



**Baviaans Local Municipality**  
Annual Financial Statements  
for the period ended 30 June 2012

Auditor-General: Eastern Cape  
Issued 21 September  
2012

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## General Information

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<b>Legal form of entity</b>	Local Authority
<b>Mayoral committee</b>	
Executive Mayor	EL Loock
Councillors	D Bezuidenhout H Booyen M Fivaz GA Hobson V Lapperts T Spogter
<b>Grading of local authority</b>	Grade 1
<b>Accounting Officer</b>	JZA Vumazonke
<b>Chief Finance Officer (CFO)</b>	JD Doyle
<b>Registered office</b>	42 Wehmeyer Street Willowmore 6445
<b>Business address</b>	42 Wehmeyer Street Willowmore 6445
<b>Bankers</b>	ABSA Bank Willowmore
<b>Auditors</b>	Auditor-General: Eastern Cape
<b>Attorneys</b>	Steyn and Van der Vyver Willowmore

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Index

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The reports and statements set out below comprise the annual financial statements presented to the Auditor General:

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	5
Accounting Officer's Report	6 – 7
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Accounting Policies	12 – 36
Notes to the Annual Financial Statements	37 – 60
Appendixes:	
Appendix A: Schedule of External loans	61
Appendix B: Analysis of Property, Plant and Equipment	62
Appendix C: Actual versus Budget (Revenue and Expenditure)	63
Appendix D: Actual versus Budget (Acquisition of Property, Plant and Equipment)	64
Appendix E: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	65

### Abbreviations

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

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the prescripts of the Municipal Finance Management Act.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 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 accounting officer is primarily responsible for the financial affairs of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 10 October 2012 and were signed on:



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**Municipal Manager**  
**J.Z.A. Vumazonke**

**Willowmore**

**10 October 2012**

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Officer's Report

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

### 1. Review of activities

#### Legal form of entity

Baviaans Local Municipality is a low capacity municipality and delivers basic services such as water, electricity and refuse removal services to the Willowmore, Steytlerville and Rietbron region.

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

### 2. Going concern

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

### 3. Subsequent events

During the year the municipality faced significant cash flow constraints, primarily due to the following:

- Additional costs incurred in servicing former DMA (Rietbron, Vondeling & Miller) which was transferred to the Baviaans Municipality after 18 May 2011
- Compliance with GRAP which required appointment of consultants to assist, restructuring which impacted on personnel costs and attending to IT system problems
- Compliance issues in respect of legislation relating to E-Natis infill sites, fire services, sewerage works and motor vehicle testing; as well as additional staff that needed to be appointed in terms of legislative requirements which further impacted on personnel costs
- Unforeseen costs which were not budgeted for, including audit fees which were far in excess of the 1% of turnover budgeted for and
- Legal costs pertaining to the court case where the municipality's rights to water are being contested.

The executives of the municipality together with council have pursued various avenues, including the Cacadu District Municipality, Department of Provincial and Local Government as well as Provincial and National Treasury in seeking a financial solution to the challenges faced by the municipality.

A detailed financial recovery plan has been drafted which is actively being implemented and progress monitored by dedicated Task Team which includes delegates from the Baviaans Municipality, CDM and Provincial Treasury. A realistic three year budget has been adopted for the purposes of achieving financial recovery, while efforts are under way to upgrade the standard of financial administration and systems at the municipality.

Management and council have again committed themselves to achieving a clean audit and compliance with Provincial and National Treasury requirements. To this end, a dedicated resource from National Treasury has been deployed to the municipality to assist with compliance related matters.

### 4. Accounting policies

The annual financial statements prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board as the prescribed framework by National Treasury.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Officer's Report

### 5. Non-current assets

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

Fixed assets were recognised in accordance with GRAP 17: Property, plant and equipment and the transitional provisions of Directive 4.

The transitional provisions are intended to give relief in situations where entities seek to comply with the measurement provisions of the Standard of GRAP on *Property, plant and equipment* on its initial adoption. The transitional provision allows entities a period of up to three years from the date of initial adoption of the Standard of GRAP on *Property, plant and equipment*, to comply in full with its measurement requirements, per class of assets.

The transitional provisions of Directive 4 expired at 30 June 2011. As a consequence the municipality was required to comply fully with the measurement requirements, per class of assets, as required by GRAP 17. However, due to significant financial constraints during the year, the municipality was not in a position to undertake all activities required to ensure full compliance with the stated requirements of the Standard. Hence, the municipality has continued to recognize fixed assets in accordance with GRAP 17 and the transitional provisions of Directive 4.

### 6. Auditors

Auditor-General: Eastern Cape will continue in office for the next financial period.

### 7. Relevant legislation governing the entity's operations

- 1) Constitution of South Africa 1993
- 2) Municipal Finance Management Act No.56 of 2003
- 3) Property Rates Act No. 6 of 2003
- 4) Division of Revenue Act No. 12 of 2009
- 5) Municipal Fiscal Powers and Functions Act No. 12 of 2007
- 6) Municipal Systems Act No. 32 of 2000
- 7) Municipal Structures Act No. 33 of 2000
- 8) Municipal Demarcation Act No. 27 of 1998
- 9) Value Added Tax Act No. 89 of 1991
- 10) Income Tax Act No.58 of 1962

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Position

	Note(s)	2012 R	2011 R
<b>Assets</b>			
<b>Non-Current Assets</b>			
Investment property	9	10,155	10,155
Property, plant and equipment	10	55,529,563	37,739,376
Intangible assets	11	466,343	466,343
		<u>56,006,061</u>	<u>38,215,874</u>
<b>Current Assets</b>			
Inventories	3	18,563	19,723
Other financial assets	4	5,810	5,810
Trade and other receivables from exchange transactions	5	604,003	194,673
VAT receivable from non-exchange transactions	6	148,201	2,936,919
Consumer payables from exchange and non-exchange transactions	7		2,970,167
Cash and cash equivalents	8	109,739	-
		<u>886,316</u>	<u>6,127,292</u>
<b>Total Assets</b>		<u>56,892,378</u>	<u>44,343,166</u>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Finance lease obligation	12	766,456	1,162,597
<b>Current Liabilities</b>			
Finance lease obligation	12	457,455	696,106
Trade and other payables from exchange transactions	13	18,079,057	9,848,142
Consumer deposits	14	145,220	137,165
Unspent conditional grants and receipts	15	5,193,643	3,219,697
Provisions	16,17	5,300,817	423,128
Bank overdraft	8	-	289,375
VAT payable from non-exchange transactions	6		
		<u>29,175,991</u>	<u>14,613,613</u>
<b>Total Liabilities</b>		<u>29,942,448</u>	<u>15,776,210</u>
<b>Net Assets</b>		<u>26,949,930</u>	<u>28,566,956</u>
<b>Net Assets</b>			
Accumulated surplus		<u>26,949,930</u>	<u>28,566,956</u>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Performance

	Note(s)	2012 R	2011 R
<b>Revenue</b>			
Property rates	22	1,917,965	2,955,267
Service charges	22	13 244 212	7,724,389
Rental of facilities and equipment	23	86 211	64,756
Interest earned	24	406 810	675,679
Income from agency services			256,610
Fines		12,970	11,750
Licences and permits		2 722 763	518,028
Government grants & subsidies	25	34 913 631	26,339,953
Adjustment to trade and other payables			4,199,554
Other income	26	3 226 911	2,061,493
<b>Total Revenue</b>		<b>56 531 472</b>	<b>44,807,479</b>
<b>Expenditure</b>			
Employee related costs	28	(22 680 882)	(14,486,046)
Remuneration of councillors	29	(977 759)	(1,042,232)
Finance costs	30	(520,469)	(524,687)
Debt impairment	31	(3 789 985)	(883,862)
Repairs and maintenance			(2,747,700)
Bulk purchases		(6,658,458)	(5,530,556)
General expenses	32	(21 432 455)	(14,477,814)
<b>Total Expenditure</b>		<b>(56 060 008)</b>	<b>(39,692,897)</b>
<b>Surplus / (deficit) for the year</b>		<b>471 464</b>	<b>5,114,582</b>



# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
<b>Balance at 01 July 2010</b>	<b>23,452,374</b>	<b>23,452,374</b>
Changes in net assets		
Surplus for the year	5,114,580	5,114,580
Total changes	5,114,580	5,114,580
<b>Balance at 01 July 2011</b>	<b>28 769 640</b>	<b>28,566,954</b>
Changes in net assets	(2 291 174)	
Deficit for the year	471 463	(4,096,825)
Total changes	(1 819 711)	(4,096,825)
<b>Balance at 30 June 2012</b>	<b>26 949 929</b>	<b>24,470,129</b>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Cash Flow Statement

	Note(s)	2012 R	2011 R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		50 019 279	39,025,261
Interest income	24	312 161	325,177
Interest received from receivables		94 648	350,502
		<b>50 426 089</b>	<b>39,700,940</b>
<b>Payments</b>			
Suppliers		(30 919 652)	(35,014,496)
Finance costs	28	(520,468)	(218,752)
		<b>(31 440 121)</b>	<b>(35,233,248)</b>
<b>Net cash flows from operating activities</b>	33	<b>18 985 968</b>	<b>4,467,692</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(17,790,189)	(11,842,665)
Proceeds from sale of financial assets		-	7,288,886
<b>Net cash flows from investing activities</b>		<b>(17,790,189)</b>	<b>(4,553,779)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		-	(6,707)
Finance lease payments		(942,187)	(390,046)
<b>Net cash flows from financing activities</b>		<b>(942,187)</b>	<b>(396,753)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>399 113</b>	<b>(482,840)</b>
Cash and cash equivalents at the beginning of the year		(289,375)	193,465
<b>Cash and cash equivalents at the end of the year</b>	8	<b>109 738</b>	<b>(289,375)</b>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1. Presentation of annual financial statements

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

Directive 4 has been consistently applied with prior year even though the transition period has expired on 30 June 2011, due to budget constraints the municipality is still applying Directive 4 and reference is made in the individual section accounting policy detail.

These annual 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 disclosed below.

Going Concern:

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

Comparative information:

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements. When the presentation or classification of items in the annual financial statements are amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

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

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

##### Fair value estimation

Unquoted financial assets are measured at fair value using valuation techniques. Inherent to these techniques are certain uncertainties like time of cash flows and interest rates used for discounting.

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 are 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 (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates and assumptions.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

### Provisions

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

### Useful lives

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

### Rounding

Amounts in the financial statements have been rounded off to the nearest Rand.

### Effective interest rate

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

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

### Allowance for doubtful debts

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables's carrying amount and the present value of the 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 for
- 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. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 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 the net surplus or deficit for the period in which it arises.

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.

### Transitional provision

The municipality changed its accounting policy for investment property in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 and GRAP 16 - Investment Property as issued by the Accounting Standards Board.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in note 9.

Directive 4 has been consistently applied with prior year even though the transition period has expired on 30 June 2011, due to budget constraints the municipality is still applying Directive 4.

In accordance with the transitional provision as per Directive 4 as issued by the Accounting Standards Board, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and investment property has accordingly been recognised at provisional amounts, as disclosed in note 9.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

### 1.3 Property, plant and equipment

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

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

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

Property, plant and equipment 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, its deemed cost is the carrying amount of the asset(s) given up.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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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 is 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 is 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.

Subsequent to initial recognition property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

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

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 municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

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.

A previously recognised impairment loss is reversed when there is an indication that it may no longer exist or may have decreased, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment been recognised in prior years.

### Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 and GRAP 17 - Property, plant and equipment as issued by the Accounting Standard Board.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 10. The municipality recognised property, plant and equipment acquired before 01 July 2008 at a zero value. Subsequently no depreciation was recognised for these assets. These assets will be measured in accordance with GRAP 17 - Property, plant and equipment by the end of the expiry date of the transitional provisions of Directive 4. The municipality recognised property, plant and equipment acquired after 01 July 2008 at its cost price. These items will be measured in accordance with GRAP 17 - Property, plant and equipment by the end of the expiry date of the transitional provisions of Directive 4.

Directive 4 has been consistently applied with prior year even though the transition period has expired on 30 June 2011, due to budget constraints the municipality is still applying Directive 4.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 10.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

### 1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses and development costs.

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 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.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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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.

Subsequent to initial recognition 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.

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:

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.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

A previously recognised impairment loss is reversed when there is an indication that it may no longer exist or may have decreased, however not to an amount higher than the carrying amount that would have been determined (net of amortisation) had no impairment been recognised in prior years.

An intangible asset is 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is included in surplus or deficit when the item is derecognised.

### Transitional provision

The municipality changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board.

According to the transitional provision, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible assets has accordingly been recognised at provisional amounts, as disclosed in note 11.

Directive 4 has been consistently applied with prior year even though the transition period has expired on 30 June 2011, due to budget constraints the municipality is still applying Directive 4.



# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standard Board, where intangible assets were acquired through a transfer of functions, the municipality is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and intangible assets has accordingly been recognised at provisional amounts, as disclosed in note 11.

Until such time as the measurement period expires and intangible assets are recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

### 1.5 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
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### Initial recognition and measurement

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

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

Financial assets and financial liabilities are recognised on the municipality's Statement of Financial Position when the entity becomes party to the contractual provisions of the instrument.

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

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

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

Gains and losses arising from changes in fair value is 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.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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

### 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.

### 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.

The credit quality of a financial asset or group of financial assets that is neither past due nor impaired is assessed / monitored by reference to historical information about counterparty default rates. The following are the criteria and indicators that are applied to assess whether or not the financial asset or group of financial assets may be impaired:

- counterparty has evidenced a trend of defaults that indicates that the recoverability of the outstanding balance of the financial asset or group of financial assets is doubtful; and
- financial difficulties identified from an analysis of the counterparty's financial position that would indicate that the recoverability of the outstanding balance of financial asset or group of financial assets is doubtful.

Impairment losses are recognised in surplus or deficit.

### Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance. The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

### Trade and other receivables

Trade and other receivables are classified as loans and receivables and are measured at initial recognition at fair value plus direct transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment loss to reflect irrecoverable amounts. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable 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.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance 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 the Statement of Financial Performance.

### Trade and other payables

Financial liabilities consist of trade payables and borrowings. Trade payables are initially measured at fair value, and are subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The entity categorises cash and cash equivalents 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 are recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

### 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. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### 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 are recognised in surplus or deficit.

### 1.6 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.

#### Finance leases - lessor

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

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

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### Finance leases - lessee

The following situations would normally individually or in combination lead to a lease being classified as a finance lease and have been considered by the entity:

- \* lease transfers ownership of the asset to the lessee by the end to the lease term;
- \* the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- \* the lease term is for the major part of the economic life of the asset even if title is not transferred;
- \* at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset;
- \* the leased asset is of such a specialised nature that only the lessee can use them without major modifications;
- \* if the lessee can cancel the lease, the lessor's deficits associated with the cancellation are born by the lessee;
- \* gains or deficits from the fluctuation in the fair value of the residual accrue to the lessee; and the
- \* lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

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 municipality's incremental borrowing rate.

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

Contingent rentals are recognised as expenses in the period in which they are incurred and are not included in the straightline lease expense.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The classification of the lease is determined using GRAP 13 Leases

### Operating leases - lessor

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

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

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

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

Any contingent rent is recognised separately as revenue when received or receivable and are not straight-lined over the lease term.

Income for leases are disclosed under revenue in the Statement of Financial Performance.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 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. This asset / liability is not discounted.

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

Contingent rentals are recognised as expenses in the period in which they are incurred and are not included in the straightline lease expense.

### 1.7 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.

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 costs 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.

### Transitional provision

The municipality changed its accounting policy for inventories in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories have accordingly been recognised at provisional amounts, as disclosed in note 3.

Directive 4 has been consistently applied with prior year even though the transition period has expired on 30 June 2011, due to budget constraints the municipality is still applying Directive 4.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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Until such time as the measurement period expires and inventories are recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

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

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

#### Identification

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

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

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

#### Value in use

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

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

#### Discount rate

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### Recognition and measurement (cash-generating units)

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

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

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

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

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

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

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

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

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

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

### Reversal of impairment loss

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

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

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

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

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

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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

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

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

### Redesignation

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

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

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

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

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

GRAP 21.14 states:

"In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return [i.e. not clear if the asset meets the definition of a cash-generating asset]. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash inflows is so significant that this Standard [GRAP 21] is applicable rather than the Standard of GRAP on Impairment of Cash-generating Assets [GRAP 26]. Judgement is needed to determine which Standard to apply [consequently an entity needs to distinguish between non-cash-generating and cash-generating assets]. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of cash-generating assets and non-cash-generating assets with the related guidance in paragraphs .10 to .13. Paragraph .72 requires an entity to disclose the criteria used in making this judgement. However, given the overall objectives of most entities, the presumption is that assets are non-cash-generating and, therefore, this Standard will apply [therefore implying that most entities will only have non-cash-generating assets, therefore no judgement will be required to determine which standard will be applicable – also refer to GRAP 26.15 which is a further testament of this]."

Note that GRAP 26 paragraph 15 is in principle exactly the same as above, therefore it was not included.

From above the following is apparent:

- The judgement that the standard refers to, is in a case where the entity is uncertain whether the asset is used for commercial purposes or not and then the standard requires an entity to evaluate the significance of cash flows generated by the asset, and it is at this point where it may be difficult to determine whether GRAP 21 or GRAP 26 is applicable. (If the asset generated insignificant cash flows from other assets, it will be accounted for under GRAP 21 and not GRAP 26)
- As a result of such judgement to be made by management to determine which standard to use, the criteria used in making the judgement needs to be disclosed in the entity's accounting policy (as required by par. 72 of GRAP 21 and 115 of GRAP 26).
- Therefore if an entity only has non-cash-generating assets and consequently only applies GRAP 21, there is no need to disclose any criteria as there is no uncertainty as to whether the asset is a non-cash-generating asset or a cash-generating asset.
- The same applies if the entity do have a cash-generating asset (the asset does not operate and generate cash flows independently from other assets nor does it form part of a group of assets that generates cash flows independently from other assets, otherwise the asset would have automatically be accounted for under GRAP 26 already). And there was no difficulty in evaluating the significance of cash flows generated by the asset, therefore there is no uncertainty as to whether the asset is a non-cash-generating asset or a cash-generating asset.



# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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If the entity has assets for which it is not clear whether the primary objective of the assets is to generate a commercial return and/or it is difficult to evaluate the significance of cash flows generated by the assets, the following can be used. This can aid management in developing the specific criteria to be used in exercising its judgement (the definition of cash-generating assets and non-cash-generating assets and the related guidance in paragraphs .10 to .13):

- definition of a cash-generating asset and a non-cash-generating asset (therefore identifying the primary objective for which the asset is held)
  - if the primary objective is to generate a commercial return, it is usually a cash-generating asset
  - if the primary objective is to provide service delivery, it is usually a non-cash-generating asset
- where it is established that the asset is held primarily to generate a commercial return, does the asset operate independently from other assets, if so:
  - does the asset generate cash flows independently from other assets, if the answer is yes for both, it is usually a cash-generating asset
- where it is established that the asset is held primarily to generate a commercial return, but the asset does not operate independently from other assets and/or generate cash flows independently from other assets, if so:
  - does the asset form part of a group of assets and the group generates cash flows independently from other assets, if yes, it is usually a cash-generating asset, if not:
  - evaluate the significance of cash flows generated by the asset in a group of assets, if significant, it is treated as a cash-generating asset (under GRAP 26), if insignificant, it is treated as a non-cash-generating asset (under GRAP 21).

In conclusion:

The entity need not disclose criteria it used in distinguishing cash-generating assets from non-cash-generating assets, unless it is not clear whether the primary objective of the assets is to generate a commercial return and/or it is difficult to evaluate the significance of cash flows generated by the assets.

### Identification

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

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

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

### Value in use

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

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

#### Depreciated replacement cost approach

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

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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

### Restoration cost approach

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

### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

### Reversal of an impairment loss

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

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

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

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

### Redesignation

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

## 1.10 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 are 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.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

### Defined contribution plans

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

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

### Other post retirement obligations

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

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

### 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.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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

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

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

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

After their initial recognition, contingent liabilities recognised in business 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 recognised as per notes .

### 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.

#### 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.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 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.

### Interest

Interest is recognised on a time-apportioned basis, in surplus or deficit.

### 1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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

### Measurement

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

### Rates, including collection charges and penalties interest

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 municipality;
- 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 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.

### 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 municipality; and
- the amount of the revenue can be measured reliably.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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The municipality has two types of fines: spot fines and summonses. 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 fine, reduce it or prosecute for non-payment by the offender. An estimate is 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 are recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

### Licenses and permits

Licenses and permits are recognised as revenue 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.

### Government grants

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 municipality,
- 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.

The municipality assesses 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 is only 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 of economic benefits or service potential. Revenue is then only recognised once evidence of the probability of the flow of economic benefits or service potential becomes available.

When government remit grants on a re-imbursment basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

### 1.14 Borrowing costs

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

### 1.15 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

### 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.

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful 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.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 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 incurred in contravention of or that is not in accordance with:

- (a) a requirement of the MFMA (Act No. 56 of 2003), and which has not been condoned in terms of section 170; or
- (b) a requirement of the Municipal System Act (Act No. 32 of 2000), and which has not been condoned in terms of this Act; or
- (c) a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) a requirement of the supply chain management policy of the municipality or any of the municipality's by-law giving effect to such policy, and which has been condoned in terms of such policy or by-law.

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.

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 the 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.

### 1.19 Use of estimates

The preparation of annual 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 annual financial statements are disclosed in the relevant sections of the annual 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 Presentation of currency

These annual financial statements are presented in South African Rand.

### 1.21 Offsetting

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

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.22 Related Parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned or controlled by the South African Government, as a consequence of the constitutional independence of the three spheres of government in South Africa.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. We regard all individuals from the level of Executive Mayor, Municipal Manager and Council Members as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the entity.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered 'at arms-length' and 'in the ordinary course of business' are not disclosed in accordance with IPSAS 20 'Related Party Disclosures'.

### 1.23 Budget information

Comparison of budget and actual amounts are presented in a separate additional annexure: Statement of Comparison of Budget and Actual Amounts.

The entity only presents the final budget amounts. Differences (variances) between the actual amounts and budget amounts are presented.

The financial statements and budget are not presented on the same basis as the financial statements are prepared on accrual basis and the budget on cash basis of accounting. A comparison of budget and actual amounts is presented in the statement of comparison of budget and actual amounts. A reconciliation between the surplus/(deficit) for the period as per Statement of Financial Performance and budgeted surplus/(deficit) is included in the Statement of Comparison of Budget and Actual Amounts.



# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 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 standards that have been issued but are not yet effective but that are relevant to its operations:

##### **GRAP 23: Revenue from Non-exchange Transactions**

This Standard has been approved by the Board but its effective date has been determined by the Minister of Finance. The effective date is for the 30 June 2012.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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**

This Standard has been approved by the Board but its effective date has been determined by the Minister of Finance. The effective date is for the 30 June 2013 year end.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

##### **GRAP 103: Heritage Assets**

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

The effective date is for the 30 June 2013 year end.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

##### **GRAP 21: Impairment of non-cash-generating assets**

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

This Standard has been approved by the Board but its effective date has been determined by the Minister of Finance. The effective date is the 30 June 2013 year end.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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**

Cash-generating assets are those assets held by an 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.

This Standard has been approved by the Board but its effective date has been determined by the Minister of Finance. The effective date is the 30 June 2013 year end.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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The effective date of the standard is for years beginning on or after 01 April 2012. The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

### **GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires a municipality to recognize:

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

This Standard has been approved by the Board but its effective date has been determined by the Minister of Finance. The effective date is the 30 June 2014 year end.

The effective date of the standard is for years beginning on or after 01 April 2013. The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

### **GRAP 104: Financial Instruments**

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

This Standard has been approved by the Board but its effective date has been determined by the Minister of Finance. The effective date is the 30 June 2013 year end.

The effective date of the standard is for years beginning on or after 01 April 2012. The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

### **GRAP 20: Related Party Disclosures**

New standard of GRAP: To ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

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

The entity expects to adopt the standard for the first time once it becomes effective. It is unlikely that the standard will have a material impact on the entity's annual financial statements.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### **GRAP 105: Transfer of Functions between Entities Under Common Control**

The new standard of GRAP: Establishes accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

This standard has been approved by the Council but its effective date has not yet been determined by the Minister of Finance

The entity expects to adopt the standard for the first time once it becomes effective. It is unlikely that the standard will have a material impact on the entity's annual financial statements.

### **GRAP 106: Transfer of Functions between Entities Not Under Common Control**

The new standard of GRAP: Establishes accounting principles for the acquirer in a transfer of functions between entities not under common control.

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

The entity expects to adopt the standard for the first time once it becomes effective. It is unlikely that the standard will have a material impact on the entity's annual financial statements.

### **GRAP 107: Mergers**

The new standard of GRAP: Establishes accounting principles for the combined entity and combining entities in a merger. The standard will be applied to a transaction or event where no acquirer can be identified.

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

The entity expects to adopt the standard for the first time once it becomes effective. It is unlikely that the standard will have a material impact on the entity's annual financial statements.

### **GRAP 18: Segment Reporting**

This Standard has been approved by the Board but its effective date has been delayed by the Minister of Finance as entities are not yet ready to comply with segment reporting. Entities are not required to comply with GRAP 18, nor are they allowed to early adopt the standard.

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

### **Improvements to the Standards of GRAP**

Improvements are proposed to the following standards of GRAP: GRAP 21, 23-24, 26, and 103-104 as part of the ASB's improvement project.

The effective date for the standard is for the years beginning on or after 01 April 2012. The entity expects to adopt the standard for the first time in the 2013 annual financial statements.

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

### **GRAP Standards Issued But Not Yet Effective**

- GRAP 21 Impairment of non-cash-generating assets
- GRAP 23 Revenue from non-exchange transactions (Taxes and Transfers)
- GRAP 24 Presentation of budget information in financial statements
- GRAP 26 Impairment of cash-generating assets
- GRAP 103 Heritage assets
- GRAP 104 Financial Instruments
- GRAP 25 Employee Benefits

The effective date for the standard is for the financial year ended 30 June 2013.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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	2012	2011
	R	R
<b>3. Inventories</b>		
Water	<u>18,563</u>	<u>19,723</u>
<b>4. Other financial assets</b>		
<b>Held to maturity</b>		
Short term fixed deposits	<u>5,810</u>	<u>5,810</u>
This represents monies invested with Standard Bank which mature at various future dates and returns.		

### Fair value information

Financial assets at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

### Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

### Short term deposits

The investment is a 32 day fixed deposits, held at Standard Bank (Acc. 288875729) and bears interest at an average rate of 10.5% per annum. No other financial asset has been pledged as security for financing facilities of the municipality.

The maximum exposure to credit risk at the reporting date is the fair value of the financial asset mentioned above.

### Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 5. Trade and other receivables from exchange transactions

	2012	2011
	R	R
Trade debtors	3 779 500	147,788
Sundry debtors	351 923	50,808
Cacadu claims	153 829	(13,323)
Prepaid expenses	9,400	9,400
Minus Provisions	3 690 648	
	<u>604 003</u>	<u>194,673</u>

#### Trade and other receivables pledged as security

No trade and other receivables were pledged as security for overdraft facilities.

#### Credit quality of trade and other receivables

All of the municipality's trade and other receivables have been reviewed for indicators of impairment. The municipality's management considers that all of the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers, identified group, based on average past payment history and incorporates this information into its credit risk control. No external credit rating is performed. The municipality's policy is to deal only with creditworthy consumers.

#### Trade and other receivables past due but not impaired

There were no trade and other receivables past due but not impaired

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade receivables mentioned above. The municipality does not hold any collateral as security.

### 6. VAT (payable) / receivable from non-exchange transactions

	2012	2011
	R	R
VAT	<u>148 201</u>	<u>2,936,919</u>

VAT is payable on the receipt basis and is paid over to SARS only once payment is received from debtors.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

### 7. Consumer payables

<b>Gross balances</b>	2012 R	2011 R
Rates	1 149 121	935,746
Electricity	234 713	650,596
Water	1 443 648	1,033,793
Sewerage	578 749	475,337
Refuse	678 036	634,176
Other (rental of venues etc.)	(304 768)	141,930
	<b>3 779 500</b>	<b>3,871,578</b>
<b>Less: Provision for debt impairment</b>		
Provision for impairment of assets	(3,690,647)	(901,411)
<b>Net balances</b>		
Rates	27 015	935,746
Electricity	5 518	650,596
Water	33 939	1,033,793
Sewerage	13 606	475,337
Refuse	15 940	634,176
Other (including provision for doubtful debts)	(7 165)	(759,481)
	<b>88 852</b>	<b>2,970,167</b>
<b>Rates</b>		
Current (0 -30 days)	87 425	39,848
31 - 60 days	21,276	27,503
61 - 90 days	25,494	30,382
91 - 120 days	19,748	21,899
121 - 365 days	995,514	816,114
Impairment	-	-
	<b>1 149 456</b>	<b>935,746</b>
<b>Electricity</b>		
Current (0 -30 days)	96 628	149,886
31 - 60 days	6,050	72,997
61 - 90 days	6,883	67,719
91 - 120 days	2,976	32,309
121 - 365 days	122,439	327,685
Impairment	-	-
	<b>234 975</b>	<b>650,596</b>
<b>Water</b>		
Current (0 -30 days)	128 960	77,855
31 - 60 days	72,150	66,613
61 - 90 days	112,920	64,185
91 - 120 days	76,479	37,394
121 - 365 days	1,053,143	787,746
Impairment	-	-
	<b>1 443 651</b>	<b>1,033,793</b>
<b>Sewerage</b>		
Current (0 -30 days)	39 717	35,353
31 - 60 days	19 682	21,958
61 - 90 days	25 792	18,512
91 - 120 days	19 165	12,233
121 - 365 days	474 422	387,281
Impairment	-	-
	<b>578 777</b>	<b>475,337</b>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 7. Consumer payables (continued)

	2012	2011
	R	R
<b>Refuse</b>		
Current (0 -30 days)	40 434	37,924
31 - 60 days	21,914	23,572
61 - 90 days	20,854	19,379
91 - 120 days	19,994	17,430
121 - 365 days	574,708	535,871
Impairment		-
	<u>677 906</u>	<u>634,176</u>
<b>Other (specify)</b>		
Current (0 -30 days)	4 901	(31,143)
31 - 60 days	187	1,641
61 - 90 days	188	8,650
91 - 120 days	190	601
121 - 365 days	(42 058)	162,181
Impairment		(901,411)
	<u>(36 592)</u>	<u>(759,481)</u>
<b>Summary of debtors by customer classification</b>		
<b>Domestic</b>		
Current (0 -30 days)	155 698	231,372
31 - 60 days	125 170	123,110
61 - 90 days	189 981	98,712
91 - 120 days	138 086	79,773
121 - 365 days	3 319 749	2,674,495
	<u>3 928 684</u>	<u>3,207,462</u>
Less: Provision for debt impairment		(894,205)
	<u>3 928 684</u>	<u>2,313,257</u>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	57 557	54,339
31 - 60 days	1,801	11,337
61 - 90 days	679	1,290
91 - 120 days	331	919
121 - 365 days	12,548	76,695
	<u>72 916</u>	<u>144,580</u>
Less: Provision for debt impairment		(1,422)
	<u>72 916</u>	<u>143,158</u>
<b>National and provincial government</b>		
Current (0 -30 days)	3 013	111,298
31 - 60 days	14 115	82,720
61 - 90 days	1 472	40,513
91 - 120 days	135	41,958
121 - 365 days	27 840	242,991
	<u>46 574</u>	<u>519,480</u>
Less: Provision for debt impairment		(5,784)
	<u>46 574</u>	<u>513,696</u>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 7. Consumer payables (continued)

#### Total

Current (0 – 30 days)	216 268	357,162
31 - 60 days	141 086	189,664
61 - 90 days	192 131	110,133
91 - 120 days	138 553	100,751
121 - 365 days	3 360 137	2,178,067
	<u>4 048 074</u>	<u>2,935,777</u>
Less: Provision for debt impairment		(901,411)
	<u><b>4 048 174</b></u>	<u><b>2,034,366</b></u>

#### Total consumer debtors past due but not impaired

Current (0 -30 days)	429,757	336,496
31 - 60 days	143,260	159,691
61 - 90 days	-	80,001
91 - 120 days	-	68,085
121 - 365 days	-	322,618
	<u><b>583,018</b></u>	<u><b>966,891</b></u>

#### Reconciliation of debt impairment provision

Balance at beginning of the year	(901,411)	(2,652,897)
Utilisation of provision	1,000,749	1,751,486
	<u>99,338</u>	<u>(901,411)</u>
Additional provision raised	(3,789,985)	-
	<u><b>(3,690,647)</b></u>	<u><b>(901,411)</b></u>

No consumer debtors were pledged as security for the liabilities of the municipality.

#### Credit quality of consumer debtors

All of the municipality's consumer debtors have been reviewed for indicators of impairment. The municipality's managements considers that all of the above consumer debtors that are not impaired for each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers, based on average past payment history and incorporates this information into its credit risk control. No external credit rating is performed.

None of the financial assets that are fully performing have been renegotiated in the last year.

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade receivables mentioned above. The municipality does not hold any collateral as security.



# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

8. Cash and cash equivalents	2012 R	2011 R
Cash and cash equivalents consist of:		
Bank balances	109 739	-
Bank overdraft	-	(289,375)
	<b>109 739</b>	<b>(289,375)</b>
Current assets	109 739	-
Current liabilities	-	(289,375)
	<b>109 739</b>	<b>(289,375)</b>

### Credit quality of cash at bank

The credit quality of cash at bank excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The municipality did not default on any of its payments due to ABSA or Standard Bank.

The municipality does not have a overdraft facility at either ABSA or Standard Bank. The bank overdraft as shown in annual financial statements is due to reconciling items on the bank reconciliation.

### The municipality 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
ABSA BANK - Cheque (4053623514)	86,582	161,330	432,047	109 739	(379,495)	107,494
STANDARD BANK - Cheque - (280252013)	54,139	90,120	85,971		90,120	85,971
<b>Total</b>	<b>140,721</b>	<b>251,450</b>	<b>518,018</b>	<b>109 739</b>	<b>(289,375)</b>	<b>193,465</b>

### 9. Investment property

	2012			2011		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Investment property	<b>10,155</b>	-	<b>10,155</b>	<b>10,155</b>	-	<b>10,155</b>

	Opening balance	Closing balance
<b>Reconciliation of investment property - 2012</b>		
Investment property	10,155	10,155

	Opening balance	Closing balance
<b>Reconciliation of investment property - 2011</b>		
Investment property	10,155	10,155

There were no additions to or disposals of investment property during the year.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 9. Investment property (continued)

#### Pledged as security

No investment property was pledged as security for the liabilities of the municipality:

No independent valuer was utilized in determining the value of the investment property. 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. There are no contractual obligations to purchase, construct or develop investment property.

### 10. Property, plant and equipment

	2012			2011		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Community	6,166,492	-	6,166,492	5,767,241	-	5,767,241
Infrastructure	45,300,189	-	45,300,189	28,153,350	-	28,153,350
Other equipment	4,062,884	-	4,062,884	3,818,785	-	3,818,785
<b>Total</b>	<b>55,529,070</b>	<b>-</b>	<b>55,529,565</b>	<b>37,739,376</b>	<b>-</b>	<b>37,739,376</b>

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

	Opening balance	Additions	Total
Community assets	5,767,241	399,251	6,166,492
Infrastructure	28,153,350	17,146,389	45,299,739
Other equipment	3,818,785	244,099	4,062,884
	<b>37,739,376</b>	<b>17,790,189</b>	<b>55,529,565</b>

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

	Opening balance	Additions	Total
Community assets	5,619,037	148,204	5,767,241
Infrastructure	17,168,854	10,984,496	28,153,350
Other equipment	3,108,820	709,965	3,818,785
	<b>25,896,711</b>	<b>11,842,665</b>	<b>37,739,376</b>

#### Pledged as security

Carrying value of assets pledged as security:

Other equipment	1,682,831	1,682,831
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Financed leased assets are pledged as security for finance leased liabilities as per note 13.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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

#### Contractual commitments for the acquisition of property, plant and equipment

Infrastructure	21,991,083	20,522,165
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#### Details of heritage assets and servitudes

The municipality owns the following heritage assets:

The Heroes of Steytlerville monument, situated in Steytlerville, in honor of persons that died during the apartheid struggle.  
The Great War Memorial monument, situated in Steytlerville, in honor of service men killed during the First World War.

The municipality owns registered servitudes.

#### Transitional provisions

#### Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board, as disclosed in note 1.3, certain property, plant and equipment with a carrying value of R 55,598,519 (2011: R 37,739,376) were recognised at provisional amounts. Property plant and equipment purchased before 01 July 2008 was recognised at Rnil value.

Directive 4 has been consistently applied with prior year even though the transition period has expired on 30 June 2011, due to budget constraints the municipality is still applying Directive 4 and reference made in the individual section accounting policy detail.

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

### 11. Intangible assets

	2012			2011		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Operating software	466,343	-	466,343	466,343	-	466,343

#### Reconciliation of intangible assets - 2012

	Opening balance	Total
Operating software	466,343	466,343

There were no additions to or disposals of intangible assets during the year.

#### Reconciliation of intangible assets - 2011

	Opening balance	Additions	Total
Operating software	436,008	30,335	466,343

#### Pledged as security

No intangible assets were pledged as security for long term liabilities.

There are no contractual obligations to purchase, construct or develop intangible assets.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 11. Intangible assets (continued)

#### Transitional provisions

#### Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board, as disclosed in note 1.4, certain intangible assets with a carrying value of R 466,343 (2011: R 466,343) were recognised at provisional amounts.

Directive 4 has been consistently applied with prior year even though the transition period has expired on 30 June 2011, due to budget constraints the municipality is still applying Directive 4 and reference made in the individual section accounting policy detail.

### 12. Finance lease obligation

#### Minimum lease payments due

- within one year	587 186	927,969
- in second to fifth year inclusive	1 962 282	1,432,246
	<hr/>	<hr/>
	2 549 468	2,360,215
less: future finance charges	1 325 557	(501,512)
	<hr/>	<hr/>
<b>Present value of minimum lease payments</b>	<b>1,223,911</b>	<b>1,858,703</b>

#### Present value of minimum lease payments due

- within one year	457,455	696,106
- in second to fifth year inclusive	766,456	1,162,597
	<hr/>	<hr/>
	<b>1,223,911</b>	<b>1,858,703</b>

  

Non-current liabilities	457,455	1,162,597
Current liabilities	766,456	696,106
	<hr/>	<hr/>
	<b>1,223,911</b>	<b>1,858,703</b>

The average lease term was 5 years and the average effective borrowing rate was 17% (2011: 17%).

Interest rates are fixed at the contract date. Some leases escalate at between 10% and 25% per annum. Some vehicles have contingent rent payable based on kilometres travelled above on an agreed limit. For other leases no arrangements have been entered into for contingent rent.

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

#### Defaults, breaches and renegotiated terms

There were no reported defaults during the reporting dates under review. There were no changes to the terms and conditions of finance lease obligations. Purchase options exist over certain of the motor vehicles disclosed as other assets in note 10.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

<b>13. Trade and other payables from exchange transactions</b>	2012 R	2011 R
Trade payables	16 256 111	8,678,022
Accrued leave pay	1,311,421	1,098,190
Other payables	324 512	71,930
Service charges received in advance	187 013	-
	<b>18 079 057</b>	<b>9,848,142</b>

The fair value of trade and other payables approximates their carrying value. There were no defaults recorded during the year and no changes to credit terms and conditions.

The calculation of the accrued leave pay for 30 June 2012 has been calculated by using the cost to company as at the end of the financial year, divided by two hundred and fifty (250) days, multiplied by the accrued annual leave as at 30 June 2012 (to a maximum of forty eight (48) days).

### 14. Consumer deposits

Electricity	145,220	137,165
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### 15. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

Cacadu – IDP Grant	201,026	189,582
Cacadu – LED Grant	185,745	219,348
Cacadu Provincial – LED Projects Grant	440,000	700,000
Cacadu Wireless Backbone Grant	36 842	36,842
Municipal Infrastructure Grant	3,338,171	1,050,814
Municipal Systems Improvement Grant	127,182	153,590
Tourism Hospitality Training Grant	110,884	15,030
Valuation of Property Grant		337,274
Vehicle capital funding		-
Waste Water Treatment Grant	( 436,627)	-
Water Conservation and Demand	311,083	107,944
Water Conservation – DWAF	338,386	338,386
Water Services Assets	(122,810)	55,390
Water Supply Investigation	15,577	15,577
Water losses	648,182	-
	<b>5 193 643</b>	<b>3,408,451</b>

#### Movement during the year

Balance at the beginning of the year	3,219,697	6,632,164
Additions during the year	20 080 631	10,833,565
Income recognition during the year	(18 106 685)	(14,246,032)
	<b>5 193 643</b>	<b>3,219,697</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 25 for reconciliation of grants from National / Provincial Government.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 16. Provisions

#### Reconciliation of provisions - 2012

	Opening balance	Additions / (Utilisation)	Total
Bonus provision	57,359	1,092,420	1,149,779
Long service awards	365,769	159,769	525 538
Post-employment medical benefits	-	3,301,000	<b>3,301,000</b>
	<b>423,128</b>	<b>4 553 189</b>	<b>4 976 317</b>

#### Reconciliation of provisions - 2011

	Opening balance	Additions / (Utilisation)	Total
Bonus provision	57,359	1,092,420	1,149,779
Long service awards	365,769	(159,769)	206,000
	<b>423,128</b>	<b>932,651</b>	<b>1,355,779</b>

#### Bonusses

Bonusses are paid out to all employees (except for senior management) during November each year and are based on a 13th month basic salary.

Uncertainty exists regarding the amount of the bonus provision as employee bonuses may vary due to unexpected increases and wage demands.

#### Long service awards

Uncertainty exists regarding the amount of the long service provision as there are no certainty regarding the number of employees that will qualify for this award.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the collective agreement of 21 February 2011, signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Continuous Years of Service - 2% of Basic Annual Salary
- After 10 Continuous Years of Service - 3% of Basic Annual Salary
- After 15 Continuous Years of Service - 4% of Basic Annual Salary
- After 20 Continuous Years of Service - 5% of Basic Annual Salary
- After 25 Continuous Years of Service - 6% of Basic Annual Salary
- After 30 Continuous Years of Service - 6% of Basic Annual Salary
- After 35 Continuous Years of Service - 6% of Basic Annual Salary
- After 40 Continuous Years of Service - 6% of Basic Annual Salary
- After 45 Continuous Years of Service - 6% of Basic Annual Salary

#### Post-employment medical benefits

This provision has been valued by an independent valuator as at 30 June 2012. It is the first year that the municipality has commission this type of valuation. The valuation of this liability considers all employees, retired employees and their dependants who participate in the medical aid arrangements and are entitled to a post-employment medical aid subsidy. The Projected Unit Credit funding method has been used to determine the post-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 17. Provision for rehabilitation of landfill site

Per Section 20 of the Environment Conservation Act, 1989,

“No person shall establish, provide or operate any disposal site without a permit issued by the Minister of Water Affairs and the Minister may

- a) issue a permit subject to such conditions as he may deem fit;
- b) alter or cancel any permit or condition in a permit;
- c) refuse to issue a permit”

In light of this the municipality has a current obligation as a result of past events to obtain such a permit and to rehabilitate the current waste disposal sites in Willowmore, Steytlerville and Rietbron. The municipality has appointed the Aurecon Group to do an environmental impact assessment on the current waste disposal sites and to determine the estimated rehabilitation costs and time needed to perform the rehabilitation process. As at the date of these financial statements Aurecon have completed this process and an estimate of above mentioned costs and time lines have been submitted.

### Reconciliation of provisions - 2012

	Opening balance	Additions / (Utilisation)	Total
Rehabilitation of landfill site	-	324,500	324.500

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In the 2011 financial year, no provision was raised due to material uncertainty regarding the amount and timing of the future liability to be incurred by the municipality. The municipality therefore disclosed the item as a contingent liability (refer note 21).

### 18. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:  
No gains or losses were recognised on held to maturity financial assets.

2012	Loans and receivables	Held to maturity investments	Total
Other financial assets	-	5,810	5,810
Consumer receivables from exchange transactions	567,464	-	567,464
Trade and other receivables from exchange transactions	1,217,869	-	1,217,869
	<b>1,785,333</b>	<b>5,810</b>	<b>1,791,143</b>

  

2011	Loans and receivables	Held to maturity investments	Total
Other financial assets	-	5,810	5,810
Consumer receivables from exchange and non-exchange transactions	2,970,167	-	2,970,167
Trade and other receivables from exchange transactions	194,673	-	194,673
VAT receivables	2,936,919	-	2,936,919
	<b>6,101,759</b>	<b>5,810</b>	<b>6,107,569</b>

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# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 19. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

#### 2012

	Financial liabilities at amortised cost	Total
Finance lease obligations	1,223,911	1,223,911
Unspent conditional grants and receipts	5 193 643	5,878,051
Trade and other payables from exchange transactions	18 079 057	17,965,420
Provisions	5 300 817	4,981,279
Consumer Deposits	145,220	145,220
VAT payables		3,461,586
	<b>29 942 648</b>	<b>33,655,467</b>

#### 2011

	Financial liabilities at amortised cost	Total
Finance lease obligations	1,858,703	1,858,703
Unspent conditional grants	3,219,697	3,219,697
Bank Overdraft	289,375	289,375
Provisions	423,128	423,128
Trade and other payables	9,848,142	9,848,142
Consumer deposits	137,165	137,165
	<b>15,776,210</b>	<b>15,776,210</b>

### 20. Retirement benefits

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees through contributions to a nominated contribution plan. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act 24 of 1957 as amended by the Pension Funds Amendment Act 11 of 2007, exist for this purpose.

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

The total contributions to such schemes	1,708,323	970, 021
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### 21. Contingent liability

The municipality has recently received a claim from the South African Receiver of Revenue Services indicating and outstanding amount of R400 000. Management is of the opinion that the previous outstanding debts have been repaid in full and is currently investigating the matter. There exists uncertainty regarding the timing and amount of this claim and it has thus been classified as a contingent liability.

The municipality is still involved in a court case regarding a dispute by the owner of a farm in respect of the municipality's rights to water which is sourced from the farm. As at year end the case was still ongoing in the Supreme Court and uncertainty remains regarding the outcome of the proceedings.

A further case of theft which occurred two years ago is still being investigated and uncertainty remains regarding the outcome of the investigation.



# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

<b>22. Revenue</b>	2012 R	2011 R
Property rates	1,917,965	2,955,267
Service charges	13 244 212	7,724,389
Rental of facilities & equipment		64,756
Income from agency services		256,610
Fines	12,970	11,750
Licences and permits	2 722 763	518,028
Government grants & subsidies	34 913 631	26,339,953
Miscellaneous other revenue		4,199,554
	<b>52 811 540</b>	<b>42,070,307</b>
<b>The amounts included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	13 244 212	7,724,389
Rental of facilities & equipment		64,756
Income from agency services		256,610
Licences and permits	2 722 763	518,028
Miscellaneous other revenue		4,199,554
	<b>15 966 975</b>	<b>12,763,337</b>
<b>The amounts included in revenue arising from non-exchange transactions is as follows:</b>		
Property rates	1,917,965	2,955,267
Fines	12,790	11,750
Government grants & subsidies	34 913 631	26,339,953
	<b>36 844 386</b>	<b>29,306,970</b>
<b>23. Rental of facilities and equipment</b>		
Venue hire	17,995	21,213
Commonage		1,694
Rental of facilities and equipment	68 216	41,849
	<b>86 211</b>	<b>64,756</b>
<b>24. Interest earned</b>		
Interest on cash balances		325,177
Interest charged on trade and other receivables	312 161	-
Interest on investments	94,782	350,502
	<b>406 810</b>	<b>675,679</b>
<b>25. Government grants and subsidies</b>		
Cacadu - IDP grant		27,757
Cacadu – Fire Services	250 000	
Cacadu - LED grant		156,140
Cacadu – Provincial LED projects grant	260,000	-
Cacadu – Wireless backbone grant	-	263,158
Equitable share	14,833,000	12,093,919
Finance management grant	1 532 086	1,250,000
MIG grant	9 717 224	10,905,307
MSIG grant	790 000	596,410
Tourism hospitality training grant	139 251	330,635
Valuation of property grant	570,447	141,060
Waste Water Treatment	6 821 623	-
Water conservation and demand grant	-	392,056
Water losses - DWAF		-
Water services asset grant		183,509
	<b>34 913 631</b>	<b>26,339,951</b>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### Equitable Share

In terms of the Division of Revenue Act this unconditional grant, derived from the Provincial Sphere's share of revenue raised nationally, is intended to assist the funding of unforeseeable and unavoidable expenditure due to significant and unforeseeable economic and financial events.

<b>CDM - IDP grant</b>	2012 R	2011 R
Unspent balance at beginning of year	189,502	60,259
Current year receipts	50,000	157,000
Conditions met - transferred to revenue	<u>(38,476)</u>	<u>(27,757)</u>
Unspent balance at end of year	<u>201,026</u>	<u>189,502</u>

This grant was received from Cacadu District Municipality for the funding of the Integrated Development Plan.

### CDM - LED grant

Unspent balance at beginning of year	219,348	375,488
Current year receipts	-	-
Conditions met - transferred to revenue	<u>(33,603)</u>	<u>(156,140)</u>
Unspent balance at end of year	<u>185,745</u>	<u>219,348</u>

This grant was received from Cacadu District Municipality for the funding of the Local Economic Development programme in Willowmore.

### CDM – Provincial LED Projects Grant

Unspent balance at beginning of year	700,000	700,000
Current year receipts	-	-
Conditions met - transferred to revenue	<u>(260,000)</u>	-
Unspent balance at end of year	<u>440,000</u>	<u>700,000</u>

This grant was received from Cacadu District Municipality for the funding of the Local Economic Development programme in Steytlerville.

### CDM - Wireless Backbone grant

Unspent balance at beginning of year	36,842	-
Current year receipts	597,590	300,000
Conditions met - transferred to revenue	<u>597,590</u>	<u>(263,158)</u>
Unspent balance at end of year	<u>36,842</u>	<u>36,842</u>

This grant was received from Cacadu District Municipality for the funding of a project that will connect the local libraries with the main library in Port Elizabeth.

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# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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<b>Local Government Finance Management Grant (FMG)</b>	2012 R	2011 R
Unspent balance at beginning of year	-	-
Current year receipts	1, 532,086	1,250, 000
Conditions met - transferred to revenue	<u>(1,583,858)</u>	<u>(1,250,000)</u>
Unspent balance at end of year	<u>(51,772)</u>	-

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Manager Act (MFMA).

### MIG

Unspent balance at beginning of year	1 319 108	4,664,121
Current year receipts	9 656 356	7,292,000
Conditions met - transferred to revenue	<u>(7,638,441)</u>	<u>(10,905,307)</u>
Unspent balance at end of year	<u>3,337,073</u>	<u>1,050,814</u>

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure and to eradicate the bucket sanitation system mainly in urban townships.

The Municipal Infrastructure Grant (MIG) programme is aimed at providing all South Africans with at least a basic level of service by the year 2013 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

### MSIG

Unspent balance at beginning of year	153,590	750,000
Current year receipts	-	-
Conditions met - transferred to revenue	<u>(26,408)</u>	<u>(596,410)</u>
Unspent balance at end of year	<u>127,182</u>	<u>153,590</u>

The Municipal Systems Improvement Grant (MSIG) is a grant directed to municipalities with a purpose to support them in implementing new systems so that they can carry mandated functions effectively. These new systems include integrated development planning, performance management, financial management, community participation, effective administration and efficient service delivery mechanisms as well as Powers and Functions.

### Tourism hospitality training grant

Unspent balance at beginning of year	255 430	188,754
Current year receipts	18 354	345,665
Conditions met - transferred to revenue	<u>(162,900)</u>	<u>(330,635)</u>
Unspent balance at end of year	<u>110,884</u>	<u>203,784</u>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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This grant was received from Cacadu District Municipality for the funding of a Tourism Hospitality Training Programme for the employees in the hospitality sector.

<b>Valuation of property grant</b>	2012 R	2011 R
Unspent balance at beginning of year	337,274	-
Current year receipts	-	478,334
Conditions met - transferred to revenue	<u>(337 274)</u>	<u>(14, 060)</u>
Unspent balance at end of year		<u>337,274</u>

In terms of the Municipal Property Rates Act, this grant was received to regulate the power of a municipality to impose rates on property; to exclude certain properties from rating in the national interest; to make provision for the municipality to implement a transparent and fair system of exemptions, reductions and rebates through their rating policies and to make provision for fair and equitable valuation methods of properties.

### Waste Water Treatment grant

Unspent balance at beginning of year		-
Current year receipts	5 789 350	-
Conditions met - transferred to revenue	<u>(6 225 977)</u>	-
Unspent balance at end of year	<u>(436 627)</u>	-

This grant was received from the Department of Water Affairs and Forestry for upgrading of the municipality's waste water treatment plant.

### Water conservation and demand grant

Unspent balance at beginning of year	107,944	-
Current year receipts	203,139	500,000
Conditions met - transferred to revenue	<u>-</u>	<u>(392,056)</u>
Unspent balance at end of year	<u>311,083</u>	<u>107,944</u>

This grant was received from the Department of Water Affairs and Forestry to allow the Municipality to undertake a water conservation project, with specific attention to the quality of plumbing used in state subsidized housing projects and to replace old water meters.

### Water conservation – DWAF

Unspent balance at beginning of year	338,386	338,386
Current year receipts	-	-
Conditions met - transferred to revenue	<u>-</u>	<u>-</u>
Unspent balance at end of year	<u>338,386</u>	<u>338,386</u>

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# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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This grant was received from the Department of Water Affairs and Forestry to allow the Municipality to undertake a water conservation project, with specific attention to the quality of plumbing used in state subsidized housing projects and to replace old water meters.

<b>Water losses – DWAF</b>	2012 R	2011 R
Unspent balance at beginning of year	-	-
Current year receipts	2,054,503	-
Conditions met - transferred to revenue	(1,406,321)	-
Unspent balance at end of year	<u>648,182</u>	-

This grant was received from the Department of Water Affairs for the replacement of water meters to assist in countering water losses within the municipality.

### Water services asset grant

Unspent balance at beginning of year	55,390	(1)
Current year receipts	-	238,900
Conditions met - transferred to revenue	(178,200)	(183,509)
Unspent balance at end of year	<u>(122,810)</u>	<u>55,390</u>

This grant was received from the Department of Water Affairs for the calculation of the water services assets of the Municipality and its replacement value.

### Water supply investigation

Unspent balance at beginning of year	15,577	-
Current year receipts	-	15,577
Conditions met - transferred to revenue	-	-
Unspent balance at end of year	<u>15,577</u>	<u>15,577</u>

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This grant was received from the Department of Water Affairs and Forestry to allow the Municipality to initiate a programme to develop the required Water Services Authority capacity, which included a Water Supply Investigation.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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### 26. Other income

	2012	2011
	R	R
Building fees	12 370	7,198
Cemetery fees	6 312	5,681
Commission received	13 652	12,589
Connection fees	12 248	19,271
Membership fees	153 573	64,399
Other revenue	-	2,295
EPWP allocation	2 221 000	906,000
Arts and crafts allocation	-	540,000
Photocopies	426	200
Rezoning fees	8,088	7,076
Seta claims refunded / (paid)	-	12,465
Sundry income	773 206	464,495
Tourism slingby maps/brochures		-
Transaction fees		2,114
Valuation fees	26,036	17,710
	<b>3 226 911</b>	<b>2,061,493</b>

### 28. Employee related costs

Basic	14 132 403	11,382,716
Long-service awards	159,769	45,857
Contributions to UIF, SDL and medical aid	795 073	768,080
Leave pay provision charge	284,310	171,270
Post-employment benefits - Pension - Defined contribution plan	1,078,323	970,021
Travel, motor car, accommodation, subsistence and other allowances	598 582	182,649
Overtime payments	479,843	334,052
Bonus	1 828 911	605,445
Housing benefits and allowances	22,666	25,956
Post-employment medical benefits	3,301,000	-
	<b>22 680 882</b>	<b>14,486,046</b>

#### Municipal Manager: JZA Vumazonke

Annual Remuneration	478,335	453,678
Car Allowance	60,000	60,000
Other	14,400	14,400
	<b>552,735</b>	<b>528,078</b>

#### Chief Financial Officer: JH Doyle

Annual Remuneration	317,811	297,111
Car Allowance	134,138	134,138
Other	19,839	10,800
	<b>471,788</b>	<b>442,049</b>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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28. Employee related costs (continued)	2012	2011
	R	R
<b>Corporate Services Manager: M Lotter</b>		
Annual Remuneration	376,949	356,249
Car Allowance	75,000	75,000
Other	10,800	10,800
	<u>462,749</u>	<u>442,049</u>
<b>Technical Services Manager: B Arends</b>		
Annual Remuneration	416,949	396,249
Car Allowance	35,000	35,000
Other	10,800	10,800
	<u>462,749</u>	<u>442,049</u>
<b>Community Services Manger: L de Beer</b>		
Annual Remuneration	391,949	371,249
Car Allowance	72,500	60,000
Other	10,800	10,800
	<u>475,249</u>	<u>442,049</u>
<b>29. Remuneration of councillors</b>		
Councillors		731,055
Bezuidenhout DJ	177 741	
Spogter TR	177 741	
Lapperts VB	177 741	
Hobson GA	177 741	
Fivaz ME	177 741	
Booyesen H	177 741	
Executive mayor: Looock E	338,669	311,177
	<u>1,405 115</u>	<u>1,042,232</u>
<b>30. Finance costs</b>		
Finance leases	306,952	305,935
Current borrowings	-	1,742
Other interest paid	213,516	217,010
	<u>520,468</u>	<u>524,687</u>
<b>31. Debt impairment</b>		
Contributions to debt impairment provision	3,789,985	-
Debts impaired	(1,000,749)	883,862
Provision utilised	901,411	-
	<u>3,690,647</u>	<u>883,862</u>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

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<b>32. General expenses</b>	2012	2011
	R	R
Advertising	38 599	76,094
Animal Protection		-
Auditors remuneration		2,465,195
Bank charges	143 448	124,182
Capital expenditure		54,706
Chemicals	102 267	113,312
Commission paid	2 138 074	110,108
Consulting and professional fees		449,068
Consumables	16 184	29,848
EPWP wages	2 290 511	2,754,901
Electrical Services water	1 063 533	
Free basic services	3 571 902	-
Fuel and oil	833 902	674,105
General expenses transferred from grants		3,243,058
IT expenses		4,700
Insurance	246 688	193,642
LED SMME/arts and crafts expenditure	80 405	469,600
Legal Fees	226 509	
Licences	31 578	23,193
Membership fees	87 719	
Movement in water inventory	1 160	(6,452)
Municipal Services	626 385	
Other expenses including administration fees		37,732
Pest control		828
Postage and courier	177 857	130,230
Printing and stationery	142 159	188,005
Refuse	81 866	56,325
Rehabilitation of landfill site		-
Rental of equipment	399 493	-
Repair and Maintenance	848 662	
Research and development costs		23,299
Special projects	867 512	1,036,057
Subscriptions and membership fees		70,000
Telephone and fax	497 398	427,010
Title deed search fees		20,792
Tourism development	127 347	473,034
Town planning	54 115	30,000
Training	49 393	36,167
Transfer fees	19 831	
Travel - local	94 411	89,779
Utilities - Other	2 216 381	1,079,296
	<b>17 075 289</b>	<b>14,477,814</b>
<b>33. Auditors' remuneration</b>		
Auditors' remuneration	4,357,165	2,465,195



# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Financial Statements

<b>34. Cash generated from operations</b>	2012 R	2011 R
Surplus	(4,096,825)	5 114 580
<b>Adjustments for:</b>		
Finance costs - Finance leases	306 952	305 935
Debt impairment	3 690,647	883 862
Movements in provisions	4,558,151	160 384
<b>Changes in working capital</b>		
Inventories	1 160	(6 452)
Trade and other receivables from exchange transactions	(1,023,196)	268 606
Consumer debtors	(1,287,944)	(1 307 687)
Trade and other payables from exchange transactions	8 ,117,278	4 053 834
VAT	6,398,505	(1 597 525)
Unspent conditional grants	2 658,354	(3 412 467)
Consumer deposits	8 055	4 620
	<b>19,331,138</b>	<b>4 467 690</b>

### 35. Commitments

#### Authorised capital expenditure

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

• Tenders	21,991,083	20,522,165
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This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses and government grants.

### 36. Related parties

<b>Relationships</b>	<b>Role</b>
EL Loock	Mayor
Cllr D Bezuidenhout	Councillor
Cllr H Booysen	Councillor
Cllr M Fivaz	Councillor
Cllr GA Hobson	Councillor
Cllr V Lapperts	Councillor
Cllr T Spogter	Councillor
JM Vumazonke	Municipal Manager
JH Doyle	Chief Financial Officer
B Arends	Technical Services Manager
L de Bee	Community Services Manager
MA Lotter	Corporate Services Manager
Eskom	Related government entity
Cacadu District Municipality	District Municipality which Baviaans Municipality forms part of

#### Related party balances

##### Councillors rates and taxes in arrears

D Bezuidenhout	-	984
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There were no outstanding rates and taxes owed by Councillors at year end.

#### Related party transactions

No transactions were entered into with related parties during the year.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

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### 37. Risk management

#### Financial risk management

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

#### Liquidity risk

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

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

#### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2012 and 2011, the municipality's borrowings at variable rate were denominated in the Rand.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

#### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to five years
Trade and other receivables – normal credit terms	9%	1,217,869	-
Consumer receivables – normal credit terms	9%	567,464	-
Trade and other payables – normal credit terms	9%	(17,965,420)	-
VAT payable	-%	(3,461,586)	-

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

The municipality establishes an allowance for impairment that represents its estimate of incurred credit losses in trade and other receivables. The municipality's consumers were reviewed for indication of impairment and certain receivables were found to be impaired and an allowance for credit loss was provided for - Refer note 7 for the reconciliation thereof.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

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### 38. Risk management (continued)

Financial assets exposed to credit risk at reporting date were as follows:

<u>Financial instrument</u>	2012 R	2011 R
Cash and cash equivalents	109 739	(289,375)
Short term deposits	5,810	5,810
Trade and other receivables from non-exchange transactions	1,217,869	194,673
Consumer receivables received from exchange transactions	567,464	2,790,167

The municipality does not hold any collateral as security, but however has preferential rights on collecting arrear consumer accounts when consumers' properties are placed under sale of execution.

### 39. Going concern

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

### 40. Events after the reporting date

The executives of the municipality together with council have pursued various avenues, including the Cacadu District Municipality, Department of Provincial and Local Government as well as Provincial and National Treasury in seeking a financial solution to the challenges faced by the municipality.

A detailed financial recovery plan has been drafted which is actively being implemented and progress monitored by dedicated Task Team which includes delegates from the Baviaans Municipality, CDM and Provincial Treasury. A realistic three year budget has been adopted for the purposes of achieving financial recovery, while efforts are under way to upgrade the standard of financial administration and systems at the municipality.

Management and council have again committed themselves to achieving a clean audit and compliance with Provincial and National Treasury requirements. To this end, a dedicated resource from National Treasury has been deployed to the municipality to assist with compliance related matters.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

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<b>41.Unauthorised expenditure</b>	2012 R	2011 R
Agency commission	18 299	33 311
Agency fees licensing	2 009 775	-
Audit costs	2 957 166	1 791 826
Bank charges	3 488	-
Bonus provision	1 092 420	-
Capital interest	189 038	-
Contribution bad debts	1 789 985	-
Contribution leave fund	284 310	-
Councilor allowances	26 272	-
Electricity (eskom)	60 733	234 602
Epwp	165 511	-
Epwp wages	250	-
Finance charges-finance lease	161 430	-
Finance Management Grant expenditure	83 858	-
Fuel and oil	-	73 572
Industrial levy	4 975	-
Inventory at year end	1 160	-
Legal fees	26 509	-
Other allowances	64 585	-
Overtime	203 992	-
Postage	32 857	-
Provision for landfill site	25 630	-
Radio licences	241	-
Salaries	462 995	902 032
Services electricity	28 533	-
Services water	227	-
Small farmers (agriculture)	1 630	-
Special projects	117 509	-
Telephone	47 398	-
Transport forum	8 820	-
Unemployment fund	15 430	-
Vehicle maintenance	14 603	7 539
Website	500	-
Woman/Disabled/Old age	12 785	-
	<b>9,912,915</b>	<b>3,042,882</b>

Unauthorized expenditure is due to a vote that was overspent during the current financial year. The nature of unauthorized expenditure is as follows:

- Additional costs incurred in servicing former DMA (Rietbron, Vondeling & Miller) which was transferred to the Baviaans Municipality after 18 May 2011
- Compliance with GRAP which required appointment of consultants to assist, restructuring which impacted on personnel costs and attending to IT system problems
- Compliance issues in respect of legislation relating to E-Natis infill sites, fire services, sewerage works and motor vehicle testing; as well as additional staff that needed to be appointed in terms of legislative requirements which further impacted on personnel costs
- Unforeseen costs which were not budgeted for, including audit fees which were far in excess of the 1% of turnover budgeted for and
- Legal costs pertaining to the court case where the municipality's rights to water are being contested

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

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### 42. Fruitless and wasteful expenditure

Penalties and interest	359 039	-
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Of the total of R359 039 (2011: nil) penalties and interest of R 351 279 (2011: nil) were incurred primarily due to the cash flow problems experienced during the year, which resulted in late submissions of PAYE, UIF and SDL returns to The South African Revenue Service, and late payments to other third parties. A total of R 7 760 (2011: nil) was incurred as result of invoices being received late from departments or suppliers and traffic fines. These are currently being investigated with the intention of recovering the amounts paid. This classifies as wasteful expenditure as the municipality had made these expenditure in vain as proper controls and planning could have limited the cash flow constraints, which in turn could have avoided these expenses.

### 43. Irregular expenditure

Irregular expenditure - current year	694,529	3,066,125
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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.

There were deviations from supply chain policies amounting to R 694,529 during the year which have been recorded in the deviations register.

The most significant deviation was the re-appointment of service providers to complete subsequent phases of major infrastructure projects, without re-tendering for such subsequent phases. This was done to speed up service delivery to the community.

### 44. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix C for the comparison of actual operating expenditure versus budgeted expenditure.

### 45. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix D for the comparison of actual capital expenditure versus budgeted expenditure.

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Supplementary Schedules

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### BAVIAANS LOCAL MUNICIPALITY

#### APPENDIX A

#### Jun-12

Details	Loan Number	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012
		R	R	R	R
Xerox Workstation 7232	Fintech	23,992.20		11,996.10	<b>11,996.10</b>
Xerox Workstation 128	Fintech	23,040.38		11,520.19	<b>11,520.19</b>
Xerox Workstation 118	Fintech	17,086.30		8,543.15	<b>8,543.15</b>
Xerox Workstation 5525	Fintech	41,408.42		20,704.21	<b>20,704.21</b>
Xerox Workstation 7120	Fintech	51,012.32		9,728.60	<b>41,283.72</b>
Xerox Workstation 252	Fintech	302,282.33		72,914.56	<b>229,367.77</b>
Xerox Workstation 7328	Fintech	44,873.38		18,221.09	<b>26,652.29</b>
Xerox Workstation 4418	Fintech	7,973.44		3,193.49	<b>4,779.95</b>
Xerox Workstation 7428	Fintech	69,775.46		19,201.76	<b>50,573.70</b>
Xerox Workstation 4118	Fintech	6,196.22		3,098.11	<b>3,098.11</b>
Digital Copier	Nashau	56,567.68		35,433.39	<b>21,134.29</b>
Toyota Yaris 1.3 DWW 780 EC	ABSA	46,591.65		37,273.41	<b>9,318.24</b>
Isuzu KB200 DWY 391 EC	ABSA	43,284.90		34,628.01	<b>8,656.89</b>
Isuzu KB200 DWY 456 EC	ABSA	43,284.90		34,628.01	<b>8,656.89</b>
Isuzu KB200 DWY 463 EC	ABSA	43,284.90		34,628.01	<b>8,656.89</b>
Toyota Dyna DZG 002 EC	ABSA	131,065.74		92,516.97	<b>38,548.77</b>
Toyota Dyna DZG 557 EC	ABSA	71,834.24		53,875.77	<b>17,958.47</b>
Toyota Dyna FBG 378 EC	ABSA	71,834.24		53,875.77	<b>17,958.47</b>
Toyota Dyna FCM 397 EC	ABSA	71,064.15		56,851.41	<b>14,212.74</b>
Toyota Corolla 1.4 FCS 512 EC	ABSA	97,498.35		43,332.69	<b>54,165.66</b>
Opel Corsa FHP 080 EC	ABSA	97,905.59		30,124.77	<b>67,780.82</b>
Ford Bantam FKV 266 EC	ABSA	138,106.72		36,027.84	<b>102,078.88</b>
Hino 300 FLZ 565 EC	ABSA	308,186.69		78,686.04	<b>229,500.65</b>
Ford Bantam FNR 950 EC	ABSA	138,628.05		30,246.21	<b>108,381.84</b>
Ford Bantam FNR 962 EC	ABSA	138,628.05		30,246.21	<b>108,381.84</b>
<b>TOTAL EXTERNAL LOANS</b>		<b>2,085,406.30</b>		<b>861,495.77</b>	<b>1,223,910.53</b>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Supplementary Schedules

### BAVIAANS LOCAL MUNICIPALITY

#### APPENDIX B

Jun-12

Details	COST							Accumulated depreciation					Closing balance 30 June 2012	Carrying value	
	Opening balance 30 June 2011	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Closing balance 30 June 2012	Opening balance 30 June 2011	Additions	Disposals	Transfers	Depreciation			Impairment, Loss
	R	R	R	R	R	R	R	R	R	R	R	R			R
Infrastructure assets	28,153,350	17,146,389					45,299,739								45,299,739
Community assets	5,767,241	399,251					6,166,492								6,166,492
Other assets	3,818,785	244,099					4,062,884								4,062,884
<b>TOTAL</b>	<b>37,739,376</b>	<b>17,789,739</b>	-	-	-	-	<b>55,529,115</b>	-	-	-	-	-	-	-	<b>55,529,115</b>

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Supplementary Schedules

### APPENDIX C

Jun-12

Details	Additions	Original Budget	Revised Budget	Variance	Variance	Explanation of significant variances from budget
	R	R	R	R	%	
<u>Infrastructure Assets</u>						
Roads, Pavements & Bridges	6,187,670		8,429,434	2,241,764	26.59	Due to Cash Flow problems
Buildings	31,045			(31,045)	(100.00)	Not budgeted for
Water purification	1,285,105		1,954,000	668,895	34.23	Due to Cash Flow problems
Sewerage purification	8,593,815		8,990,566	396,751	4.41	
Electricity	445,312			(445,312)	(100.00)	Not budgeted for
Valuation Roll	570,447			(570,447)	(100.00)	Not budgeted for
Equipment	33,445			(33,445)	(100.00)	Not budgeted for
<b>Sub Total</b>	<b>17,146,839</b>		<b>19,374,000</b>	<b>2,227,161</b>	<b>11.50</b>	
<u>Community Assets</u>						
Library	100,339			(100,339)	(100.00)	Not Budgeted for
Tourism	7,000			(7,000)	(100.00)	Not Budgeted for
Youth Development	31,912			(31,912)	(100.00)	Not Budgeted for
Buildings	260,000			(260,000)	(100.00)	Not Budgeted for
<b>Sub Total</b>	<b>399,251</b>			<b>(399,251)</b>	<b>(100.00)</b>	
<u>Other Assets</u>						
Finance	32,086			(32,086)	(100.00)	Not Budgeted for
Traffic	20,967			(20,967)	(100.00)	Not Budgeted for
<b>Sub Total</b>	<b>53,054</b>			<b>(53,054)</b>	<b>(100.00)</b>	
<b>TOTAL</b>	<b>17,599,143</b>		<b>19,374,000</b>	<b>1,774,857</b>	<b>9.16</b>	



# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Supplementary Schedules

### APPENDIX E

Jun-12

Details	Current year 2012	Current year 2012	Variance	Variance	Explanation of significant variances greater than 10% versus budget
	actual	budget			
	R	R	R	%	
<u>Revenue</u>					
Property Rates	1,917,965	3,010,763	1,092,798	36.30	
Service Charges	13,244,212	13,936,545	692,333	4.97	
Rental of Facilities and Equipment	86,211	86,000	(211)	(0.25)	
Interest received Outstanding debtors	406,810	315,000	(91,810)	(29.15)	
Interest received Investments	94,782	150,000	55,218	36.81	
Income from agency services			-		
Fines	12,970	20,000	7,030	35.15	
Licences and permits	2,722,763	1,020,000	(1,702,763)	(166.94)	
Government grants and subsidies	34,913,631	26,279,495	(8,634,136)	(32.86)	
Other income	3,132,128	3,652,119	519,991	14.24	
<b>Total</b>	<b>56,531,472</b>	<b>48,469,922</b>	<b>(8,061,550)</b>	<b>(16.63)</b>	
<u>Expenditure</u>					
Employee related cost	22,680,882	18,629,746	(4,051,136)	(21.75)	
Remuneration of councillors	977,759	951,487	(26,272)	(2.76)	
Finance charges	520,469	790,000	269,531	34.12	
Debt impairment	3,789,985	2,000,000	(1,789,985)	(89.50)	
Bulk purchases	6,658,458	7,100,000	441,542	6.22	
General expenditure	21,432,455	18,998,688	(2,433,767)	(12.81)	
<b>Total</b>	<b>56,060,008</b>	<b>48,469,921</b>	<b>(7,590,087)</b>	<b>(15.66)</b>	
Surplus/(deficit) for the year	471,464	1	(471,463)		

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Supplementary Schedules

### APPENDIX F: GRANTS AND SUBSIDIES RECEIVED - 2011/12

Number	Vote number	Name of Grants	Name of organ of state or municipal entity	Unspent portion 2010/2011 AFS	Adjustments and Transfers	Quarterly Receipts				Quarterly Expenditure				Total Receipts	Unspent portion 2011/2012 AFS	
						July	Oct	Jan	April	July	Oct	Jan	April			
						to	to	to	to		to	to	to	to	Total Expenditure	
						Sept	Dec	Mar	June		Sept	Dec	Mar	June		
						1	2	3	4		1	2	3	4		
		Seta Grant	Seta								-				-	-
1	10008594	Equitable Share	National Treasury			-	-	-			-				-	-
2	10008567	Finance Management Grant	National Treasury			1 532 086	-	-			1 532 086	611 275	481 421	338 049	153 114	1 583 858 ( 51 772)
3	10008676/300331020	MSIG	Dept of Loc. Gov & Trad Aff.	153 590							-		634	25 774	26 408	127 183
		Implementation Prop Rates Act	Dept of Loc. Gov & Trad Aff.								-				-	-
		Dev. Planning Capacity Building	Dept of Loc. Gov & Trad Aff.								-				-	-
		Dev. Info Systems Grant	Dept of Loc. Gov & Trad Aff.								-				-	-
		Spatial Planning	Dept of Loc. Gov & Trad Aff.								-				-	-
		Municipal Finance Man. Act	Dept of Loc. Gov & Trad Aff.								-				-	-

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Supplementary Schedules

		Uniform Bill Sys.	Dept of Loc. Gov & Trad Aff.							-					-	-	
										-					-	-	
		PMS	Dept of Loc. Gov & Trad Aff.							-					-	-	
										-					-	-	
4	300330210	Valuation Roll Grant	Dept of Loc. Gov & Trad Aff.	337 274						-	349 947	220 500	( 233 173)	274	337	-	
										-					-	-	
		Man.Assist. Programme	Dept of Loc. Gov & Trad Aff.							-					-	-	
										-					-	-	
		Transfer / Buyback Centre	Dept Environmenta l Affairs							-					-	-	
										-					-	-	
5	10009061	LED Strategy	Dept. of Economic Development	700 000						-	260 000				260 000	440 000	
										-					-	-	
6	550740052	MIG Funding	Dept of Loc. Gov & Trad Aff.	1 319 108	8 429 000	2 018 000		( 790 644)	9 656 356	1 692 485	2 914 470	1 168 346	1 863 141	441	7 638	3 337 023	
										-					-	-	
7		EPWP	Dept of Public works							-					-	-	
										-					-	-	
		DBSA Grant	Development Bank of SA							-					-	-	
										-					-	-	
8	300331520	Integrated Dev. Plan - Cacadu	CACADU	189 502			50 000		50 000	4 102	4 600	5 874	23 899	476	38	201 026	
										-					-	-	
9	300332040	LED Funds - Cacadu	CACADU	219 348						-	7 163	10 440	12 000	4 000	603	33	185 744
										-					-	-	

# Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Supplementary Schedules

10	300332090	Tourism Hospitality Training	CACADU	255 430					18 354	18 354	27 600	94 500	20 400	20 400	162 900	110 884
										-					-	-
11	10014659	Fire Services	CACADU							-					-	-
										-					-	-
17	300331600	Water Conservation & Demand	Dept of Water Affairs	107 944		161 837	41 302			203 139					-	311 084
										-					-	-
18	300331610	Water supply investigation	Dept of Water Affairs	15 577						-						15 577
										-						-
19	300332010	Water Conservation and Demand	Dept of Water Affairs	338 386						-						338 386
										-						-
13	300332030	Water Service Asset	Dept of Water Affairs	55 390						-	178 200				178 200	( 22 810)
										-					-	-
14		Water Losses	Dept of Water Affairs			2 054 503				2 054 503	1 406 321				1 406 321	648 182
15		Wireless Backbone - Cacadu	CACADU	36 842		300 000	297 590	-		597 590		597 590			597 590	36 842
										-					-	-
16	300332101	Waste water treatment	DWAF			905 799	3 470 014		1 413 537	5 789 350		794 561	1 958 105	4 741 753	7 494 419	( 1 705 069)
				<b>3 728 392</b>	<b>-</b>	<b>13 221 388</b>	<b>2 477 428</b>	<b>3 561 316</b>	<b>641 247</b>	<b>19 901 379</b>	<b>4 187 146</b>	<b>5 248 163</b>	<b>3 723 274</b>	<b>6 598 908</b>	<b>19 757 491</b>	<b>3 872 280</b>