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**FINANCIAL STATEMENTS FOR  
THE YEAR ENDED 30 JUNE 2014**

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# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## GENERAL INFORMATION

### Members of the Executive Committee:

Councillor T M H Mofokeng	Chairperson
Councillor M.A. Noosi	MMC for community services
Councillor T J Seekane	MMC for public works and rural development
Councillor P P Mokoena	MMC for corporate services
Councillor A L Rakhothule - Mkwanazi	MMC for human settlement
Councillor C C Harrington	MMC for local economic development and tourism
Councillor M J Tshabalala	MMC for finance
Councillor T.J Tseki	MMC for IDP, performance management and monitoring
Councillor T J Tshabalala	MMC for women, children, disability and vulnerable groups

### Grade of Local Authority:

Grade 8

### Auditor:

Auditor-General South Africa

### Bankers:

ABSA Bank  
Branch 502-233      Account number      4052898966

### Registered Office:

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

### E-mail address:

info@dihlabeng.co.za

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Municipal Manager:

Mr Thabiso Tsoaeli (Resigned 30 April 2014)

Mr Bennett Molotsi (appointed 3 November 2014)

## Chief Financial Officer:

Mr Raymond Provis

## Members of the Dihlabeng Local Municipality

<u>Ward No:</u>	<u>Councillor</u>
1	Mrs M.A. Mokoena
2	Mr S Msimanga
3	Mr N.N. Nzimande
4	Mr P.P. Mokoena
5	Mr M.D. Shabalala
6	Mr M J Tshabalala
7	Ms T.M. Mofokeng
8	Mr T.M.H. Mofokeng
9	R.P. Mofokeng
10	Mr G.J. Roetz
11	Mr T.A. Masoeu
12	Mr J.M. Radebe
13	Mr T.J. Seekane
14	Mr T.J. Tseki
15	Ms M.E. Sempe
16	Mrs S.M. Jacobs
17	Mrs A.L. Rakhothule - Mkhwanazi
18	Mr J.F. Bonthuys
19	Mr M. St V. Mofokeng
20	Ms M.R. Mokoena

## Public Representatives Councillors

Ms M.A. Noosi	Ms N.E. Mabizela
Mr L.A Mhlambi	Mr L J Mosikili
Mrs H.E. Mokoena	Mr M.J. Mokoena
Ms L.U. Makhalema	Mr B.D.L. Venter
Mr P.D. Lengoabala	Mr P.T. Ramaele
Mrs T.J. Tshabalala	Mrs M. Prior
Mr L.J. Lemako	Mr P.A. Maasdorp

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Mr J.J.H. Pienaar

Mr T.V. Mofokeng

Mr C.C. Harrington

Mr P.H.J Olivier

Ms M.K Mofokeng

Mr D. Stevens

## **Executive Mayor:**

Councillor TMH Mofokeng

## **Speaker:**

Councillor P.D. Lengoabala

## **Council WIP:**

Councillor L.U. Makhalema

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

Mr G. Mahlatsi (Chairperson)

Mr T Kometsi

Mr D Mofokeng

Mr R Luvhengo

Mr E Siwakwi

## **Nature of the entity**

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

## **Relevant legislation**

Constitution of the Republic of South Africa

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act (Act No 5 of 2012)

The Income Tax Act (Act No 28 of 1997)

Value Added Tax Act (Act No 89 of 1991)

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no32 of 2000)

Municipal Planning and Performance Management Regulations

Water Services Act (Act no 108 of 1997)

Housing Act (Act no 107 of 1997)

Municipal Property Rates Act (Act no 6 of 2004)

Electricity Act (Act no 41 of 1987)

# Dihlabeng Local Municipality

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Skills Development Levies Act (Act no 9 of 1999)

Employment Equity Act (Act no 55 of 1998)

Unemployment Insurance Act (Act no 30 of 1966)

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

Disaster Management Act (Act no 57 of 2002)

Municipal Electoral Act (Act no 27 of 2000)

Municipal Demarcation Act (Act no 27 of 1998)

Supply Chain Management Regulations, 2005

Collective Agreements

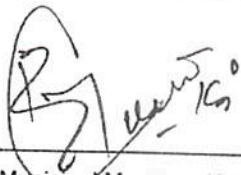
Infrastructure Grants

SALBC Leave Regulations

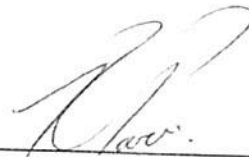
## APPROVAL OF FINANCIAL STATEMENTS:

I am responsible for the preparation of these annual financial statements, which are set out on pages 17 to 84 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in Note 26 and 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Municipal Manager (Accounting Officer)  
Bennett Molotsi



Chief Financial Officer  
Raymond Provis

# Dihlabeng Local Municipality

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# Dihlabeng Local Municipality

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### Abbreviations

INCA	Infrastructure Finance Corporation Limited
PRMA	Post Retirement Medical Aid
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
SARS	South African Revenue Service
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
CFO	Chief Financial Officer
MSA	Municipal Systems Act
VAT	Value Added Tax

## ACCOUNTING OFFICER'S REPORT

### 1. INTRODUCTION

The 2013/14 financial year posed many challenges and obstacles which had to be addressed and accommodated by the limited financial and other resources. The budget and the IDP are aligned with the vision and imperatives of national government, which are to address service delivery backlogs and the following strategic areas, were focussed on during the 2013/14 budget:

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

To budget for improved service delivery and then subsequently realising operational efficiency while it is also ensured that the deliverables are attained in a sustainable manner, has been a huge challenge during the 2013/14 financial year.

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

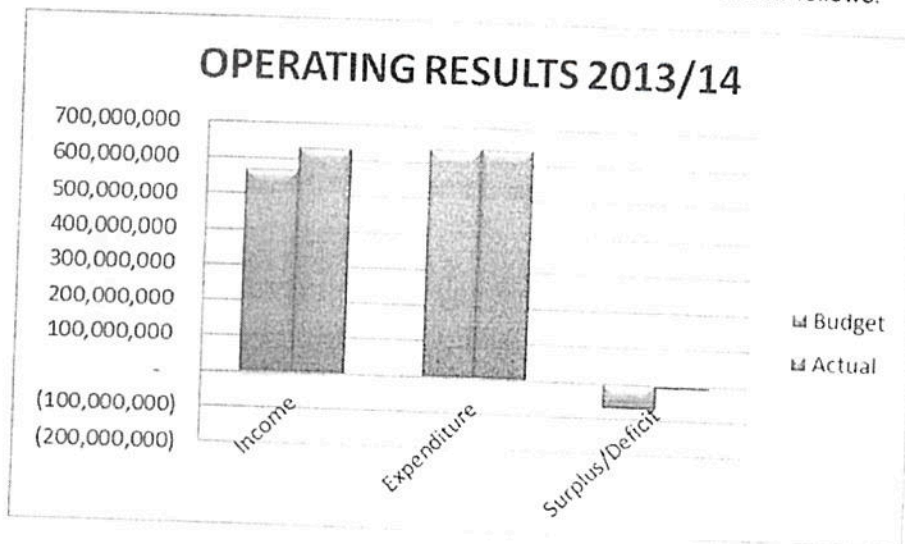
### 2. REVIEW OF OPERATING RESULTS

The 2013/14 budget of Dihlabeng was approved by Council in May 2013.

#### 2.1 General

Details of the 2013/14 operating results and classification of revenue and expenditure are included in the Statement of Financial Performance. A graphical presentation of the operating results is shown in the graph below:

The overall operating results for the year ending 30 June 2014 are as follows:





**Dihlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2014

Description	Original Budget 2014	Adjusted Budget 2014	Actual 2014	Variance Actual/ Adjusted Budget	Actual 2013
	R'000	R'000	R'000	%	R'000
<b>REVENUE</b>					
Operating revenue for the year	555 343	570 375	630,768	10.59%	607,552
	555 343	570 375	630,768		607,552
<b>EXPENDITURE</b>					
Operating expenditure for the year	536 893	637 956	641,339	0.53%	610,917
Fair value adjustment	-	-	(1,774)		44
Gain on disposal of assets	-	-	3,992		(779)
Accumulated surplus / (deficit)	18 450	-67 581	(7,924)		(2,630)
	555 343	570 375	635,632		607,552

The actual net expenditure of the Municipality reflects an increase of 5,0% while the actual revenue of the Municipality has increased by 3,8% since 2012/13.

The largest increase on revenue occurred on service charges (12%), interest (17%) and property rates (14%).

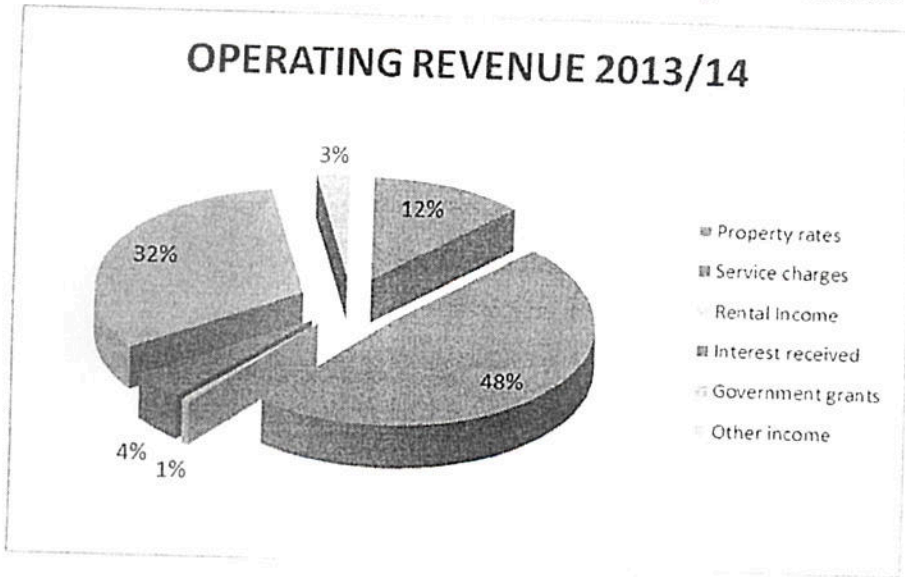
The largest increase on expenditure occurred on finance costs (35%) and debt impairment (25%).

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

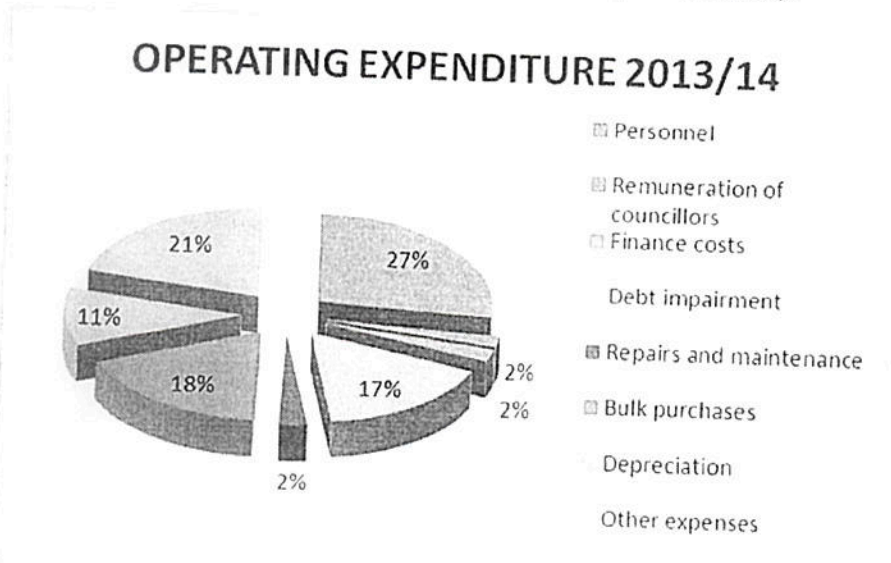
## 2.2 Operating Revenue

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



## 2.3 Operating expenditure

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



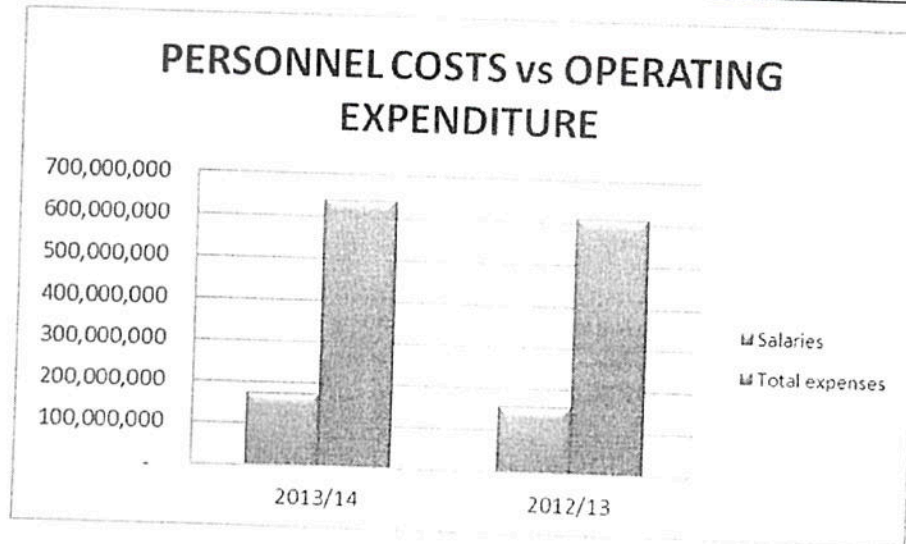
# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Remuneration

The actual expenditure on remuneration expressed as a percentage of the total expenditure shows an increase from 26,28% in 2012/13 to 27,38% in 2013/14. These figures have a large impact on the going concern capabilities of the municipality. The total remuneration cost and the allocation of individual items in a remuneration package differ from municipality to municipality for example; certain municipalities are more contract intensive whilst others might be more labour intensive. The target for remuneration as a percentage of expenditure is 30%.

Description	2013/14 R'000	2012/13 R'000
Total operating expenditure	641,339	610,917
Total operating revenue	630,768	607,552
Employee remuneration	172,725	159,638
Ratio: % of total expenditure	26.93%	26.13%
Ratio: % of total revenue	27.38%	26.28%
% increase in remuneration	8.20%	11.77%



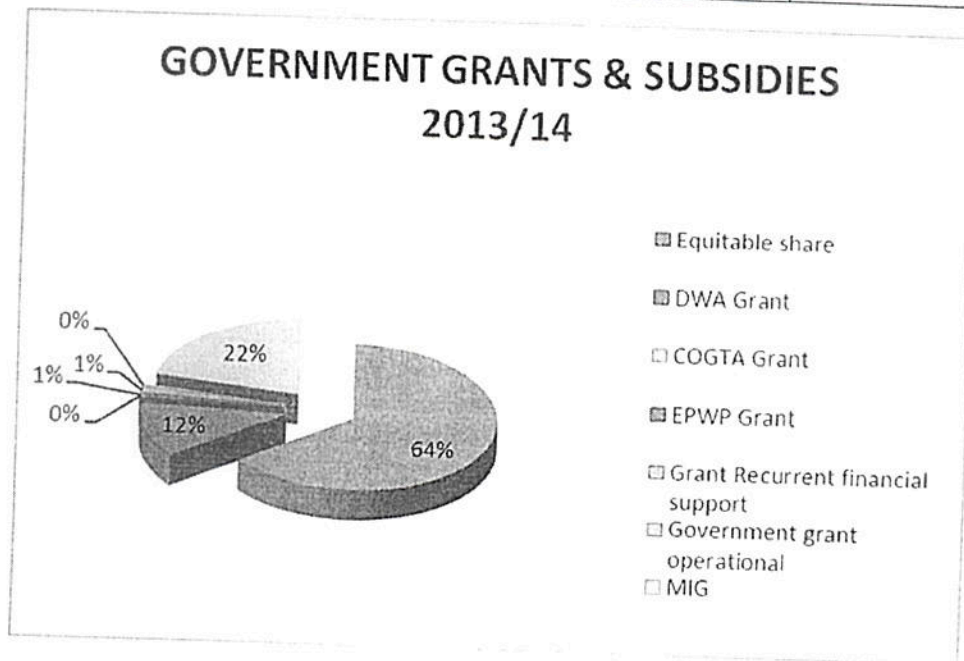
# Dihlabeng Local Municipality

## Annual Financial Statements for the year ended 30 June 2014

### 2.4 Government grants and subsidies

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

Description	2013/14	2012/13
Equitable share	129,734,000	129,367,000
DWA Grant	24,576,592	38,294,476
COGTA Grant	0	1,286,362
Grant national road subsidy	1,000,000	1,000,000
Grant Recurrent financial support	2,440,000	2,300,000
Government Grant Operational	821,714	338,764
MIG	43,200,039	51,733,000
	<b>201,772,345</b>	<b>224,319,602</b>



# Dihlabeng Local Municipality

## Annual Financial Statements for the year ended 30 June 2014

### 2.4 Operating statement analysis

The following difference occurred with regards to the operating results for the 2013/14 financial year. Please refer to pages 18 to 22 of the financial statements.

	Final Adjustment budget	Virements (i.t.o council approved policy)	Final budget	Actual outcomes	Unauthorised expenditure	Variations	Actual outcome as % of final budget	Reasons for variances
Property rates	78 444	-	78 444	76 851	-	-1 593	98%	within 10%
Services charges	307 704	-	307 704	304 351	-	-3 353	99%	within 10%
Investment revenue	25 085	-	25 085	27 014	-	1 929	108%	within 10%
Transfers recognised - operational	134 312	-	134 312	133 996	-	-316	100%	within 10%
Other own revenue	24 830	-	24 830	20 780	-	-4 050	84%	VAT on MIG incorrectly recognised as revenue
<b>Total Inc (Excl capital transfers and contributions)</b>	<b>570 375</b>	<b>-</b>	<b>570 375</b>	<b>562 992</b>	<b>-</b>	<b>-7 384</b>	<b>99%</b>	
Employees cost	165 418	-	165 418	172 725	7 306	7 306	104%	within 10%
Remuneration of councillors	12 280	-	12 280	12,739	459	459	104%	within 10%
Debt impairment	101 100	-	101 100	107,163	-	6 063	106%	within 10%
Depreciation and asset impairment	70 369	-	70 369	67,657	-	(2 712)	96%	within 10%
Finance charges	4 734	-	4 734	14,606	9 872	9 872	309%	Due to cash-flow problems payments could not be made as required to Eskom and DBSA
Materials and bulk purchases	124 059	-	124 059	115,933	-	(8 125)	93%	within 10%
Transfers and grants	14 452	-	14 452	8,443	-	(6 009)	58%	Less than expected people applied for the grants
Other expenditure	145 545	-	145 545	142,074	(3 471)	(3 471)	98%	within 10%
<b>TOTAL EXP</b>	<b>637 956</b>	<b>-</b>	<b>637 956</b>	<b>641,339</b>	<b>14 166</b>	<b>3 383</b>	<b>101%</b>	

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## 3. DEBTORS

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

Description	2013/14	2012/13
Service charges: Consumer debtors	412,271,236	365,063,447
Balance on 1 July	404,831,330	372,707,188
Balance on 30 June	472,941,911	404,831,330
Average balance	438,886,621	388,769,259
Days in the financial year	365	365
Turnover: Number of days	389	389
Turnover: Number of times (charges/average balance)	0.94	0.94

From the table it is clear that, the number of days to recover remained the same at 389 days since 2012/13. This high turnover has serious implications on the cash flow of the Municipality. A collection rate calculated on the total levies for a period compared to the total payments received during the same period is used to measure revenue recovery. The credit control by-law and the actions taken in terms of the by-law started producing better results. Measures have been put in place to recover the debts and the legal actions taken are starting to have an impact on the poor payment culture within our municipality. The increase in debtors has a serious impact on the going concern of the municipality.

## 4. CAPITAL EXPENDITURE AND FINANCING

The Municipality's original approved Capital Expenditure Budget for 2013/14 amounted to R 91,6 million and was accepted by National Treasury.

Of these funds the MIG funding of R 43,2 million was spent in the 2013/14 financial year and R 24,6 million was spent from DWA funding.

### Conclusion:

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## 5. ACCOUNTING RATIOS

### 5.1 Current asset ratio

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

DESCRIPTION	2013/14	2012/13
<b>CURRENT ASSETS:</b>		
Cash	143,266	130,566
Inventory	1,155,343	1,393,715
Consumer Debtors	66,264,599	62,064,411
Receivables from exchange transactions	22,384,445	11,669,892
Other financial assets	892,353	841,473
Other receivables from exchange transactions	3,425,733	3,785,406
<b>Total</b>	<b>94,265,739</b>	<b>79,885,463</b>
<b>CURRENT LIABILITIES:</b>		
Creditors	191,313,083	183,569,747
Unspent conditional grants and receipts	9,779,660	7,173,047
Other financial liabilities	17,369,115	8,066,746
Taxes and transfers payable	23,508,648	15,247,519
Consumer deposits	3,715,810	3,774,277
Overdrawn cash book balance	9,986,891	2,375,252
<b>Total</b>	<b>255,673,207</b>	<b>220,206,588</b>
Net Operating Capital	(161,407,468)	(140,321,125)
Current asset Ratio	0,37 : 1	0,36 : 1

The ratio improved slightly since 2012/13. This is due to the fact that the current liabilities increased with 16% whilst the current assets only increased with 18%. The small increase in current assets can mainly be ascribed to the large provisions that had to be made towards debt impairment of R 101 million, this despite the fact that the municipality wrote off indigent debt of R 37 million amounting the total debt that could not be recovered to R 138 million, which equates to R 11,5 million per month, more than our bulk electricity purchases per month. The increase in current liabilities mainly lies with the increase in the creditors' balance, which is a direct impact of the non-payment of consumer services. The municipality has prioritised this fact of its business to ensure the sustainability of the municipality.

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## 5.2 Quick asset ratio (Acid test)

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

DESCRIPTION	2013/14	2012/13
Current assets	94,265,739	79,885,463
Less: Inventory	1,155,343	1,393,715
Total	93,110,396	78,491,748
Current liabilities	255,673,207	220,206,588
Quick asset ratio	0,36 : 1	0,36 : 1

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

## 5.3 Solvability

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

DESCRIPTION	2013/14	2012/13
<b>TOTAL ASSETS:</b>		
Current assets	94,265,739	79,885,463
Non-current assets	1,928,866,494	1,919,694,821
Total	2,023,132,233	1,999,580,284
<b>TOTAL LIABILITIES:</b>		
Current liabilities	255,673,207	220,206,588
Plus: Long-term loans	32,056,461	36,849,522
Non-current provisions	3,215,748	2,312,940
Total	290,945,416	259,369,050
Solvability Ratio	6,95 : 1	7,71 : 1

The total assets of the Municipality increased with 1,18% while the total liabilities increased with 12% resulting in a decrease in the solvability ratio as stated above. Non-current assets increased with 0,48% while external loans decreased with 13%.



# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## 5.4 Total debt to total revenue ratio

According to credit rating companies, the benchmark for local government is a ratio of less than 50%. The ratio increased from 7,78% to 9,42% since 2012/13. This increase can be ascribed to the fact that the total debt increased with 26% in relation to the increase of 4% in total revenue.

DESCRIPTION	2013/14	2012/13
Total debt	59,412,467	47,291,520
Total revenue	630,768,166	607,551,749
Ratio	9.42%	7.78%

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

DESCRIPTION	2013/14	2012/13
Cash book overdraft plus short term portion of long-term loans	27,356,006	10,441,998
Total revenue	630,768,166	607,551,749
Ratio	4.34%	1.72%

According to credit rating companies, the benchmark is a ratio of less than 5%. The ratio increased due to a negative cash book balance at the end of the financial year.

## 5.6 Cash to interest coverage

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

DESCRIPTION	2013/14	2012/13
Cash generated from operations (Nett cash flow)	508,305,875	508,536,615
Interest paid on external loans	14,606,264	10,790,747
Ratio	34,80 : 1	47,12 : 1

The ratio shows a decrease as the interest paid on external loans increased with 35% and the cash generated from operations showed a slight decrease since 2012/13.

## 5.7 Net debtors to total annual operating revenue

DESCRIPTIONS	2013/14	2012/13
Annual operating revenue	630,768,166	607,551,749
Debtors (excluding provision for bad debt)	472,941,911	404,831,330
Percentage	74.98%	66.63%

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

This ratio had an increase of 8,35%. This is a clear indication that the debt collection process of the municipality has been improved but however still needs to be improved even more.

## 6. CHALLENGES EXPERIENCED DURING 2013/14

### 6.1 GOING CONCERN ISSUES

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

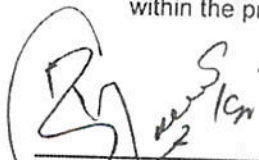
- The government subsidies equate to 32% of our income. The situation showed a decrease as the 2012/13 financial year the percentage was 37%. This means that there was a lesser reliance by the municipality on government grants. However the decrease was largely due a decrease in the DWA.
- With reference to 5.2 (Quick asset ratio), the ratio of 0,36 : 1 is still a poor given the norm of 1 : 1. The recoverability of our debtors still remains a problem hence the large provision for doubtful debts.
- Our overdrawn cash book balance plus short portion of long-term debt to operating revenue ratio (section 5.5 above) shows an increase from 1,72% (2012/13) to 4,34% (2013/14).
- Although the personnel costs are within the norm of 30%. The ratio is still too high due to the impairment of debt and the municipality should make all possible efforts to reduce it to at least 30% excluding impairment of debt in the next financial year to ensure that the municipality is able to meet all its financial obligations. (Refer to 2.3 for more detail)

### 6.2 IMPLEMENTATION OF ACCOUNTING STANDARDS

The Municipality had to comply with the accounting framework as set out in paragraph 1 of the Accounting policies as contained in the Annual Financial Statements of 2013/14. This accounting framework was determined in Directive 5 issued by the Accounting Standards Board on 31 March 2009.

## 7. APPRECIATION

I am grateful to the Executive Mayor, Members of the Mayoral Committee, Councillors, previous Councillors, Office of the Municipal Manager, Directors, Managers, especially the Acting Financial Manager, the newly appointed Asset Manager and their teams for putting in long hours and the staff for the support they have given me and my personnel during the 2013/14 financial year. A special word of appreciation to everybody for the months of hard work, sacrifices and concentrated efforts during the financial year to enable my office to finalise and submit the annual financial statements within the prescribed period of 2 months after year end (i.e. 31 August).



**BENNETT MOLOTSI**  
MUNICIPAL MANAGER

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents			
Trade receivables	2	143,266	130,566
Inventories	3	66,264,599	62,064,411
Other financial assets	4	1,155,343	1,393,715
Other receivables from exchange transactions	5	892,353	841,473
Receivables from non-exchange transactions	6	22,384,445	11,669,892
	7	3,425,733	3,785,406
		<b>94,265,739</b>	<b>79,885,463</b>
<b>Non-Current Assets</b>			
Intangible assets			
Investment property	8	103,620	43,935
Other financial assets	9	76,471,194	76,471,194
Property, plant and equipment	5	404,089	315,343
Biological assets that form part of an agricultural activity	10	1,849,092,140	1,841,714,148
Heritage assets	49	2,795,450	1,150,200
	11	1	1
		<b>1,928,866,494</b>	<b>1,919,694,821</b>
<b>Non-Current Assets</b>		<b>1,928,866,494</b>	<b>1,919,694,821</b>
<b>Current Assets</b>		<b>94,265,739</b>	<b>79,885,463</b>
<b>Non-current assets held for sale (and) (assets of disposal groups)</b>			
<b>Total Assets</b>		<b>2,023,132,233</b>	<b>1,999,580,284</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Bank overdraft			
Consumer deposits	2	9,986,891	2,375,252
Other financial liabilities	12	3,715,810	3,774,277
Payables from exchange transactions	13	17,369,115	8,066,746
Unspent conditional grants and receipts	14	191,313,083	183,569,747
VAT payable	15	9,779,660	7,173,047
	16	23,508,648	15,247,519
		<b>255,673,207</b>	<b>220,206,588</b>
<b>Non-Current Liabilities</b>			
Long service awards			
Other financial liabilities	17	11,428,000	7,505,000
Provisions	13	32,056,461	36,849,522
Employee benefit obligation	18	3,215,748	2,312,940
	19	23,352,000	27,375,000
		<b>70,052,209</b>	<b>74,042,462</b>
<b>Non-Current Liabilities</b>		<b>70,052,209</b>	<b>74,042,462</b>
<b>Current Liabilities</b>		<b>255,673,207</b>	<b>220,206,588</b>
<b>Liabilities of disposal groups</b>			
<b>Total Liabilities</b>		<b>325,725,416</b>	<b>294,249,050</b>
<b>Assets</b>		<b>2,023,132,233</b>	<b>1,999,580,284</b>
<b>Liabilities</b>		<b>(325,725,416)</b>	<b>(294,249,050)</b>
<b>Net Assets</b>		<b>1,697,406,817</b>	<b>1,705,331,234</b>
<b>Net Assets</b>			
Accumulated surplus		<b>1,697,406,817</b>	<b>1,705,331,234</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013
<b>Revenue</b>			
Service charges	22	304,350,641	271,130,670
Rendering of services		1,349,895	1,543,677
Debtors written back		6,079,980	5,849,451
Rental of facilities and equipment		4,055,233	3,555,596
Interest received - accounts receivable		27,014,225	23,060,999
Licences and permits		200,544	86,343
Other income	24	4,017,671	3,478,154
Interest received - investment		10,706	11,095
Dividends received		5,860	5,460
Property rates	21	76,851,137	67,316,182
Government grants & subsidies	23	201,772,345	224,319,602
Fines		5,059,929	7,194,520
<b>Total revenue</b>		<b>630,768,166</b>	<b>607,551,749</b>
<b>Expenditure</b>			
Employee costs	26	(172,724,656)	(159,637,866)
Remuneration of councillors	27	(12,738,779)	(12,183,202)
Depreciation, impairment and amortisation	31	(67,657,047)	(71,181,405)
Finance costs	32	(14,606,264)	(10,790,747)
Debt impairment	28	(107,162,509)	(86,051,120)
Repairs and maintenance		(16,202,701)	(22,497,927)
Bulk purchases	36	(115,933,357)	(108,908,216)
Contracted services	35	(2,587,729)	(2,008,159)
Grants and subsidies paid		(8,442,645)	(9,138,285)
General expenses	25	(123,283,623)	(128,519,714)
<b>Total expenditure</b>		<b>(641,339,310)</b>	<b>(610,916,641)</b>
Total revenue		-	-
Total expenditure		630,768,166	607,551,749
<b>Operating deficit</b>		<b>(641,339,310)</b>	<b>(610,916,641)</b>
(Loss) gain on disposal of assets and liabilities		(10,571,144)	(3,364,892)
Fair value adjustments		(3,991,604)	778,651
Actuarial gain	30	129,079	105,932
Fair value adjustment of game stock		4,864,000	-
		1,645,250	(149,700)
<b>Deficit before taxation</b>		<b>2,646,725</b>	<b>734,883</b>
Taxation		(7,924,419)	(2,630,009)
<b>Deficit for the year</b>		<b>(7,924,419)</b>	<b>(2,630,009)</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2012		
Changes in net assets	1,707,961,243	1,707,961,243
Deficit for the year	(2,630,009)	(2,630,009)
Total changes	(2,630,009)	(2,630,009)
Balance at 01 July 2013		
Changes in net assets	1,705,331,236	1,705,331,236
Surplus for the year	(7,924,419)	(7,924,419)
Total changes	(7,924,419)	(7,924,419)
Balance at 30 June 2014	1,697,406,817	1,697,406,817
Note(s)		

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Cash Flow Statement

Figures in Rand

	Note(s)	2014	2013
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services			
Grants		285,338,769	272,386,647
Interest income		195,936,313	213,072,414
Dividends received		27,024,933	23,072,094
		5,860	5,460
		<u>508,305,875</u>	<u>508,536,615</u>
<b>Payments</b>			
Employee costs			
Suppliers		(185,463,435)	(171,821,068)
Finance costs		(236,787,626)	(232,443,902)
		(14,606,264)	(10,790,747)
		<u>(436,857,325)</u>	<u>(415,055,717)</u>
Total receipts		508,305,875	508,536,615
Total payments		(436,857,325)	(415,055,717)
<b>Net cash flows from operating activities</b>	37	<u>71,448,550</u>	<u>93,480,898</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(83,509,950)	(105,325,507)
Proceeds from sale of property, plant and equipment	10	50,000	1,946,469
Purchase of other intangible assets	8	(86,300)	-
Purchase of financial assets		159	128
		<u>159</u>	<u>128</u>
<b>Net cash flows from investing activities</b>		<u>(83,556,797)</u>	<u>(103,390,005)</u>
<b>Cash flows from financing activities</b>			
Increase of other financial liabilities		4,509,308	4,120,753
<b>Net cash flows from financing activities</b>		<u>4,509,308</u>	<u>4,120,753</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>(7,598,939)</u>	<u>(5,788,354)</u>
Cash and cash equivalents at the beginning of the year		(2,244,686)	3,543,668
<b>Cash and cash equivalents at the end of the year</b>	2	<u>(9,843,625)</u>	<u>(2,244,686)</u>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments s31 of the MFMA	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2014</b>											
<b>Financial Performance</b>											
Property rates	76,950,250	1,493,661	76,443,911	-	-	76,443,911	76,851,137	-	(1,592,774)	98 %	100 %
Service charges	301,775,748	5,928,184	307,703,932	-	-	307,703,932	304,350,641	-	(3,353,291)	99 %	101 %
Investment revenue	25,085,106	-	25,085,106	-	-	25,085,106	27,030,791	-	1,945,685	108 %	108 %
Transfers recognised - operational	132,174,000	-	132,174,000	-	-	132,174,000	133,995,714	-	1,821,714	101 %	101 %
Other own revenue	19,358,018	7,610,080	26,968,098	-	-	26,968,098	27,401,581	-	433,483	102 %	142 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>555,343,122</b>	<b>15,031,925</b>	<b>570,375,047</b>	-	-	<b>570,375,047</b>	<b>569,629,864</b>	-	<b>(745,183)</b>	<b>100 %</b>	<b>103 %</b>
Employee costs	(154,827,856)	(3,794,390)	(158,622,246)	-	-	(158,622,246)	(172,724,656)	(14,102,410)	(14,102,410)	109 %	112 %
Remuneration of councillors	(18,251,007)	-	(18,251,007)	-	-	(18,251,007)	(12,738,779)	-	5,512,228	70 %	70 %
Debt impairment	(53,283,277)	(44,593,727)	(97,877,004)	-	-	(97,877,004)	(107,162,509)	(9,285,505)	(9,285,505)	109 %	201 %
Depreciation and asset impairment	(41,083,059)	(29,284,938)	(70,367,997)	-	-	(70,367,997)	(67,657,047)	-	2,710,950	96 %	165 %
Finance charges	(4,733,954)	-	(4,733,954)	-	-	(4,733,954)	(14,606,264)	(9,872,310)	(9,872,310)	309 %	309 %
Materials and bulk purchases	(124,058,665)	-	(124,058,665)	-	-	(124,058,665)	(115,933,357)	-	8,125,308	93 %	93 %
Other expenditure	(140,655,089)	(12,720,745)	(153,375,834)	-	-	(153,375,834)	(154,508,302)	(1,132,468)	(1,132,468)	101 %	110 %
<b>Total expenditure (excluding capital transfers and contributions)</b>	<b>(536,892,907)</b>	<b>(90,393,800)</b>	<b>(627,286,707)</b>	-	-	<b>(627,286,707)</b>	<b>(645,330,914)</b>	<b>(34,392,693)</b>	<b>(18,044,207)</b>	<b>103 %</b>	<b>120 %</b>
Total revenue (excluding capital transfers and contributions)	555,343,122	15,031,925	570,375,047	-	-	570,375,047	569,629,864	-	(745,183)	100 %	103 %
<b>Surplus/(Deficit)</b>	<b>(536,892,907)</b>	<b>(90,393,800)</b>	<b>(627,286,707)</b>	-	-	<b>(627,286,707)</b>	<b>(645,330,914)</b>	<b>(34,392,693)</b>	<b>(18,044,207)</b>	<b>103 %</b>	<b>120 %</b>
	<b>18,450,215</b>	<b>(75,361,875)</b>	<b>(56,911,660)</b>	-	-	<b>(56,911,660)</b>	<b>(75,701,050)</b>	<b>(18,789,390)</b>	<b>(18,789,390)</b>	<b>133 %</b>	<b>(410)%</b>

## Dinlhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. s28 and s31 of the MFMA)	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	73,196,000	-	73,196,000	-	-	73,196,000	67,776,631	-	(5,419,369)	93 %	93 %
Contributions recognised - capital and contributed assets	(73,196,000)	-	(73,196,000)	-	-	(73,196,000)	(67,776,631)	-	5,419,369	93 %	93 %
<b>Surplus/(Deficit)</b>	<b>18,450,215</b>	<b>(75,361,875)</b>	<b>(56,911,660)</b>	<b>-</b>	<b>-</b>	<b>(56,911,660)</b>	<b>(75,701,050)</b>	<b>-</b>	<b>(18,789,390)</b>	<b>133 %</b>	<b>(410)%</b>
Capital transfers and contributions	(18,450,215)	-	(18,450,215)	-	-	(18,450,215)	(15,819,619)	-	2,630,596	86 %	86 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>-</b>	<b>(75,361,875)</b>	<b>(75,361,875)</b>	<b>-</b>	<b>-</b>	<b>(75,361,875)</b>	<b>(91,520,669)</b>	<b>-</b>	<b>(16,158,794)</b>	<b>121 %</b>	<b>DIV/0 %</b>
Surplus (Deficit) after capital transfers and contributions	-	(75,361,875)	(75,361,875)	-	-	(75,361,875)	(91,520,669)	-	(16,158,794)	121 %	DIV/0 %
<b>Surplus/(Deficit) for the year</b>	<b>-</b>	<b>(75,361,875)</b>	<b>(75,361,875)</b>	<b>-</b>	<b>-</b>	<b>(75,361,875)</b>	<b>(91,520,669)</b>	<b>-</b>	<b>(16,158,794)</b>	<b>121 %</b>	<b>DIV/0 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	(91,646,215)	-	(91,646,215)	-	-	(91,646,215)	(83,596,250)	-	8,049,965	91 %	91 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	73,196,000	-	73,196,000	-	-	73,196,000	67,776,631	-	(5,419,369)	93 %	93 %
Internally generated funds	18,450,215	-	18,450,215	-	-	18,450,215	15,819,619	-	(2,630,596)	86 %	86 %
<b>Total sources of capital funds</b>	<b>91,646,215</b>	<b>-</b>	<b>91,646,215</b>	<b>-</b>	<b>-</b>	<b>91,646,215</b>	<b>83,596,250</b>	<b>-</b>	<b>(8,049,965)</b>	<b>91 %</b>	<b>91 %</b>



## Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s31 of the MFMA)	Final adjustments (i.t.o. s28 and budget s31 of the MFMA)	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	96,380,168	-	96,380,168	-	-	96,380,168	71,448,550	(24,931,618)	(24,931,618)	74 %	74 %
Net cash from (used) investing	(91,646,215)	-	(91,646,215)	-	-	(91,646,215)	(83,556,797)	8,089,418	8,089,418	91 %	91 %
Net cash from (used) financing	(4,733,953)	-	(4,733,953)	-	-	(4,733,953)	4,509,308	9,243,261	9,243,261	(95)%	(95)%
<b>Net increase/(decrease) in cash and cash equivalents</b>	-	-	-	-	-	-	<b>(7,598,939)</b>	<b>(7,598,939)</b>	<b>(7,598,939)</b>	<b>DIV/0 %</b>	<b>DIV/0 %</b>
Cash and cash equivalents at the beginning of the year	(2,244,686)	-	(2,244,686)	-	-	(2,244,686)	(2,244,686)	-	-	100 %	100 %
Net increase / (decrease) in cash and cash equivalents	-	-	-	-	-	-	(7,598,939)	7,598,939	7,598,939	DIV/0 %	DIV/0 %
Cash and cash equivalents at the beginning of the year	(2,244,686)	-	(2,244,686)	-	-	(2,244,686)	(2,244,686)	-	-	100 %	100 %
<b>Cash and cash equivalents at year end</b>	<b>(2,244,686)</b>	<b>-</b>	<b>(2,244,686)</b>	<b>-</b>	<b>-</b>	<b>(2,244,686)</b>	<b>(9,843,625)</b>	<b>7,598,939</b>	<b>7,598,939</b>	<b>439 %</b>	<b>439 %</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered in audited outcome
<b>2013</b>			
<b>Financial Performance</b>			
Property rates			67,316,182
Service charges			271,130,670
Investment revenue			23,077,554
Transfers recognised - operational			133,005,764
Other own revenue			22,442,624
<b>Total revenue (excluding capital transfers and contributions)</b>			<b>516,972,794</b>
Employee costs			(159,637,866)
Remuneration of councillors			(12,183,202)
Debt impairment			(86,051,120)
Depreciation and asset impairment			(71,181,405)
Finance charges			(10,790,747)
Materials and bulk purchases			(108,908,216)
Transfers and grants			-
Other expenditure			-
<b>Total expenditure</b>			<b>(162,164,085)</b>
<b>Total revenue (excluding capital transfers and contributions)</b>			<b>(610,916,641)</b>
<b>Total expenditure</b>			<b>516,972,794</b>
<b>Surplus/(Deficit)</b>			<b>(610,916,641)</b>
Transfers recognised - capital			(93,943,847)
Surplus/(Deficit)			91,313,838
Capital transfers and contributions			-
<b>Surplus (Deficit) after capital transfers and contributions</b>			<b>(93,943,847)</b>
Surplus (Deficit) after capital transfers and contributions			91,313,838
<b>Surplus/(Deficit) for the year</b>			<b>(2,630,009)</b>
			(2,630,009)
			(2,630,009)

**Dihlabeng Local Municipality**  
Annual Financial Statements for the year ended 30 June 2014  
**Appropriation Statement**

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered in audited outcome
<b>Capital expenditure and funds sources</b>			
Total capital expenditure			
Sources of capital funds			(105,325,507)
Transfers recognised - capital		91,313,838	
Internally generated funds		14,011,669	
<b>Total sources of capital funds</b>		<b>105,325,507</b>	
<b>Cash flows</b>			
Net cash from (used) operating			93,480,898
Net cash from (used) investing			(103,390,005)
Net cash from (used) financing			4,120,753
<b>Net increase/(decrease) in cash and cash equivalents</b>			<b>(5,788,354)</b>
Cash and cash equivalents at the beginning of the year			3,543,668
Net increase / (decrease) in cash and cash equivalents			(5,788,354)
Cash and cash equivalents at the beginning of the year			3,543,668
<b>Cash and cash equivalents at year end</b>			<b>(2,244,686)</b>

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting using the going concern basis and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. Rounding is done to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

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

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

##### Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the 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 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.

##### 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.

##### Fair value estimation

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

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

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

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.1 Transfer of functions between entities under common control (continued)

#### Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. 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 including maintenance, changes in technology, market conditions, together with economic factors such as interest rate fluctuations.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

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

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

#### Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

#### Effective interest rate

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

#### Allowance for doubtful debts

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

### 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
- 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.

# Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2014

## Accounting Policies

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### 1.2 Investment property (continued)

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

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

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

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

#### Fair value

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

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

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

### 1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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.

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

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

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

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:

Item	Average useful life
Infrastructure solid waste - Land	
• Community Assets	Infinite
• Operational	Infinite
Community Assets - Buildings	
• Community Assets	5 - 50
• Operational	5 - 50
Plant and equipment	2 - 37
Furniture and equipment	5 - 22
Motor vehicles	5 - 22
Office equipment	5 - 22
Infrastructure Roads	
• Electricity	5 - 50
• Sewer	5 - 50
• Roads and Storm Water	7 - 80
• Water	5 - 100
• Solid Waste - Land	Infinite
• Solid Waste - Buildings	5 - 50
Emergency Equipment	15 - 22
Bins and containers	5 - 22
Security - Equipment	22

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.

The useful lives are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and the required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual value are determined other than for motor vehicles.

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.

Items of municipality 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.

The increase in the fair value of game stock was done in accordance with the latest available prices of game auctions

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## Accounting Policies

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### 1.4 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.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

An intangible asset 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:

Item	Useful life
Computer software, other	3 years

### 1.5 Heritage assets

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

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

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

#### 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.