



BAVIAANS LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013
Auditor General South Africa
Published 30 August 2013

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

GENERAL INFORMATION

Legal form of entity	The entity functions as a local municipality, established under Paragraph 151 of the Constitution of the Republic of South Africa, 1996, as amended.
Nature of business and principal activities	Baviaans Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998) The municipality's operations are governed by:- Municipal Finance Management act 56 of 2003- Municipal Structure Act 117 of 1998- Municipal Systems Act 32 of 2000 and various other acts and regulations
Mayoral committee	
Executive Mayor	E L Lock
Councillors	D Bezuidenhout H Booysen M Fivaz G A Hobson V Lapperts T Spogter
Grading of local authority	Grade 1
Business address	42 Wehmeyer Street Willowmore 6445
Bankers	ABSA Bank Willowmore
Auditors	Auditor General South Africa
Principal Activities	The principal activities of the municipality are: <ul style="list-style-type: none">- Provide democratic and accountable government- Ensure sustainable service delivery to the communities- Promote social and economic development- Provide basic services to the community

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Abbreviations

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

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ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

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

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice (GRAP) And the Municipal Finance Management Act (MFMA) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

The accounting officer acknowledges that 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 2014 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.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 49, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed by him:



JZA Vumazonke
Municipal Manager

Baviaans Local Municipality

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Notes	2013 R	2012 R
Assets			
Current Assets			
Inventories	2	48,234	18,563
Other receivables	3	397,883	-
VAT receivable	4	1,839,318	1,617,422
Trade receivables	5	766,755	351,774
Cash and cash equivalents	6	145,049	117,282
		3,197,239	2,105,041
Non-Current Assets			
Investment property	7	28,627,500	28,880,000
Property, plant and equipment	8	63,233,810	45,682,452
Intangible assets	9	4	59,186
Heritage assets	10	-	-
		91,861,314	74,621,638
Non-current assets held for sale	11	110,000	-
Total Assets		95,168,553	76,726,679
Liabilities			
Current Liabilities			
Finance lease obligation	12	543,141	566,703
Trade and other payables	13	15,329,659	14,309,584
Consumer deposits	14	145,635	145,020
Unspent conditional grants and receipts	15	4,562,898	1,421,751
Provisions	16	578,040	1,092,420
		21,159,373	17,535,478
Non-Current Liabilities			
Finance lease obligation	12	959,693	762,427
Provisions	16	4,000,500	3,314,189
		4,960,193	4,076,616
Total Liabilities		26,119,566	21,612,094
Net Assets		69,048,987	55,114,585
Accumulated surplus		69,048,987	55,114,585

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STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2013 R	2012 R
Revenue			
Property rates	17	3,088,754	1,917,965
Service charges	18	15,733,045	13,244,213
Fines	19	3,800	12,970
Government grants & subsidies	20	46,885,774	34,689,752
Interest received	19	480,348	413,754
Licences and permits	19	508,746	460,519
Rental of facilities and equipment	19	115,974	58,939
Other income	19	2,556,858	2,536,097
Public contributions and donations		63,292	1,737,139
Total revenue		69,436,591	55,071,348
Expenditure			
Personnel	21	(18,161,986)	(18,495,968)
Remuneration of councillors	22	(1,507,253)	(1,382,940)
Debt impairment	23	(1,371,162)	(3,789,985)
Depreciation and amortisation	24	(4,419,084)	(11,399,957)
Finance costs	25	(1,618,793)	(762,711)
Repairs and maintenance	26	(3,103,196)	(3,186,740)
Bulk purchases	27	(8,034,651)	(6,658,458)
Grants and subsidies paid	28	(5,629,261)	(3,571,902)
General Expenses	29	(11,514,303)	(14,227,439)
Impairment loss	30	(142,500)	-
Total expenditure		(55,502,189)	(63,476,100)
Surplus (deficit) for the year		13,934,402	(8,404,752)

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STATEMENT OF CHANGES IN NET ASSETS

	Note	Accumulated surplus R	Total net assets R
Opening balance as previously reported		28,566,956	28,566,956
Adjustments			
Correction of errors	31	34,952,381	34,952,381
Balance at 01 July 2011 as restated		63,519,337	63,519,337
Changes in net assets			
Surplus for the year		(8,404,752)	(8,404,752)
Total changes		(8,404,752)	(8,404,752)
Balance at 01 July 2012		55,114,585	55,114,585
Changes in net assets			
Surplus for the year		13,934,402	13,934,402
Total changes		13,934,402	13,934,402
Balance at 30 June 2013		69,048,987	69,048,987

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CASH FLOW STATEMENT

	Notes	2013 R	2012 R
Cash flows from operating activities			
Receipts			
Rates and services		16,415,877	14,762,391
Government grants & subsidies		46,885,774	34,689,752
Interest income		480,348	413,754
Other receipts		3,248,670	4,805,664
		<u>67,030,669</u>	<u>54,671,561</u>
Payments			
Employee costs		(19,669,239)	(19,878,908)
Suppliers		(23,977,316)	(15,968,848)
Finance costs		(1,618,793)	(762,711)
		<u>(45,265,348)</u>	<u>(36,610,467)</u>
Net cash flows from operating activities	32	<u>21,765,321</u>	<u>18,061,094</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	<u>(21,911,260)</u>	<u>(17,097,897)</u>
Cash flows from financing activities			
Finance lease payments		<u>173,706</u>	<u>(529,574)</u>
Net increase/(decrease) in cash and cash equivalents		27,767	433,623
Cash and cash equivalents at the beginning of the year		117,282	(316,341)
Cash and cash equivalents at the end of the year	6	<u>145,049</u>	<u>117,282</u>

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	

Statement of Financial Performance

Revenue

Property rates	3,397,616	-	3,397,616	3,088,754	(308,862)
Service charges	16,898,482	(891,562)	16,006,920	15,733,045	(273,875)
Fines	20,000	(10,000)	10,000	3,800	(6,200)
Government grants & subsidies	20,520,907	(127,907)	20,393,000	46,885,774	26,492,774
Interest received	230,000	230,000	460,000	480,348	20,348
Licences and permits	799,660	(56,380)	743,280	508,746	(234,534)
Rental of facilities and equipment	-	120,000	120,000	115,974	(4,026)
Other income	4,710,800	2,789,400	7,500,200	2,556,858	(4,943,342)
Public contributions and donations	-	-	-	63,292	63,292
Total revenue	46,577,465	2,053,551	48,631,016	69,436,591	20,805,575

Expenditure

Personnel	(19,695,933)	1,154,283	(18,541,650)	(18,161,986)	379,664
Remuneration of councillors	(1,625,449)	-	(1,625,449)	(1,507,253)	118,196
Debt impairment	-	-	-	(1,371,162)	(1,371,162)
Depreciation and amortisation	-	-	-	(4,419,084)	(4,419,084)
Impairment loss	-	-	-	(142,500)	(142,500)
Finance costs	(195,000)	(155,000)	(350,000)	(1,618,793)	(1,268,793)
Repairs and maintenance	(3,145,000)	(849,000)	(3,994,000)	(3,103,196)	890,804
Bulk purchases	(8,023,000)	(677,000)	(8,700,000)	(8,034,651)	665,349
Grants and subsidies paid	(5,198,232)	-	(5,198,232)	(5,629,261)	(431,029)
General Expenses	(8,936,800)	(2,178,516)	(11,115,316)	(11,514,303)	(398,987)
Total expenditure	(46,819,414)	(2,705,233)	(49,524,647)	(55,502,189)	(5,977,542)
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(241,949)	(651,682)	(893,631)	13,934,402	14,828,033

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	20,000	-	20,000	48,234	28,234	
Other receivables	3,138,000	-	3,138,000	397,883	(2,740,117)	
VAT receivable	-	-	-	1,839,318	1,839,318	
Consumer debtors	2,970,000	-	2,970,000	766,755	(2,203,245)	
Cash and cash equivalents	-	-	-	145,049	145,049	
	6,128,000	-	6,128,000	3,197,239	(2,930,761)	
Non-Current Assets						
Investment property	-	-	-	28,627,500	28,627,500	
Property, plant and equipment	38,216,000	-	38,216,000	63,233,810	25,017,810	
Intangible assets	-	-	-	4	4	
	38,216,000	-	38,216,000	91,861,314	53,645,314	
Non-current assets held for sale and assets of disposal groups	-	-	-	110,000	110,000	
Total Assets	44,344,000	-	44,344,000	95,168,553	50,824,553	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	-	543,141	543,141	
Trade and other payables	13,068,000	-	13,068,000	15,329,658	2,261,658	
Consumer deposits	137,000	-	137,000	145,635	8,635	
Unspent conditional grants and receipts	28,568,000	(25,341,760)	3,226,240	4,562,898	1,336,658	
Provisions	423,000	-	423,000	578,040	155,040	
Bank overdraft	289,000	-	289,000	-	(289,000)	
	42,485,000	(25,341,760)	17,143,240	21,159,372	4,016,132	
Non-Current Liabilities						
Finance lease obligation	1,859,000	-	1,859,000	959,693	(899,307)	
Provisions	-	-	-	4,000,500	4,000,500	
	1,859,000	-	1,859,000	4,960,193	3,101,193	
Total Liabilities	44,344,000	(25,341,760)	19,002,240	26,119,565	7,117,325	
Net Assets	-	25,341,760	25,341,760	69,048,988	43,707,228	
Net Assets						
Reserves						
Accumulated surplus	-	25,341,760	25,341,760	68,808,483	43,466,723	
Undefined Difference	-	-	-	240,505	240,505	
Total Net Assets	-	25,341,760	25,341,760	68,808,483	43,466,723	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
R	R	R	R	R	

Fines

The function is performed by the Department of Transport. The municipality does not have any control over spending.

Government grants and subsidies received

The original budget was not GRAP compliant and is structured in such a way that the amount for government grants and subsidies received is split between revenue and current liabilities. The total amount per the final budget is R45,734,760 and therefore the difference between the final budget amount and the actual amount received R46,645,272 is immaterial.

Licences and permits

The function is performed on an agency basis. Fewer licences were issued than anticipated.

Other income

R2000,000 grant received was incorrectly budgeted for under other income. The related grant received of R2,000,000 is reflected under government grants and subsidies received.

Income from VAT refunds was incorrectly included in the budget amount.

Debt impairment

The budget was based on a 100% collection rate which did not materialise.

Depreciation and amortisation

First time adoption of GRAP standards relating to property, plant and equipment.

Impairment loss

Land was sold at less than market value.

Finance costs

Interest on finance leases and other creditors was incurred that was not budgeted for, as due to cashflow constraints the municipality was unable to pay service providers within the required 30 days.

Repairs and maintenance

Cash flow constraints.

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Annual Financial Statements for the year ended 30 June 2013

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act No 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below.

These accounting policies are consistent with those applied in the preparation of the prior year financial statements, unless specified otherwise.

1.1 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity, rounded to R1.

1.2 Going concern

These annual financial statements were prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.3 Budget information

Budget information in accordance with GRAP 1 and 24, has been provided in the Statement of comparison of budget and actual amounts.

1.4 Comparative figures

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, 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.

The presentation and classification of items in the current year is consistent with prior years.

The nature and reasons for the reclassifications and restatements are disclosed in note 31 to the financial statements.

1.5 Offsetting

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

1.6 Significant judgements and sources of estimation uncertainty

The use of judgement, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require material adjustment to the carrying amount of the relevant asset or liability in future periods.

Judgements

In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the annual financial statements.

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Annual Financial Statements for the year ended 30 June 2013

ACCOUNTING POLICIES

1.6 Significant judgements and sources of estimation uncertainty (continued)

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

In the process of applying the entity's accounting policies, the following estimates were made:

Inventory

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, which determines the depth of water in the reservoirs, which is then converted into volumes based on the total capacity of the reservoir.

Impairments of non-financial assets

In determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes. Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Pension and other post-employment benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate, future salary increase, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Effective interest rate

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

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

Provision for rehabilitation of refuse landfill sites

The entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value using an appropriate discounting rate, representing the time value of money.

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ACCOUNTING POLICIES

1.6 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's current condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

1.7 Investment property

Initial recognition and measurement

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, to meet service delivery objectives, for administrative purposes or sale in the ordinary course of operations.

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

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

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

The cost of self-constructed investment property is the cost at date of completion.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

The cost of day to day servicing of investment property is recognised in the Statement of Financial Performance as incurred.

Subsequent measurement

Cost model

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

Depreciation recognised on investment property is determined with reference to the useful lives and residual values of the underlying items. Depreciation is provided to write down the cost, less estimated residual value by equal instalments over the useful life of the property, which is as follows:

Item	Useful life
Buildings	30 years

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

Impairments

The entity 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 Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance .

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

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ACCOUNTING POLICIES

1.7 Investment property (continued)

Derecognition

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

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

1.8 Property, plant and equipment

Initial recognition

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

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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.

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

Subsequent measurement

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, which is not depreciated as it is deemed to have an indefinite useful life.

Subsequent expenditure

Where the entity replaces part of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Depreciation

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Components that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciable amount is determined after taking into account an asset's residual value.

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ACCOUNTING POLICIES

1.8 Property, plant and equipment (continued)

The annual depreciation rates are based on the following estimated useful lives:

Item	Average useful life
Infrastructure	
• Roads and paving	10-30 years
• Water	15-20 years
• Pedestrian malls	20 years
• Electricity	20-30 years
• Sewerage	15-20 years
• Gas	20 years
• Airports	20 years
• Security	3-5 years
Community	
• Buildings	30 years
• Recreational equipment	20 years
Other	
• Buildings	30 years
• Office equipment	3-7 years
• Furniture and fittings	7-10 years
• Bins and containers	5-10 years
• Emergency equipment - fire hoses and emergency lights	5 years
• Emergency equipment - other firefighting equipment	15 years
• Motor vehicles - motor cycles	3 years
• Motor vehicles - fire engines	20 years
• Motor vehicles - other	5-10 years
• Plant and equipment - farming and construction	10-15 years
• Plant and equipment - Specialised equipment	5 years
• Plant and equipment - lawn mowers	2 years
• Other	15 years

Impairments

The entity 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.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Derecognition

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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ACCOUNTING POLICIES

1.9 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position 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.

An internally generated intangible asset is subject to strict recognition criteria before it is capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the entity intends to complete the intangible asset, for use or sale
- it is technically feasible to complete the intangible asset
- the entity has the resources to complete the project
- it is probable that it will generate future economic benefits or service potential.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are initially recognised at cost.

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

Subsequent measurement

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

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

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.

Amortisation and impairment

Amortisation is charged to write off the cost of intangible assets over their estimated useful lives using the straight-line method.

The annual amortisation rates are based on the following estimated average asset lives:

Computer software	5 years
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Impairments

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 performed at each reporting date. Where the carrying amount of an item 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.

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

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

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ACCOUNTING POLICIES

1.10 Financial instruments

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument meets the relevant definitions.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

Initial measurement

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

Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

All financial assets and financial liabilities are measured after initial recognition using the following categories:

a) Financial instruments at fair value:

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

b) Financial instruments at amortised cost

Non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the entity designates at fair value at initial recognition or are held for trading.

c) Financial instruments at cost

Investments in residual interest, which do not have quoted market prices and for which fair value cannot be determined reliably.

The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

Gains and losses

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

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

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.10 Financial instruments (continued)

Impairments

All financial assets measured at cost or amortised cost are subject to an impairment review. The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the entity determines that no objective evidence of impairment exists for an individually assessed asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when the obligation is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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ACCOUNTING POLICIES

1.10 Financial instruments (continued)

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

Policies relating to specific financial instruments

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments 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 Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade and other payables

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost.

1.11 Leases

Finance leases - lessee

Initial recognition

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

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

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

Subsequent measurement

Subsequent to initial recognition the finance lease liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

Finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

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ACCOUNTING POLICIES

1.11 Leases (continued)

Operating leases - lessor

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease.

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

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.

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

Operating leases - lessee

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position.

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

1.12 Inventories

Initial recognition and measurement

Inventories are initially measured at cost. Cost refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their required location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage.

Where inventory is acquired for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Subsequent measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress (WIP) and finished goods (FG), are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Water inventory is measured annually at the reporting date by way of dip readings and the calculated volume in the distribution network.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value.

Derecognition

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

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ACCOUNTING POLICIES

1.13 Employee benefits

Short-term employee benefits

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

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Post-employment benefits

The entity provides post employment benefits for its officials. These benefits are provided as either defined contribution plans or defined benefit plans. The entity identifies as defined contribution plans any post-employment plan in terms of which it has no obligation to make further contributions to the plan over and above the monthly contributions payable on behalf of employees (for example in the event of a funding shortfall). Any other plans are considered to be defined benefit plans.

Defined contribution plans

Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

Post retirement Medical Obligations

The municipality provides post-retirement medical benefits by subsidising the medical contributions of certain retired staff members according to the rules of the medical aid funds. Council pays 70% of the contributions and the remaining 30% is paid by the members.

The entitlement to post-retirement medical 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, in accordance with GRAP 25 - "Employee Benefits". The plan is unfunded.

The contributions are recognised in the statement of financial performance when the employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value of the plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of minimum funding requirements. Payments made by the municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries, and are recognised in the Statement of Financial Performance upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

1.14 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 expenditure expected to be required to settle the obligation.

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ACCOUNTING POLICIES

1.14 Provisions and contingencies (continued)

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 expenditure for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

1.15 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrues to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

Recognition

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the entity as compensation for executing the agreed services.

Specific exchange revenue sources

Service charges relating to electricity and water are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly.

Revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. At reporting date, an estimate of the prepaid electricity consumed is made and revenue is adjusted accordingly. The estimate is based on trend analysis and historical data of electricity consumption.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied on a monthly basis.

Rental income arising on facilities and equipment is accounted for on a straight-line basis over the lease terms on ongoing leases.

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.15 Revenue from exchange transactions (continued)

Measurement

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

1.16 Revenue from non-exchange transactions

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

Recognition

Revenue from non-exchange transactions is only recognised once all of the following criteria have been satisfied:

- a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- b) The amount of revenue can be measured reliably; and
- c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Fines are recognised when it is probable that future economic benefits will flow to the entity, the costs can be reliably measured and all restrictions have been complied with. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information available from the courts, it is not possible to measure this revenue in the invoicing period.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

Measurement

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

1.17 Borrowing costs

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

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ACCOUNTING POLICIES

1.18 Unauthorised expenditure (continued)

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

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

1.19 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.

1.20 Irregular expenditure

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

1.21 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and other entity are subject to common control.

Transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances are disclosed within the annual financial statements.

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

1.22 Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives.

Transitional provision

The municipality has taken advantage of the three year exemption on the measurement of Heritage Assets allowed by National Treasury.

1.23 Taxes - Value added tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of value added tax recoverable from, or payable to the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.24 Non-current assets held for sale

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

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

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ACCOUNTING POLICIES

1.25 Capital commitments

Capital commitments disclosed in the financial statements represents the contractual balance committed to the capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.26 Post-reporting date events

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.27. New standards and interpretations

1.27.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 25: Employee benefits	01 April 2013
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013
• GRAP 12 (as revised 2012): Inventories	01 April 2013
• GRAP 13 (as revised 2012): Leases	01 April 2013
• GRAP 16 (as revised 2012): Investment Property	01 April 2013
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013
• IGRAP16: Intangible assets website costs	01 April 2013
• IGRAP1 (as revised 2012): Applying the probability test on initial recognition of revenue	01 April 2013

1.27.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	No significant effect
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	No significant effect
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	No significant effect
• GRAP 107: Mergers	01 April 2014	No significant effect
• GRAP 20: Related parties	01 April 2013	No significant effect

Possible impact of initial application of standards of GRAP approved but not yet effective

GRAP 18: Segment Reporting - It is expected that this will only result in additional disclosures without affecting the underlying accounting.

GRAP 105: Transfers of functions between entities under common control - No significant impact is expected as no such transactions or events are expected in the foreseeable future.

GRAP 106: Transfers of functions between entities not under common control - No significant impact is expected as no such transactions or events are expected in the foreseeable future.

GRAP 107: Mergers - No significant impact is expected as no such transactions or events are expected in the foreseeable future.

GRAP 20: Related parties - No significant impact is expected as the information is to a large extent already included in the financial statements

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
2. Inventories		
Water	48,234	18,563
3. Other receivables		
Sundry deposits	60,383	-
Prepayments	337,500	-
	397,883	-
4. VAT receivable		
VAT	1,839,318	1,617,422
The municipality is registered for VAT on the payments basis.		
5. Trade receivables		
Gross balances		
Rates	1,324,004	1,149,121
Electricity	359,101	262,392
Water	1,606,914	1,613,891
Waste water	144,004	133,154
Sewerage	612,770	513,845
Refuse	847,527	757,994
Other	(203,392)	(387,975)
	4,690,928	4,042,422
Debtors with credit balances	110,477	-
Less: Provision for debt impairment	(4,034,650)	(3,690,648)
	(3,924,173)	(3,690,648)
Net balance	766,755	351,774
Rates		
Current (0 -30 days)	49,148	87,389
31 - 60 days	19,422	21,276
61 - 90 days	19,165	25,494
91 - 120 days	17,403	19,748
121 - 365 days	1,218,866	995,214
	1,324,004	1,149,121
Electricity		
Current (0 -30 days)	162,486	96,365
31 - 60 days	22,324	6,050
61 - 90 days	16,097	6,883
91 - 120 days	3,162	2,976
121 - 365 days	155,032	150,118
	359,101	262,392

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
5. Trade receivables (continued)		
Water		
Current (0 -30 days)	64,135	128,956
31 - 60 days	64,399	72,150
61 - 90 days	74,793	112,920
91 - 120 days	52,698	76,479
121 - 365 days	1,350,889	1,223,386
	1,606,914	1,613,891
Waste water		
Current (0 -30 days)	23,883	14,733
31 - 60 days	7,832	1,092
61 - 90 days	750	1,378
91 - 120 days	291	996
121 - 365 days	111,248	114,955
	144,004	133,154
Sewerage		
Current (0 -30 days)	33,119	24,984
31 - 60 days	20,695	18,590
61 - 90 days	23,868	24,414
91 - 120 days	18,816	18,169
121 - 365 days	516,272	427,688
	612,770	513,845
Refuse		
Current (0 -30 days)	67,328	40,566
31 - 60 days	25,390	21,914
61 - 90 days	21,080	20,854
91 - 120 days	19,415	19,994
121 - 365 days	714,314	654,666
	847,527	757,994
Debtors with credit balances	110,477	-
Provision for debt impairment	(4,034,650)	(3,690,648)
	(3,924,173)	(3,690,648)
Other		
Current (0 -30 days)	(38,511)	(176,895)
31 - 60 days	388	187
61 - 90 days	1,097	188
91 - 120 days	872	4,223
121 - 365 days	(167,238)	(215,678)
	(203,392)	(387,975)

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
5. Trade receivables (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	180,663	155,698
31 - 60 days	124,717	125,170
61 - 90 days	154,659	189,981
91 - 120 days	110,962	138,086
121 - 365 days	3,870,775	3,314,169
	4,441,776	3,923,104
Industrial/ commercial		
Current (0 -30 days)	73,794	57,557
31 - 60 days	3,932	1,801
61 - 90 days	671	679
91 - 120 days	821	331
121 - 365 days	13,531	12,548
	92,749	72,916
National and provincial government		
Current (0 -30 days)	96,214	3,013
31 - 60 days	42,721	14,115
61 - 90 days	1,520	1,472
91 - 120 days	872	135
121 - 365 days	15,076	27,840
	156,403	46,575
Total		
Current (0 -30 days)	350,671	216,268
31 - 60 days	171,369	141,086
61 - 90 days	156,850	192,132
91 - 120 days	112,656	138,552
121 - 365 days	3,899,382	3,354,384
	4,690,928	4,042,422
Debtors with credit balances	110,477	-
Less: Provision for debt impairment	(4,034,650)	(3,690,648)
	766,755	351,774
Total debtor past due but not impaired		
61 - 90 days	9,375	429,757
91 - 120 days	30,541	143,260
	39,916	573,017
Reconciliation of allowance for impairment		
Balance at beginning of the year	(3,690,648)	(901,411)
Contributions to allowance	(1,332,620)	(3,789,985)
Debt impairment written off against allowance	988,618	1,000,748
	(4,034,650)	(3,690,648)

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
6. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	325	325
Bank balances	137,294	109,639
Short-term deposits	7,430	7,318
	145,049	117,282

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
ABSA BANK - Cheque Account - 4053623514	262,002	86,582	161,330	137,294	109,639	(323,852)
Standard Bank - Cheque Account - 280252013	69,663	54,139	90,120	-	-	-
Standard Bank - Call Investment Account - 28875729-001	6,054	5,943	5,943	6,054	5,943	5,943
ABSA Bank - Fixed deposit - 9190855277	1,376	1,376	-	1,376	1,376	-
Total	339,095	148,040	257,393	144,724	116,958	(317,909)

7. Investment property

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	28,627,500	-	28,627,500	28,880,000	-	28,880,000

Reconciliation of investment property - 2013

	Opening balance	Transfers	Impairments	Total
Investment property	28,880,000	(160,000)	(92,500)	28,627,500

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	28,880,000	28,880,000

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.

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013			2012		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	799,000	-	799,000	799,000	-	799,000
Community assets	2,389,472	(1,643,344)	746,128	2,389,472	(1,404,729)	984,743
Infrastructure	128,876,798	(110,614,111)	18,262,687	120,382,522	(108,324,481)	12,058,041
Landfill sites	711,365	(389,448)	321,917	711,273	(311,292)	399,981
Leased and other assets	11,690,808	(7,586,141)	4,104,667	10,622,823	(5,925,770)	4,697,053
Buildings	6,965,500	(5,892,678)	1,072,822	6,965,500	(5,799,548)	1,165,952
Work-in-progress	37,926,589	-	37,926,589	25,577,682	-	25,577,682
Total	189,359,532	(126,125,722)	63,233,810	167,448,272	(121,765,820)	45,682,452

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Transfers	Depreciation	Total
Land	799,000	-	-	-	799,000
Community assets	984,743	-	-	(238,615)	746,128
Infrastructure	12,058,041	-	8,494,276	(2,289,630)	18,262,687
Buildings	1,165,952	-	-	(93,130)	1,072,822
Landfill sites	399,981	92	-	(78,156)	321,917
Lease and other assets	4,697,053	1,067,985	-	(1,660,371)	4,104,667
Work-in-progress	25,577,682	20,843,183	(8,494,276)	-	37,926,589
	45,682,452	21,911,260	-	(4,359,902)	63,233,810

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	799,000	-	-	799,000
Community assets	1,223,356	-	(238,613)	984,743
Infrastructure	21,128,459	-	(9,070,418)	12,058,041
Buildings	1,296,510	-	(130,558)	1,165,952
Landfill sites	474,607	3,511	(78,137)	399,981
Leased and other assets	4,435,346	1,998,600	(1,736,893)	4,697,053
Work-in-progress	10,481,896	15,095,786	-	25,577,682
	39,839,174	17,097,897	(11,254,619)	45,682,452

Contractual commitments for the acquisition of property, plant and equipment

Infrastructure	16,865,005	21,991,083
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013			2012		
	R			R		
9. Intangible assets						
	2013			2012		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	466,343	(466,339)	4	466,343	(407,157)	59,186

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software	59,186	(59,182)	4

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software	204,522	(145,336)	59,186

10. Heritage assets

The municipality owns the following heritage assets:

The Heroes of Steytlerville monument, situated in Steytlerville, in honour of persons that died during the apartheid struggle.

The Great War Memorial monument, situated in Steytlerville, in honour of service men killed during the First World War.

The municipality owns registered servitudes.

Transitional provision

The municipality has taken advantage of the three year exemption on the measurement of Heritage Assets allowed by National Treasury.

11. Non-current assets held for sale

	Opening balance	Additions	Impairments	Total
Non-current assets held for sale	-	160,000	(50,000)	110,000

Erf 1007 was sold on tender but had not yet been transferred at 30 June 2013.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
12. Finance lease obligation		
Minimum lease payments due		
- within one year	718,139	732,375
- in second to fifth year inclusive	1,426,580	623,344
Present value of minimum lease payments	2,144,719	1,355,719
Present value of minimum lease payments due		
- within one year	543,141	566,703
- in second to fifth year inclusive	959,693	762,427
	1,502,834	1,329,130
Non-current liabilities	959,693	762,427
Current liabilities	543,141	566,703
	1,502,834	1,329,130

The average lease term was 5 years and the effective borrowing rate ranges between prime and prime plus 18%.

13. Trade and other payables

Trade payables	13,927,267	12,917,364
Payments received in advanced	117,828	-
Salaries control	-	201,274
Leave pay	1,125,908	1,190,946
Direct deposits not receipted	47,153	-
Sundry deposits	1,026	-
Debtors with credit balances	110,477	-
	15,329,659	14,309,584

14. Consumer deposits

Electricity	27,079	27,845
Water	118,556	117,175
	145,635	145,020

No interest accrues on consumer deposits as Baviaans Municipality is not a deposit taking entity in terms of the Banking Act.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

DORA grants		
Municipal Infrastructure Grant	4,867,092	732,271
Waste Water Treatment Grant	-	(858,667)
Water Conservation and Demand	669,034	684,536
Water Service Assets	(1)	(1)
Regional Bulk Infrastructure Grant	(1,437,751)	-
Public works - EPWP	264,524	-
Cacadu - IDP Grant	-	201,026
Cacadu - LED Grant	-	185,744
Cacadu Provincial - LED Projects Grant	-	440,000
Cacadu Wireless Backbone Grant	-	36,842
Water and Sanitation	200,000	-
	4,562,898	1,421,751

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012
	R	R
15. Unspent conditional grants and receipts (continued)		
Movement during the year		
Balance at the beginning of the year	1,421,751	243,148
Additions during the year	51,626,584	35,868,355
Income recognition during the year	(46,885,774)	(34,689,752)
Other	(1,599,663)	-
	4,562,898	1,421,751

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.

See note 20 for reconciliation of grants from National/Provincial Government.

Due to the withholding of equitable share during the 2012-2013 financial year, the municipality undertook a full review of all unspent conditional grants for the past three years. The review indicated that the previously reported unspent conditional grants in the 2010-2011 financial year was incorrect, leading to the inaccurate reporting of 2011-2012 figures. The above review indicated that there were no unspent conditional grants the 2010-2011 financial year.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
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16. Provisions

Reconciliation of provisions - 2013

	Note	Opening Balance	Additions	Utilised during the year	Total
Rehabilitation of landfill		926,189	51,311	-	977,500
Provision for bonuses		1,092,420	-	(514,380)	578,040
Long service awards		1,179,000	438,000	-	1,617,000
Post employment medical aid	47	1,209,000	197,000	-	1,406,000
		4,406,609	686,311	(514,380)	4,578,540

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Rehabilitation of landfill	877,655	48,534	926,189
Provision for bonuses	57,359	1,035,061	1,092,420
Long service awards	365,769	813,231	1,179,000
Post employment medical aid	1,121,000	88,000	1,209,000
	2,421,783	1,984,826	4,406,609

Non-current liabilities	4,000,500	3,314,189
Current liabilities	578,040	1,092,420
	4,578,540	4,406,609

Performance Bonuses

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

Long service awards

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 was valued by an independent valuator as at 30 June 2013. 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 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
16. Provisions (continued)		
Rehabilitation of landfill		
The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The sites are expected to be closed in 2018, after which rehabilitation will take place over the course of the next 9 to 10 years after which the site is expected to be fully rehabilitated. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:		
- The CPIX was used to adjust the cost as it is the only determining factor year on year.		
The landfill sites are nearing the end of their useful lives and the ground and ground water on the entire site are thus considered to be contaminated and not just the portions in use, i.e. the provision provides for the cost of rehabilitating the entire site and not just the portions used up to financial year end. The entire site would need to be rehabilitated due to waste distributed across the entire site over the years since opening thereof. Thus, as provided in GRAP 19 where it states that the provision should only be raised to the extent that the costs would need to be incurred, it is considered that the full cost of rehabilitation would need to be incurred to rehabilitate the sites.		
17. Property rates		
Rates received		
Property rates	3,088,754	1,917,965
Valuations		
Residential		191,582,200
Commercial		45,951,500
State		77,633,500
Agricultural		1,455,051,000
Vacant		12,524,500
Indigent		32,750,500
Places of worship		39,000
		1,815,532,200
The following general rates were applied during the 2012/2013 and 2011/2012 years respectively to property valuations to determine the assessment rates:		
Residential properties valued below R 50 000 in Willowmore and Steytlerville	R442.75/year	R385/year
Residential properties valued from R50 001 to R100 000 in Willowmore and Steytlerville	R483/year	R420/year
Residential properties valued above R100 000 in Willowmore and Steytlerville	0.00488 c/R	0.00424 c/R
Residential properties in Rietbron	0.00372 c/R	0.0031 c/R
Businesses in Steytlerville and Willowmore	0.00627 c/R	0.00545 c/R
Agricultural properties	0.00030 c/R	0.000115c/R
State properties	0.00794 c/R	0.0069 c/R
Businesses in rural areas	0.00632 c/R	0.00242 c/R
Vacant land	0.1334 c/R	0.0116 c/R
18. Service charges		
Sanitation charges	339,514	288,222
Sale of electricity	8,896,544	7,760,525
Sale of water	2,946,622	2,726,222
Sewerage charges	1,418,735	991,357
Refuse removal	2,131,630	1,477,887
	15,733,045	13,244,213

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
19. Revenue		
Property rates	3,088,754	1,917,965
Service charges	15,733,045	13,244,213
Fines	3,800	12,970
Government grants & subsidies	46,885,774	34,689,752
Interest received	480,348	413,754
Licences and permits	508,746	460,519
Rental of facilities and equipment	115,974	58,939
Other income	2,556,858	2,536,097
Public contributions and donations	63,292	1,737,139
	69,436,591	55,071,348
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	15,733,045	13,244,213
Rental of facilities and equipment	115,974	58,939
Interest received	480,348	413,754
Licences and permits	508,746	460,519
Other income	2,556,858	2,536,097
	19,394,971	16,713,522
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	3,088,754	1,917,965
Government grants & subsidies	46,885,774	34,689,752
Public contributions and donations	63,292	1,737,139
Fines	3,800	12,970
	50,041,620	38,357,826

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
20. Government grants and subsidies		
Equitable share	15,985,000	14,833,000
Cacadu - IDP	797,047	-
Municipal Infrastructure Grant	8,080,487	7,991,301
Municipal Systems Improvement Grant	800,000	947,524
Subsidies: Tourism	-	162,530
Regional Bulk Infrastructure Grant	339,608	209,930
Cacadu - Fires Services Grant	250,000	250,000
Finance Management Grant	7,950,370	8,460,530
Regional Bulk Infrastructure Grant - Water - Erasmuskloof	10,683,262	1,834,937
Provincial Government Grant	2,000,000	-
	46,885,774	34,689,752
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Cacadu - IDP Grant		
Balance unspent at beginning of year	201,026	189,502
Current-year receipts	596,021	11,524
Transferred to revenue	(797,047)	-
	-	201,026
Cacadu - LED Grant		
Balance unspent at beginning of year	185,744	185,744
Expended	(185,744)	-
	-	185,744
Cacadu - Provincial LED Projects Grant		
Balance unspent at beginning of year	440,000	440,000
Expended	(440,000)	-
	-	440,000
Cacadu - Wireless Backbone Grant		
Balance unspent at beginning of year	36,842	36,842
Expended	(36,842)	-
	-	36,842
Municipal Infrastructure Grant		
Balance unspent at beginning of year	732,271	(57,078)
Current-year receipts	12,151,372	8,780,650
Transferred to revenue	(8,016,551)	(7,991,301)
	4,867,092	732,271

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
20. Government grants and subsidies (continued)		
Municipal Systems Improvement Grant		
Balance unspent at beginning of year	-	153,590
Current-year receipts	800,000	18,393,077
Transferred to revenue	(800,000)	(18,546,667)
	-	-
Tourism Hospitality Grant		
Balance unspent at beginning of year	-	162,530
Transferred to revenue	-	(162,530)
	-	-
Waste Water Treatment Grant		
Balance unspent at beginning of year	(858,667)	(858,667)
Current-year receipts	858,667	-
	-	(858,667)
Water Conservation and Demand Grant		
Balance unspent at beginning of year	684,536	(162,902)
Current-year receipts	-	847,438
Expended	(15,502)	-
	669,034	684,536
Water Service Assets Grant		
Balance unspent at beginning of year	(1)	(1)
Regional Bulk Infrastructure Grant		
Current-year receipts	-	209,930
Transferred to revenue	(339,608)	(209,930)
Expended	(1,098,143)	-
	(1,437,751)	-
Finance Management Grant		
Current-year receipts	7,773,804	8,460,530
Conditions met - transferred to revenue	(7,773,804)	(8,460,530)
	-	-
Cacadu - Fire services		
Current-year receipts	250,000	250,000
Transferred to revenue	(250,000)	(250,000)
	-	-
Provincial Government Grant		

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
20. Government grants and subsidies (continued)		
Current-year receipts	2,000,000	-
Transferred to revenue	(2,000,000)	-
	<u>-</u>	<u>-</u>
Regional Bulk Infrastructure Grant - Water - Erasmuskloof		
Current-year receipts	10,683,232	1,834,937
Transferred to revenue	(10,683,232)	(1,834,937)
	<u>-</u>	<u>-</u>
Water and Sanitation Grant		
Current-year receipts	<u>200,000</u>	<u>-</u>

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
21. Personnel		
Basic	13,982,146	13,784,274
Bonus	342,149	1,771,552
Medical aid - company contributions	838,320	681,691
UIF	129,920	113,382
SDL	48,094	-
Leave pay provision charge	121,061	163,836
Pension fund contributions	1,345,931	1,078,323
Travel, motor car, accommodation, subsistence and other allowances	486,158	193,401
Overtime payments	384,993	479,843
Long-service awards	343,000	211,000
Housing benefits and allowances	19,082	22,666
Provident fund contributions	20,132	-
Post employment medical aid	101,000	(4,000)
	18,161,986	18,495,968
Remuneration of municipal manager		
Annual Remuneration	514,935	478,335
Performance and other Bonuses	45,522	-
Travel, motor car, accommodation, subsistence and other allowances	74,400	74,400
Contributions to UIF, Medical and Pension Funds	8,013	6,023
	642,870	558,758
Remuneration of chief finance officer		
Annual Remuneration	442,560	317,811
Performance and other Bonuses	91,720	9,039
Travel, motor car, accommodation, subsistence and other allowances	123,482	144,938
Contributions to UIF, Medical and Pension Funds	6,686	7,062
	664,448	478,850
H. Nagel was appointed on 1 April 2013.		
Remuneration of Manager - Community Services		
Annual Remuneration	357,710	391,949
Performance and other Bonuses	9,770	-
Travel, motor car, accommodation, subsistence and other allowances	135,800	83,300
Contributions to UIF, Medical and Pension Funds	1,784	1,547
	505,064	476,796
Remuneration of the Manager - Corporate Services		
Annual Remuneration	402,710	376,949
Travel, motor car, accommodation, subsistence and other allowances	85,800	85,800
Contributions to UIF, Medical and Pension Funds	2,179	8,527
	490,689	471,276

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
21. Personnel (continued)		
Remuneration of Manager - Technical Services		
Annual Remuneration	442,710	416,949
Travel, motor car, accommodation, subsistence and other allowances	45,800	45,800
Contributions to UIF, Medical and Pension Funds	1,784	5,327
	490,294	468,076
22. Remuneration of councillors		
Executive Major	240,674	234,313
Councillors	828,067	731,278
Councillors allowances	426,525	405,181
Councillors' pension and medical aid contributions	11,987	12,168
	1,507,253	1,382,940
In-kind benefits		
The municipality received assistance from National Treasury and the Cacadu District Municipality. The assistance provided by National Treasury was in lieu of a MFIP Advisor. The assistance provided by Cacadu District Municipality was to provide accounting support services.		
23. Debt impairment		
Contributions to debt impairment provision	1,371,162	3,789,985
24. Depreciation and amortisation		
Property, plant and equipment	4,419,084	11,399,957
25. Finance costs		
Finance leases	771,383	266,649
Trade and other payables	847,410	496,062
	1,618,793	762,711
26. Repairs and maintenance		
Buildings	77,398	105,470
EPWP	2,081,956	2,290,511
Equipment	82,922	25,248
Fencing	-	10,520
Furniture	-	28,478
Maintenance	6,450	1,205
Network	400,076	212,239
Playgrounds	-	37,895
Sports fields	3,355	5,281
Street lights	28,984	29,224
Streets	61,092	131,399
Tools	36,176	74,667
Vehicles	324,787	234,603
	3,103,196	3,186,740

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
27. Bulk purchases		
Electricity	8,034,651	6,658,458
28. Grants and subsidies paid		
Free Basic Services	5,629,261	3,571,902
29. General expenses		
Advertising	52,652	48,599
Animal Costs	-	155,547
Assessment rates & municipal charges	510,402	626,385
Auditors remuneration	3,296,061	4,357,166
Bank charges	179,005	143,448
Chemicals	168,490	102,267
Christmas lights	11,367	36,740
Communication	90,323	(36,918)
Community assistance	17,821	32,966
Consumables	92,106	16,184
Electricity	1,106,750	1,063,533
Finance Management Grant	1,103,743	1,688,472
Fire fighting	530	-
Fuel and oil	1,065,543	833,902
Insurance	232,869	246,688
LED SMME/arts and crafts expenditure	-	80,405
Lease rentals	156,480	590,537
Legal fees	127,948	226,509
Library	-	24,708
Membership fees	683,601	87,719
Movement in water inventory	(29,670)	1,160
MSIG	700,067	790,000
Other projects	-	45,192
Postage and courier	199,242	177,857
Printing and stationery	149,260	125,808
Project management costs	522,829	509,134
Refuse	82,640	81,866
Research and development costs	57,494	30,774
Royalties and license fees	35,191	31,578
Special projects	22,760	187,774
Sundry expenses	150,807	1,064,163
Telephone and fax	367,920	501,179
Tourism development	248,792	136,747
Town planning	-	54,115
Training	4,614	49,393
Travel - local	79,999	96,011
Transfer fees	26,667	19,831
	11,514,303	14,227,439
30. Impairment of assets		
Impairments		
Property, plant and equipment	50,000	-
Investment property	92,500	-
	142,500	-

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
31. Prior period errors		
The correction of various errors resulted in adjustments as follows:		
Statement of financial position	Restated 2012 Reported 2012	
Assets		
Current assets		
Cash and cash equivalents	117,282	109,739
Trade receivables	351,774	604,003
Other financial assets	-	5,810
Inventories	18,563	18,563
VAT receivable	1,617,422	148,201
Non-current assets		
Investment property	28,880,000	10,155
Property, plant and equipment	45,282,452	55,529,563
Intangible assets	59,186	466,343
Liabilities		
Current liabilities		
Finance lease obligation	(566,703)	(457,455)
Trade and other payables	(14,309,584)	(18,079,057)
Consumer deposits	(145,020)	(145,220)
Provisions	(1,092,420)	(5,300,817)
Unspent conditional grants	(1,421,751)	(5,193,643)
Non-current liabilities		
Finance lease obligation	(762,427)	(766,456)
Provisions	(3,314,189)	-
	54,714,585	26,949,729
Statement of Financial Performance		
Revenue		
Property rates	1,917,965	1,917,965
Service charges	13,244,213	13,244,212
Rental of facilities and equipment	58,939	86,211
Fines	12,970	12,970
Licences and permits	460,519	2,722,763
Government grants & subsidies	34,689,752	34,913,631
Interest received	413,754	406,810
Other income	2,536,097	3,226,911
Public contributions and donations	1,737,139	-
Expenditure		
Personnel	(18,495,968)	(22,680,882)
Remuneration of councillors	(1,382,940)	(977,759)
Debt impairment	(3,789,985)	(3,789,985)
Depreciation and amortisation	(11,399,957)	-
Finance costs	(762,711)	(520,469)
Repairs and maintenance	(3,186,740)	-
Bulk purchases	(6,658,458)	(6,658,458)
Grants and subsidies paid	(3,571,902)	-
General expenses	(14,227,439)	(21,432,455)
	(8,404,752)	471,465

Cash and cash equivalents

Reclassification of other financial assets to cash and cash equivalents and restatement of the call investment account to take into account movement not previously recognised.

Trade receivables

Reclassification of VAT account previously reported under VAT receivable.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2013	2012
R	R

31. Prior period errors (continued)

Other financial assets

Reclassification of other financial assets to cash and cash equivalents.

VAT Receivable

Reclassification of VAT account previously reported under VAT receivable and correction of the VAT on debtors balances.

Investment Property

Recognition of investment property not previously reported.

Property, plant and equipment

Separation of Community assets, Water and sanitation infrastructure assets and recognition of movable assets not previously accounted for. Accounting for depreciation on movable, community, water infrastructure and sanitation infrastructure assets.

Intangible assets

Recalculated the carrying value in accordance with the accounting policy.

Finance lease obligation - current

Restatement of finance leases performed due to incorrect and unsubstantiated information being used previously.

Trade and other payables

Correction of trade payables, other payables, salaries control and leave accrual balances.

Consumer deposits

Reallocation of amount from receipts to consumer deposits.

Provisions - current

Reclassification of long service awards and post employment benefits to non-current liabilities. Restatement of provision for bonuses.

Unconditional grants

The unspent conditional grants and receipts were reconciled going back three years and corrected accordingly.

Finance lease obligation - non-current

Restatement of finance leases performed due to incorrect and unsubstantiated information being used previously.

Provisions - non-current

Reclassification of long service awards and post employment benefits to non-current liabilities. Restatement of long service awards and post employment benefits using revised, accurate actuarial information.

Licences and permits

Reclassification of amounts to set-off income and expenditure and only recognise the commission received.

Government grants & subsidies

The unspent conditional grants and receipts were reconciled going back three years and corrected accordingly.

Interest received

Recognised interest received on investments and from SARS.

Public contributions and donations

Recognising assets donated by Cacadu District Municipality

Personnel

Correction of post employment benefit using revised, accurate actuarial information.

Depreciation and amortisation

Recorded depreciation on community assets, water infrastructure, sanitation infrastructure and movable assets not previously recognised.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
31. Prior period errors (continued)		
Finance costs		
Restatement of finance leases performed due to incorrect and unsubstantiated information being used previously.		
Repairs and maintenance		
Separation of repairs and maintenance from general expenses.		
Grants and subsidies paid		
Separation of free basic services from general expenses.		
General expenses		
Separation of repairs and maintenance and grants and subsidies paid from general expenses.		
32. Cash generated from operations		
Surplus (deficit)	13,934,402	(8,404,752)
Adjustments for:		
Depreciation and amortisation	4,419,084	11,399,957
Impairment deficit	142,500	-
Debt impairment	1,371,162	3,789,985
Movements in provisions	171,931	1,382,595
Changes in working capital:		
Inventories	(29,671)	1,160
Other receivables	(397,883)	(63,170)
Consumer debtors	(1,786,143)	(1,268,470)
Trade and other payables	1,020,073	8,932,688
VAT	(221,896)	931,853
Unspent conditional grants and receipts	3,141,147	1,351,393
Consumer deposits	615	7,855
	21,765,321	18,061,094
33. Auditors' remuneration		
Fees	3,296,061	4,357,166
34. Related parties		
Relationships		
Mayor	EL Lock	
Councillor	Cllr D Bezuidenhout	
Councillor	Cllr H Booysen	
Councillor	Cllr M Fivaz	
Councillor	Cllr GA Hobson	
Councillor	Cllr V Lapperts	
Councillor	Cllr T Spogter	
Municipal Manager	JM Vumazonke	
Chief Financial Officer	H Nagel	
Technical Services Manager	B Arends	
Community Services Manager	L de Beer	
Corporate Services Manager	MA Lotter	
Related government entity	Eskom	
District Municipality Which Baviaans Municipality forms part of	Cacadu District Municipality	
Close family member of key management	None	
Joint venture of key management	None	
Associate of close family member of key management	None	
Members of key management	None	

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
35. Risk management		
Financial risk management		
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.		
Credit risk		
Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.		
Financial assets exposed to credit risk at year end were as follows:		
Financial instrument		
- Call deposits	7,430	7,318
- Trade and other receivables	1,988,898	351,774
- Other receivables	60,383	-
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. Interest rate risk is managed by investing any surplus funds into high yield investments. The resultant interest earned is likely to offset interest paid, as both are linked to prime rates.		
36. Events after the reporting date		
No events have been identified after the reporting date which could have a material impact on the annual financial statements.		
37. Unauthorised expenditure		
Opening balance	9,912,915	-
Add: Unauthorised expenditure - current year	12,017,645	9,912,915
Less: Amounts condoned	(10,820,100)	-
	11,110,460	9,912,915
38. Fruitless and wasteful expenditure		
Opening balance	359,039	-
Add: Fruitless and wasteful expenditure - current year	1,618,593	359,039
Less: Amounts condoned	(1,567,572)	-
	410,060	359,039
39. Irregular expenditure		
Opening balance	694,529	-
Add: Irregular expenditure - current year	-	694,529
	694,529	694,529

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2013	2012
R	R

40. Deviation from supply chain management regulations

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

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

Goods and services to the value of R2,686,080 were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

41. Contingencies

The municipality is still involved in a dispute with the owner of a farm in respect of the municipality's rights to water that is sourced from the farm. The municipality's lawyers are of the opinion that the matter will only be resolved in court. If it goes to court, further costs could reach somewhere between R400,000 and R500,000. Should the municipality be successful, a reasonable portion of the costs will be payable by the owner of the farm.

The municipality is being sued by Isiseko Soqoqosho CC for R 7,000,000 for damages incurred as a result of the termination of an agreement between the parties.

The matter was scheduled to be heard on 26 July 2011 but was sine die (for an undetermined time) postponed as the debtor's assets had to be valued. The debtor could only reschedule the hearing after they had paid the taxed costs which they did on 18 October 2012. They are in a position to schedule the matter for hearing but to date have not done such.

The municipality's lawyers consider it likely that the debtor will be liquidated and doubt whether any further amounts will be recovered.

42. Material losses

During the 2013 financial year the municipality incurred distribution losses relating to water of 20.51% (2012: 20.16%) and relating to electricity of 12.14% (2012: 9.69%)

43. Pension and medical aid deductions

Pension

Current year payroll deductions and Council Contributions
Amount paid - current year

2,044,490	1,081,996
(2,044,490)	(1,081,996)

-	-
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Medical aid

Current year payroll deductions and Council Contributions
Amount paid - current year

1,291,019	1,051,198
(1,291,019)	(1,051,198)

-	-
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44. Councillors' arrear consumer accounts

Outstanding less than 90 days

Councillor Clasen R
Councillor Booysen H
Councillor Bezuidenhout D
Councillor Fischer V
Councillor Fivaz M

2,376	1,789
187	152
1,604	1,282
179	-
-	97

4,346	3,320
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Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2013

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	2012 R
44. Councillors' arrear consumer accounts (continued)		
Outstanding more than 90 days		
Councillor Fischer V	-	101
All councillors' consumer accounts are in current.		
45. PAYE and UIF		
Current year payroll deductions	2,886,589	2,634,009
Amount paid - current year	(2,886,589)	(2,634,009)
	-	-
46. Operating lease receivables		
Present value of minimum lease payments due		
- within one year	6,600	6,600
- in second to fifth year inclusive	21,550	26,950
- later than five years	1,500	2,700
	29,650	36,250
The average lease terms is 10 years and the average effective lending rate is undetermined.		
Obligations under operating leases are secured by the lessor's title to the leased property.		
47. Post employment benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the post employment benefit obligation - wholly unfunded	1,406,000	1,209,000
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	1,209,000	1,121,000
Net expense recognised in the statement of financial performance	197,000	88,000
	1,406,000	1,209,000
Net expense recognised in the statement of financial performance		
Interest cost	96,000	92,000
Actuarial (gains) losses	192,000	81,000
Benefits paid	(91,000)	(85,000)
	197,000	88,000

Defined benefit obligation

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2013 by One Pangaea Financial using the Projected Unit Credit Method.