784	828,039
Contributions to UIF, Medical and Pension Funds	98,819	167,175
Travel, motor car, accommodation, subsistence and other allowances	78,172	68,471
Other	88,301	-
	<b>485,076</b>	<b>1,063,685</b>

The Municipal Manager tender his resignation and ended his service 31 October 2011.

#### Remuneration of Municipal Manager

Annual Remuneration	288,535	-
Contributions to UIF, Medical and Pension Funds	3,613	-
Travel, motor car, accommodation, subsistence and other allowances	78,562	-
	<b>370,710</b>	-

The Municipal Manager was appointed on 1 April 2012, while he was acting in the capacity from 1 November 2011 and during his term of acting he was remunerated by Cogta.

#### Remuneration of Chief Financial Officer

Annual Remuneration	148,670	626,262
Contributions to UIF, Medical and Pension Funds	69,237	178,898
Travel, motor car, accommodation, subsistence and other allowances	50,400	164,416
Other	130,201	-
	<b>398,508</b>	<b>969,576</b>

The CFO was suspended during the year under review and resigned from the position on 30 September 2011.

#### Remuneration of Chief Financial Officer (Acting)

Travel, motor car, accommodation, subsistence and other allowances	210,124	-
	<b>210,124</b>	-

During the year under review, a manager in financial department was appointed as Acting C F O.

#### Remuneration of Corporate Services Director

Annual Remuneration	159,750	664,304
Contributions to UIF, Medical and Pension Funds	74,617	204,682

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>27. Employee related costs (continued)</b>		
Travel, motor car, accommodation, subsistence and other allowances	41,583	116,948
Other	113,926	-
	<b>389,876</b>	<b>985,934</b>

The relevant director was on suspension and resigned on 30 September 2011

#### Remuneration of Corporate Services Director

Annual Remuneration	136,342	-
Contributions to UIF, Medical and Pension Funds	25,337	-
Travel, motor car, accommodation, subsistence and other allowances	18,000	-
	<b>179,679</b>	<b>-</b>

The director was appointed on 1 April 2012

#### Remuneration of Community and Economic Services Director

Annual Remuneration	169,784	627,405
Contributions to UIF, Medical and Pension Funds	70,909	194,037
Travel, motor car, accommodation, subsistence and other allowances	54,136	151,503
Other	126,982	-
	<b>421,811</b>	<b>972,945</b>

The Director resigned on 30 September 2012.

#### Remuneration of Community and Economic Services Director

Annual Remuneration	94,930	-
Contributions to UIF, Medical and Pension Funds	23,405	-
Travel, motor car, accommodation, subsistence and other allowances	18,000	-
	<b>136,335</b>	<b>-</b>

The Director was appointed from 1 May 2012.

#### Remuneration of the Corporate Services Director (Acting)

Travel, motor car, accommodation, subsistence and other allowances	405,048	-
	<b>405,048</b>	<b>-</b>

During the year under review, a manager in corporate services was appointed as Acting Director.

#### 28. Remuneration of councillors

Mayor	632,385	786,722
Speaker	508,356	-
Councillors	5,296,188	7,356,962
Executive Committee Members	1,603,645	-
	<b>8,040,574</b>	<b>8,143,684</b>

#### In-kind benefits

The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.



## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>29. Depreciation and amortisation</b>		
Property, plant and equipment	192,450,464	192,333,480
Intangible assets	-	50,226
	<b>192,450,464</b>	<b>192,383,706</b>
<b>30. Finance costs</b>		
Bank	133,670	122,929
Current borrowings	1,745,550	2,727,193
	<b>1,879,220</b>	<b>2,850,122</b>
<b>31. Debt impairment</b>		
Contributions to debt impairment provision	57,536,194	56,657,462
<b>32. Bulk purchases</b>		
Electricity	44,284,271	30,341,173
<b>33. Contracted services</b>		
Specialist Services	726,892	-
<b>34. Grants and subsidies paid</b>		
<b>Subsidies</b>		
Distitutional help	7,894,262	8,605,529
Grants and donations	-	9,656
Free electricity - Eskom	-	4,769,744
	<b>7,894,262</b>	<b>13,384,929</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>35. General expenses</b>		
Advertising	393,517	398,661
Disaster management	67,856	93,683
Auditors remuneration	3,611,574	3,111,857
Bank charges	120,314	137,022
Billing charges	66,118	63,618
Chemicals	3,035,429	4,128,048
Cleaning	29,664	209,455
Town planning	44,622	385,273
Computer expenses	174,027	501,872
Conferences and delegations	16,000	74,034
Analysis	86,095	39,019
Consulting and professional fees	7,522,584	7,457,505
Consumables	16,901	142,299
Industrial council levy	30,577	31,976
Departmental administration cost	-	(1)
Departmental consumption	1,574,889	1,087,314
Entertainment	358,180	586,572
Ward committee expenses	3,543	400,466
Streetlight electricity consumption	1,419,559	4,856,411
Indigent and pauper burials	-	101,491
Fuel and oil	3,365,351	2,729,011
Skills development levy	612,995	758,060
Insurance	6,275,697	3,808,501
Lease rentals on operating lease	1,740,549	1,665,011
Levies paid	1,132	2,137,574
Youth expenditure	322,409	857,664
Casualty insurance	436,971	129,448
Other expenses	222,393	1,773,498
Postage and courier	999,918	999,228
Printing and stationery	1,207,102	1,095,928
Publicity	458,920	1,198,840
Protective clothing	43,154	80,455
License fees	967,236	817,340
Security (Guarding of municipal property)	64,285	55,933
Subscriptions and membership fees	11,401	10,695
Telephone and fax	4,233,050	1,162,192
Valuation costs	2,128	294,130
Training	584,502	1,678,752
Travel and subsistence	1,936,872	1,901,176
IDP establishment	296,571	174,606
	<b>42,354,085</b>	<b>47,134,617</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>36. Cash generated from operations</b>		
Deficit	(69,180,119)	(101,290,231)
<b>Adjustments for:</b>		
Depreciation and amortisation	192,450,464	192,383,706
Debt impairment	57,536,194	56,657,462
Movements in provisions	260,326	737,504
Other non-cash items	(18,466,658)	1,082,026
Vat adjustment ito 2011 Audit report	-	10,901,695
Overpayment of contractors	-	802,581
<b>Changes in working capital:</b>		
Inventories	128,143	(462,495)
Other receivables from non-exchange transactions	18,333,526	(160,265,387)
Consumer debtors	(70,563,901)	85,540,609
Trade Payables and other payables from exchange transactions	30,975,240	5,286,999
VAT receivable / payable (Amend as appropriate)	(23,432,189)	(15,295,932)
Taxes and transfers payable (non exchange)	(2,815,086)	4,859,141
Unspent conditional grants and receipts	(11,137,343)	(20,917,644)
Consumer deposits	171,147	33,366
	<b>104,259,744</b>	<b>60,053,400</b>

### 37. Capital commitments

#### 37.1 Commitments in respect of capital expenditure

##### Approved and contracted for

• Infrastructure	113,578,630	74,244,587
• Community	56,408,056	-
• Other	-	-
	<b>169,986,686</b>	<b>74,244,587</b>

##### Approved but not yet contracted for

• Infrastructure	-	4,380,940

##### This expenditure will be financed from

• Government grants	76,379,000	78,625,527
• Own resources	-	-
	<b>76,379,000</b>	<b>78,625,527</b>

### 38. Related parties

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004. Details of loans, together with the conditions thereof, granted prior to this date are disclosed below.

#### Related party transactions

##### Purchases from (sales to) related parties

E R B Marketing (Website design and maintenance)	180,000	180,000
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The IT Specialist have close family relations with the management of ERB Marketing that maintains the web site of council.

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

#### 39. Comparative figures

Certain comparative figures have been reclassified.

Expenditure related to district municipality commitments has been classified previously as grants and been netted against unspent MIG grants.

The effects of the reclassification are as follows:

#### Statement of financial position

Decrease in Current Portion of Unspent conditional grants and receipts (District grant)	-	(19,887,407)
Increase in Other receivables from non-exchange transactions	-	19,887,407

#### 40. Unauthorised expenditure

##### Reconciliation of unauthorised expenditure

Opening balance	21,181,328	75,929,807
Unauthorised expenditure - current year	3,486,150	21,543,944
Approval by Council or Condoned	-	(74,794,259)
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
	<b>24,667,478</b>	<b>22,679,492</b>

Details of Unauthorised expenditure

##### Incident of Unauthorised Expenditure

2007/2008 Exceed total expenditure - Condoned by Council	-	(2,599,032)
2009/2010 Exceed total expenditure - Condoned by Council	-	(72,195,227)
2009/2010 Credit card payment without documentation	-	40,000
2009/2010 Unbudgeted Capital expenditure	-	1,095,548
2010/2011 Overspending Employee costs, Bad debts, Collection costs - Awaiting condonation	-	21,543,944
2011/2012 Purchase of Equipment during emergency situation	1,798,320	-
2011/2012 Requiring of services during protest action	1,687,829	-
	<b>3,486,149</b>	<b>(52,114,767)</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

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2012                      2011

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#### 41. Fruitless and wasteful expenditure

##### Reconciliation of fruitless and wasteful expenditure

Opening balance	11,038,059	1,347,142
Fruitless and wasteful expenditure - current year	133,670	14,061,211
Condoned or written off by Council	-	-
To be recovered - contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	-	-
	<b>11,171,729</b>	<b>15,408,353</b>

##### Details of fruitless and wasteful expenditure

2006/2007 Legal fees - Former Senekal TLC Councillors	-	610,424
2009/2010 Payment made to W Vries	-	42,225
2009/2010 Advance payment made to Vic Computers	-	60,840
2006 to 2011 Payments made to Biofresh personnel wages	-	8,676,165
2009 to 2011 Penalties and interest paid	-	1,021,485
2010.2011 VAT incorrectly claimed on PPE	-	626,920
Identified in the 2011 Audit report	-	4,370,294
2011/2012 Penalties and interest paid	139,477	-
	<b>139,477</b>	<b>15,408,353</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
<b>42. Irregular expenditure</b>		
Opening balance	31,471,656	27,108,966
Irregular Expenditure - current year	15,347,351	4,393,694
Amounts condoned or written off by Council	(5,965,055)	-
Transfer to receivables for recovery - not condoned	-	-
Amounts recouped from Councillors	(414,552)	-
Irregular expenditure awaiting condonement	-	-
	<b>40,439,400</b>	<b>31,502,660</b>
<b>Details of irregular expenditure - Current year</b>		
Current year	-	2,000,000
Eskom payments	-	2,362,690
Payment to Councillors in excess of limits	-	31,004
Intervention from Cogta/Premiers office during protest action in Ficksburg. Suctioning of sewer manholes to reduce sewer spillages. Due to urgency only one quote received, thus the deviation from the SCM policy.	2,932,819	-
Intervention from Cogta/DWA during water crisis in Marquard and Ficksburg. Due to urgency only one quote received, thus the deviation from the SCM policy.	1,143,671	-
Expenditure item identified were the SCM process and procedures was not followed	11,270,861	-
Long-term lease not approved by Council i.t.o MFMA	2,624,205	-
Expenditure item identified were the SCM process and procedures was not followed : Mabalane Seobe Inc	1,553,435	-
	<b>19,524,991</b>	<b>4,393,694</b>
<b>Details of irregular expenditure - Prior years</b>		
Councillors paid in excess of the upper limits	2007/08	660,906
Councillors paid in excess of the upper limits	2008/09	448,519
Councillors paid in excess of the upper limits	2009/10	113,279
Unspent conditional grants in terms of DoRA	2007/08	13,502,314
Maxprof expences paid for the recovery of VAT	2008/09	1,319,322
Non availability of Tender Documents	2008/09	842,016
Long-term lease not approved by Council i.t.o MFMA	2008/09	2,814,169
Payments where SCM procedures were not followed	2009/10	2,709,761
Long-term lease not approved BY Council i.t.o MFMA	2009/10	2,734,586
Operational expenses paid from MIG Funds	2009/10	4,529,873
		<b>29,674,745</b>
<b>43. Auditors' remuneration</b>		
Fees	3,611,574	3,111,857
<b>44. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	612,995	435,185
Amount paid - current year	(612,995)	(435,185)
	-	-

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

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

##### Reticulation losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

Estimated electricity losses included distribution to townships with unmetered electricity.

Estimated losses	20,853,869	6,368,567
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Estimated water losses suffered by the municipality for the year under review is as follows:

Estimated water losses included distribution to townships with unmetered water.

Estimated water losses	13,106,733	13,798,074
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##### Audit fees

Current year subscription / fee

3,624,137                      3,111,857

Amount paid - current year

(3,624,137)                      (3,111,857)

-    -

##### PAYE and UIF

Current year subscription / fee

10,927,445                      8,468,466

Amount paid - current year

(10,927,445)                      (8,468,466)

-    -

##### Pension and Medical Aid Deductions

Current year subscription / fee

23,563,297                      24,453,103

Amount paid - current year

(23,563,297)                      (24,453,103)

-    -

##### VAT

VAT receivable

41,163,561                      17,731,372

VAT output payables and VAT input receivables are shown in note 14 and 6 respectively.

All VAT returns have been submitted by the due date throughout the year.

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

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

##### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor M Mthimkhulu	520	5,991	6,511
Councillor M Thamae	695	6,753	7,448
Councillor S Mohala	604	3,837	4,441
Councillor P Mavaleliso	724	4,100	4,824
Councillor T Muso	421	265	686
Councillor M Mahlangu	541	744	1,285
Councillor S Fuso	1,008	19,600	20,608
Councillor M Raboroko	740	11,146	11,886
Councillor S Setai	658	4,953	5,611
	<b>5,911</b>	<b>57,389</b>	<b>63,300</b>

  

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor T.B Jakobo	532	4,370	4,902
Councillor M. Malebo	482	1,401	1,883
Councillor M. Malebo	778	7,390	8,168
Councillor T.D Zim	374	1,035	1,409
Councillor T.D Zim	440	6,995	7,435
	<b>2,606</b>	<b>21,191</b>	<b>23,797</b>

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

30 June 2012	Highest outstanding amount	Aging (in days)
Councillor M Mthimkhulu	6,511	1,116
Councillor M Thamae	7,448	919
Councillor S Mohala	4,441	669
Councillor P Mavaleliso	4,825	600
Councillor T Muso	687	150
Councillor M Mahlangu	1,286	180
Councillor S Fuso	20,608	1,839
Councillor M Raboroko	11,886	1,461
Councillor S Setai	5,611	775
	<b>63,303</b>	<b>7,709</b>

  

30 June 2011	Highest outstanding amount	Aging (in days)
Councillor T.B Jakobo	4,902	693
Councillor M. Malebo	1,883	244
Councillor M. Malebo	8,168	885
Councillor T.D Zim	1,409	230
Councillor T.D Zim	7,434	939
	<b>23,796</b>	<b>2,991</b>



## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

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

##### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses are listed in note 40 and note 42

#### 45. Deviation from supply chain management regulations

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

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

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

#### 46. Revenue

Property rates	28,459,664	23,679,681
Service charges	84,643,854	95,427,270
Rental of facilities & equipment	130,661	435,891
Fines	386,664	296,925
Licences and permits	106,430	756
Government grants & subsidies	238,546,566	206,606,760
	<b>352,273,839</b>	<b>326,447,283</b>

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

Service charges	84,643,854	95,427,270
Rental of facilities & equipment	130,661	435,891
Licences and permits	106,430	756
	<b>84,880,945</b>	<b>95,863,917</b>

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

##### Taxation revenue

Property rates	28,459,664	23,679,681
Fines	386,664	296,925

##### Transfer revenue

Levies	238,546,566	206,606,760
	<b>267,392,894</b>	<b>230,583,366</b>

#### 47. Other revenue

Sale of land	20,041	1,184,211
Other income	10,835,359	1,540,561
	<b>10,855,400</b>	<b>2,724,772</b>

#### 48. Retirement Benefit Information

##### 48.1 Defined Contribution Plan

# Setsoto Local Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2012

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2012	2011
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### 48. Retirement Benefit Information (continued)

The following are defined contribution plans;

- National Fund for Municipal Workers,
- SAMWU Provident Fund,
- Free State Provident Fund and
- SALA.

The contributions have been expensed during the year.

An amount of R 8,308,852 (2011: R 7,529,091) was contributed by Council in respect of Councillors and Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

#### 48.2 Defined Benefit Plan

The following is the defined benefit plans Free State Pension Fund; These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level detail.

An amount of R 428,944 (2011: R 426,228) was contributed by Council in respect of Councillors and Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

### 49. In-kind donations and assistance

The Municipality did not receive any in-kind donations and assistance during the financial year.

### 50. Events after the reporting date

There are no significant matters to report after reporting date.

### 51. Risk management

#### Maximum credit risk exposure

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

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the economic entity. The economic entity has adopted a policy of only dealing with creditworthy counterparties to the extent possible and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

With the exception of trade receivables, the economic entity only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the economic entity uses other publicly available financial information and its own trading records to rate its major customers.

The economic entity's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Potential concentrations of credit risk consist mainly of investments, trade receivables, other receivables, short-term investment deposits and cash and cash equivalents.

The credit exposure to any single counterparty is managed by setting transaction or exposure limits, which are included in the economic entity's Investment Policy.

# Setsoto Local Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

### 51. Risk management (continued)

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these customers.

Trade receivables are presented net of an allowance for impairment and where appropriate, credit limits are adjusted.

In the case of customers whose accounts become in arrears, it is endeavoured to collect such accounts by levying penalty charges, issuing demands for payment, restricting service and handing customers over for collection, whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Financial assets which expose the economic entity to credit risk at year end were as follows:

Financial instrument	2012	2011
Cash and cash equivalents	6,791,111	4,300,406
Investments	-	10,006,881
Trade and other receivables from exchange transactions	66,508,234	59,622,343

These balances represent the maximum exposure to credit risk.

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

[Discuss any changes from previous year in respect of objectives, policies and processes for managing risks and in methods to measure the risks]

### Liquidity risk

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

Cash Flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

At 30 June 2012	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
Borrowings	916,958	-	689,680	9,636,167
Gross finance lease obligations	300,453	528,819	1,049,724	744,149
At 30 June 2011	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
Borrowings	221,692	443,385	3,959,203	9,834,617
Gross finance lease obligations	405,542	811,083	3,495,466	2,812,819

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the economic entity's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

There has been no change, since the previous financial year, to the economic entity's exposure to market risks or the manner in which it manages and measures the risk.

Market risk consists of the following risks:

Foreign currency risk

The economic entity does not enter into significant foreign currency transactions had has limited exposure to foreign currency risk.

# Setsoto Local Municipality

## Notes to the Annual Financial Statements for the year ended 30 June 2012

2012 2011

### 51. Risk management (continued)

#### *Interest rate risk*

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed instruments.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits
- Long term annuity
- Development Bank of Southern Africa loan
- FNB Overdraft

### 52. Going concern

1. Creditors turnover rate rate increased from an average 25 days to 38 days.

2. The consumer payment profile declined and as a result provision for bad debts was under provided with an average of R 18 million. The average turnover and total outstanding debt has increased from 438 days to 442 days.

3. Previously disadvantaged areas are charged a basic tariff on water as opposed to the consumption tariff, thus resulting in a possible loss of income for the municipality. The above challenges did not impair the municipality to deliver services to the community as mandated by the Constitution of the Republic of South Africa.

4. The municipality shall therefore continue to honour its financial obligations and strive to maintain its assets, and will therefore continue to exist within the foreseeable future, as a going concern.

### 53. Section 106

During the financial year ending 30 June 2011 there was a community protest over service delivery which lead to invoking of section 106 of the Municipal Systems Act (No. 32 of 2000) by COGTA. A commission of enquiry was instituted and the report of the findings was tabled before Council meeting.

### 54. Prior period errors

Property, Plant, and Equipment was previously not componentized by the municipality and as a result carrying values were corrected during the asset register clear up exercise.

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

#### **Statement of financial position**

Property, plant and equipment	-	2,064,870,300
Opening Accumulated Surplus or Deficit	-	(2,064,870,300)

Intangible assets were not disclosed previously.

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

#### **Statement of financial position**

Intangible Assets	-	701,727
Accumulated Amortisation	-	(50,226)
Accumulated Surplus	-	(701,727)
	-	<u>(50,226)</u>

### **Statement of Financial Performance**

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
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#### 54. Prior period errors (continued)

Amortisation	-	50,226
		50,226

Investment Property assets were not disclosed previously.

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

#### Statement of financial position

Investment property	-	21,752,834
Accumulated Amortisation	-	(5,693,909)
Accumulated Surplus	-	(17,482,402)
	-	(1,423,477)

#### Statement of Financial Performance

Amortisation	-	1,423,477
		1,423,477

During the current year the revaluation reserve and the housing development fund was transferred to the accumulated surplus.

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

#### Statement of financial position

Revaluation Reserve	-	28,471,476
Housing Development Fund	-	271,297
Accumulated Surplus	-	(28,742,773)
	-	-

In terms of paragraph 22 of the previous years audit report staff leave accrual that was overprovided was corrected.

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

#### Statement of financial position

Leave Reserve	-	434,972
Accumulated Surplus	-	(434,972)
	-	-

Receivables of R802,581.00 was created in terms of paragraph 43 of the previous years audit.

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

#### Statement of financial position

Other receivables	-	(802,581)
Accumulated Surplus	-	802,581
	-	-

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

#### 54. Prior period errors (continued)

Unclaimed VAT on Capital expenditure was taken into account in terms of paragraph 40 of the previous years audit.

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

##### Statement of financial position

VAT: Input (Capital)	-	5,317,185
Accumulated Surplus	-	(5,317,185)
	-	-

Correct the duplicate VAT ammount R5,584,150.00 in terms of paragraph 39 of the previous years audit.

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

##### Statement of financial position

VAT: Output VAT Paid	-	(5,584,510)
Accumulated Surplus	-	5,584,510
	-	-

Expenditure related to district municipality commitments has previously been classified as conditional grants and receipts and was now reclassified as other receivables from non-exchange transactions. This amount was subsequently also written off against the accumulated surolus.

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

##### Statement of financial position

Other receivables from non-exchange transactions	-	19,887,407
Accumulated Surplus	-	19,887,407
Other receivables from non-exchange transactions	-	(19,887,407)
Current portion of Unspent Conditional Grants and Receipts	-	(19,887,407)
	-	-

Rates and taxes was reclassified as Other receivables from non-exchange transactions.

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

##### Statement of financial position

Other receivables from non-exchange transactions	-	10,609,630
Trade and other receivables from exchange transactions	-	(10,609,630)
	-	-

#### 55. Rental of facilities and equipment

Rental of facilities	130,661	435,891
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## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

#### 56. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Financial Performance</b>									
Property rates	-	23,746,932	23,746,932	-	23,746,932	28,459,664	4,712,732	120 %	DIV/0 %
Service charges	-	99,586,918	99,586,918	-	99,586,918	84,356,889	(15,230,029)	85 %	DIV/0 %
Investment revenue	-	20,708,450	20,708,450	-	20,708,450	29,643,192	8,934,742	143 %	DIV/0 %
Transfers recognised - operational	-	152,115,000	152,115,000	-	152,115,000	234,546,566	82,431,566	154 %	DIV/0 %
Other own revenue	-	19,140,249	19,140,249	-	19,140,249	2,475,548	(16,664,701)	13 %	DIV/0 %
<b>Total revenue (excluding capital transfers and contributions)</b>	-	<b>315,297,549</b>	<b>315,297,549</b>	-	<b>315,297,549</b>	<b>379,481,859</b>	<b>64,184,310</b>	<b>120 %</b>	<b>DIV/0 %</b>
Employee costs	-	(88,960,246)	(88,960,246)	-	(88,960,246)	(91,547,012)	(2,586,766)	103 %	DIV/0 %
Remuneration of councillors	-	(9,317,466)	(9,317,466)	-	(9,317,466)	(8,019,574)	1,297,892	86 %	DIV/0 %
Debt impairment	-	-	-	-	-	(57,536,194)	(57,536,194)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	-	(24,334,576)	(24,334,576)	-	(24,334,576)	(192,450,464)	(168,115,888)	791 %	DIV/0 %
Finance charges	-	(3,507,906)	(3,507,906)	-	(3,507,906)	(1,879,220)	1,628,686	54 %	DIV/0 %
Materials and bulk purchases	-	(43,658,345)	(43,658,345)	-	(43,658,345)	(44,284,271)	(625,926)	101 %	DIV/0 %
Transfers and grants	-	(24,518,732)	(24,518,732)	-	(24,518,732)	(7,894,262)	16,624,470	32 %	DIV/0 %
Other expenditure	-	(120,968,997)	(120,968,997)	-	(120,968,997)	(58,343,717)	62,625,280	48 %	DIV/0 %
<b>Total expenditure</b>	-	<b>(315,266,268)</b>	<b>(315,266,268)</b>	-	<b>(315,266,268)</b>	<b>(461,954,714)</b>	<b>(146,688,446)</b>	<b>147 %</b>	<b>DIV/0 %</b>
<b>Surplus/(Deficit)</b>	-	<b>31,281</b>	<b>31,281</b>	-	<b>31,281</b>	<b>(82,472,855)</b>	<b>(82,504,136)</b>	<b>(263,652)%</b>	<b>DIV/0 %</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

#### 56. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	75,605,000	75,605,000	151,210,000	-	151,210,000	-	(151,210,000)	- %	- %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>75,605,000</b>	<b>75,636,281</b>	<b>151,241,281</b>	<b>-</b>	<b>151,241,281</b>	<b>(82,472,855)</b>	<b>(233,714,136)</b>	<b>(55)%</b>	<b>(109)%</b>
<b>Surplus/(Deficit) for the year</b>	<b>75,605,000</b>	<b>75,636,281</b>	<b>151,241,281</b>	<b>-</b>	<b>151,241,281</b>	<b>(82,472,855)</b>	<b>(233,714,136)</b>	<b>(55)%</b>	<b>(109)%</b>



## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

#### 56. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Capital expenditure and funds sources</b>									
Total capital expenditure	11,058,400	(11,058,400)	-	-	-	922,342	922,342	DIV/0 %	8 %
<b>Sources of capital funds</b>									
Public contributions and donations	70,874,000	70,874,000	141,748,000	-	141,748,000	-	(141,748,000)	- %	- %
<b>Cash flows</b>									
Net cash from (used) operating	-	-	-		-	104,259,744	104,259,744	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-		-	(62,936,452)	(62,936,452)	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-		-	(7,590,789)	(7,590,789)	DIV/0 %	DIV/0 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	-	-	-		-	<b>33,732,503</b>	<b>33,732,503</b>	<b>DIV/0 %</b>	<b>DIV/0 %</b>
Cash and cash equivalents at the beginning of the year	-	-	-		-	(26,941,392)	(26,941,392)	DIV/0 %	DIV/0 %
<b>Cash and cash equivalents at year end</b>	-	-	-		-	<b>6,791,111</b>	<b>(6,791,111)</b>	<b>DIV/0 %</b>	<b>DIV/0 %</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

#### 56. Statement of comparative and actual information (continued)

**2011**

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
<b>Financial Performance</b>				
Property rates				23,679,681
Service charges				95,427,270
Investment revenue				14,180,346
Transfers recognised - operational				135,823,936
Other own revenue				3,458,344
<b>Total revenue (excluding capital transfers and contributions)</b>				<b>272,569,577</b>
Employee costs	-	-	-	(81,791,173)
Remuneration of councillors	-	-	-	(8,143,684)
Debt impairment	-	-	-	(56,657,462)
Depreciation and asset impairment	-	-	-	(192,383,706)
Finance charges	-	-	-	(2,850,122)
Materials and bulk purchases	-	-	-	(30,341,173)
Transfers and grants	-	-	-	(13,384,929)
Other expenditure	-	-	-	(59,090,383)
<b>Total expenditure</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(444,642,632)</b>
<b>Surplus/(Deficit)</b>				<b>(172,073,055)</b>
Transfers recognised - capital				70,782,824
<b>Surplus (Deficit) after capital transfers and contributions</b>				<b>(101,290,231)</b>
<b>Surplus/(Deficit) for the year</b>				<b>(101,290,231)</b>

## Setsoto Local Municipality

### Notes to the Annual Financial Statements for the year ended 30 June 2012

2012                      2011

#### 56. Statement of comparative and actual information (continued)

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
<b>Capital expenditure and funds sources</b>				
<b>Cash flows</b>				
Net cash from (used) operating				60,053,400
Net cash from (used) investing				(63,559,675)
Net cash from (used) financing				(6,901,717)
<b>Net increase/(decrease) in cash and cash equivalents</b>				<b>(10,407,992)</b>
Cash and cash equivalents at the beginning of the year				(16,533,400)
<b>Cash and cash equivalents at year end</b>				<b>(26,941,392)</b>

#### 57. Contingent Liability

From confirmation received from the municipality's attorneys they indicate that the municipality has outstanding labour matters that could result in a possible contingent liability of R 240 000. This matter is carried forward from the previous financial year.

**Setsoto Local Municipality  
Appendix A**

**Schedule of external loans as at 30 June 2011**

<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at 30 June 2011</b>	<b>Received during the period</b>	<b>Redeemed written off during the period</b>	<b>Balance at 30 June 2012</b>	<b>Carrying Value of Property, Plant &amp; Equip Rand</b>	<b>Other Costs in accordance with the MFMA Rand</b>
		<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>
<b>Development Bank of South Africa</b>							
DBSA	100	2012/06/30	1,289,181	-	1,289,181	-	-
DBSA	101	2012/06/30	232,310	-	232,310	-	-
DBSA	200	2012/06/30	780,672	-	780,672	-	-
DBSA	301	2020/06/30	1,996,015	-	106,289	1,889,726	1,298,901
DBSA	404	2012/06/30	220,202	-	220,202	-	-
DBSA	525	2024/12/31	6,418,382	-	216,006	6,202,376	938,425
DBSA	526	2011/12/31	547,963	-	547,963	-	-
			<b>11,484,725</b>	<b>-</b>	<b>3,392,623</b>	<b>8,092,102</b>	<b>2,237,326</b>
<b>Lease liability</b>							
Wesbank	529	2010/08/31	1,877	-	1,877	-	-
Wesbank	530	2010/08/31	1,244	-	1,244	-	-
Wesbank	531	2010/08/31	2,164	-	2,164	-	-
Wesbank	535	2012/11/30	990,533	-	675,643	314,890	333,917
Wesbank	536	2012/11/30	1,954,215	-	1,332,970	621,245	388,730
Bankfin	537	2012/04/30	584,554	-	584,554	-	-
Bankfin	538	2014/04/30	2,135,172	-	672,309	1,462,863	1,222,426
Fintech	539	2012/03/31	587,126	-	588,421	(1,295)	-
Fintech	540	2012/07/31	433,870	-	403,837	30,033	671,171
			<b>6,690,755</b>	<b>-</b>	<b>4,263,019</b>	<b>2,427,736</b>	<b>2,616,244</b>
<b>Annuity loans</b>							
			-	-	-	-	-
			-	-	-	-	-
			-	-	-	-	-
			-	-	-	-	-
			-	-	-	-	-



**Setsoto Local Municipality**  
**Setsoto Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2012**

<b>Cost/Revaluation</b>						<b>Accumulated depreciation</b>						
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Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Land and buildings  
 Infrastructure  
 Community Assets

**Setsoto Local Municipality**  
**Setsoto Local Municipality**  
**Appendix B**

**Analysis of property, plant and equipment as at 30 June 2012**  
**Cost/Revaluation**

**Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
<b>Heritage assets</b>														
<b>Specialised vehicles</b>														
<b>Other assets</b>														
<b>Total property plant and equipment</b>														
<b>Intangible assets</b>														
Computers - software & programming	728,394	95,653	-	-	-	-	<b>824,047</b>	(76,893)	-	-	(108,206)	-	<b>(185,099)</b>	638,948
	<b>728,394</b>	<b>95,653</b>	-	-	-	-	<b>824,047</b>	<b>(76,893)</b>	-	-	<b>(108,206)</b>	-	<b>(185,099)</b>	<b>638,948</b>
<b>Investment properties</b>														
Investment property	70,575,852	-	-	-	-	-	<b>70,575,852</b>	(5,833,257)	-	-	(1,944,419)	-	<b>(7,777,676)</b>	62,798,176
	<b>70,575,852</b>	-	-	-	-	-	<b>70,575,852</b>	<b>(5,833,257)</b>	-	-	<b>(1,944,419)</b>	-	<b>(7,777,676)</b>	<b>62,798,176</b>
<b>Total</b>														
Intangible assets	728,394	95,653	-	-	-	-	<b>824,047</b>	(76,893)	-	-	(108,206)	-	<b>(185,099)</b>	638,948
Investment properties	70,575,852	-	-	-	-	-	<b>70,575,852</b>	(5,833,257)	-	-	(1,944,419)	-	<b>(7,777,676)</b>	62,798,176
	<b>71,304,246</b>	<b>95,653</b>	-	-	-	-	<b>71,399,899</b>	<b>(5,910,150)</b>	-	-	<b>(2,052,625)</b>	-	<b>(7,962,775)</b>	<b>63,437,124</b>





**Setsoto Local Municipality  
Appendix E(2)**

**Budget Analysis of Capital Expenditure as at 30 June  
2011**

	Yearly		Yearly		Explanation of significant variances from budget
	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	
<b>Municipality</b>					
Executive & Council/Mayor and Council	-	-	-	-	
Finance & Admin/Finance	-	-	-	-	
Planning and Development/Economic Development/Plan	-	-	-	-	
Health/Clinics	-	-	-	-	
Comm. & Social/Libraries and archives	-	-	-	-	
Housing	-	-	-	-	
Public Safety/Police	-	-	-	-	
Sport and Recreation	-	-	-	-	
Environmental Protection/Pollution Control	-	-	-	-	
Waste Water Management/Sewerage	-	-	-	-	
Road Transport/Roads	-	-	-	-	
Water/Water Distribution	-	-	-	-	
Electricity /Electricity Distribution	-	-	-	-	
Other/Air Transport	-	-	-	-	
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**Setsoto Local Municipality**  
**Appendix F**  
**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
MIG Grant	National	32,020	15,304	15,639	-	62,963	35,343	19,468	45,174	80,956	80,941	-	-	-	-	-		Yes	
FMG Grant	National	1,450	-	-	-	1,450	96	120	881	352	1,450	-	-	-	-	-		Yes	
MSIG Grant	National	-	790	-	-	790	-	-	238	552	790	-	-	-	-	-		Yes	
ACIP / DWA	National	-	-	5,719	1,500	7,219	-	-	5,719	1,500	7,219	-	-	-	-	-		Yes	
POLICE, ROADS & TRANSPORT	Provincial	-	2,650	1,076	-	3,726	-	2,650	1,076	-	3,726	-	-	-	-	-		Yes	
		33,470	18,744	22,434	1,500	76,148	35,439	22,238	53,088	83,360	94,126	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.