

# **Beaufort West**

## **MUNICIPALITY**



[Final audited financial statements]

### **FINANCIAL STATEMENTS**

**30 JUNE 2014**

# BEAUFORT WEST LOCAL MUNICIPALITY

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# BEAUFORT WEST LOCAL MUNICIPALITY

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

### GENERAL INFORMATION

#### NATURE OF BUSINESS

Beaufort West Municipality is a local municipality performing the functions as set out in the Constitution (Act no 105 of 1996).

#### COUNTRY OF ORIGIN AND LEGAL FORM

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998).

#### JURISDICTION

The Beaufort West Municipality includes the following areas:

*Beaufort West*

*Nelspoort*

*Merweville*

*Murraysburg*

#### MUNICIPAL MANAGER

*Mr. J. Booysen*

#### CHIEF FINANCIAL OFFICER

*Vacant*

#### REGISTERED OFFICE

*112 Donkin Street*

*BEAUFORT WEST*

*6970*

#### AUDITORS

Office of the Auditor General (WC)

#### PRINCIPLE BANKERS

ABSA Bank, Beaufort West

#### ATTORNEYS

*Crawford Attorneys, Beaufort West*

*Van Niekerk Attorneys, Beaufort West*

#### RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act

The Income Tax Act

Value Added Tax Act

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no 32 of 2000)

Municipal Planning and Performance Management Regulations

Water Services Act (Act no 108 of 1997)

Housing Act (Act no 107 of 1997)

Municipal Property Rates Act (Act no 6 of 2004)

Electricity Act (Act no 41 of 1987)

Skills Development Levies Act (Act no 9 of 1999)

Employment Equity Act (Act no 55 of 1998)

Unemployment Insurance Act (Act no 30 of 1966)

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

Remuneration of Public Office Bearers Act (Act no 20 of 1998)

Supply Chain Management Regulations, 2005

Collective Agreements

Infrastructure Grants

SALBC Leave Regulations

# BEAUFORT WEST LOCAL MUNICIPALITY

## MEMBERS OF THE BEAUFORT WEST LOCAL MUNICIPALITY

WARD	COUNCILLOR
1	L Deyse
2	A.M. Slabbert
3	G. de Vos
4	S.M. Motsoane
5	M. Furmen
6	G.P. Adolph
7	J. Bostander
Proportional	P.A. Jacobs
Proportional	G.T. Murray
Proportional	T. Prince
Proportional	R. van der Linde
Proportional	D.E. Welgemoed
Proportional	A.D. Willemse

### APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements year ended 30 June 2014, which are set out on pages 1 to 121 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with GRAP.

I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Mr. J. Booyesen  
Municipal Manager

31 August 2014

Date

# BEAUFORT WEST LOCAL MUNICIPALITY

## STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014

	Notes	2014 R (Actual)	2013 R (Restated)
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>		<b>346 132 469</b>	<b>341 239 891</b>
Capital Replacement Reserve	2	4 849 606	4 546 564
Housing Development Fund	2	4 198 159	4 170 185
Self Insurance Reserve	2	1 118 685	1 035 337
Accumulated Surplus		335 966 019	331 487 805
<b>Non-Current Liabilities</b>		<b>46 160 825</b>	<b>42 335 458</b>
Long-term Liabilities	3	14 602 574	14 703 394
Employee benefits	4	25 882 098	22 295 025
Non-Current Provisions	5	5 676 153	5 337 039
<b>Current Liabilities</b>		<b>46 033 645</b>	<b>46 344 105</b>
Consumer Deposits	6	1 138 815	1 159 826
Current Employee benefits	7	7 509 143	7 156 341
Payables From Exchange Transactions	8	26 634 801	27 445 114
Unspent Conditional Government Grants and Receipts	9	7 135 563	7 774 144
Unspent Public Contributions	10	139 052	-
Current Portion of Long-term Liabilities	3	3 476 271	2 808 681
<b>Total Net Assets and Liabilities</b>		<b>438 326 939</b>	<b>429 919 454</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>		<b>388 897 942</b>	<b>381 291 829</b>
Property, Plant and Equipment	12	371 670 337	365 239 811
Investment Property	13	8 647 603	9 380 540
Intangible Assets	14	268 770	334 581
Capitalised Restoration Cost	15	1 664 002	1 744 746
Heritage Assets	16	2 970 644	2 970 644
Long-Term Receivables	17	3 676 587	1 621 507
<b>Current Assets</b>		<b>49 428 997</b>	<b>48 627 625</b>
Inventory	18	2 791 450	3 165 903
Trade Receivables from exchange transactions	19	15 117 729	14 095 015
Other Receivables from non-exchange transactions	20	14 970 281	8 879 561
Unpaid Conditional Government Grants and Receipts	9	670 378	912 408
Operating Lease Asset	21.2	10 008	11 821
Taxes	11	3 932 014	3 465 238
Cash and Cash Equivalents	22	11 937 136	18 097 679
<b>Total Assets</b>		<b>438 326 939</b>	<b>429 919 454</b>

**BEAUFORT WEST LOCAL MUNICIPALITY**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 (Actual) R	2013 (Restated) R	Correction of error R	2013 (Previously reported) R
<b>REVENUE</b>					
<b>Revenue from Non-exchange Transactions</b>		<b>163 499 160</b>	<b>154 415 233</b>	<b>(1 504 501)</b>	<b>155 919 734</b>
<b>Taxation Revenue</b>		<b>22 792 230</b>	<b>21 645 527</b>	<b>-</b>	<b>21 645 527</b>
Property taxes	23	22 792 230	21 645 527	-	21 645 527
<b>Transfer Revenue</b>		<b>99 629 979</b>	<b>117 172 341</b>	<b>(403 936)</b>	<b>117 576 277</b>
Government Grants and Subsidies - Capital	24	21 348 285	51 170 022	-	51 170 022
Government Grants and Subsidies - Operating	24	77 918 756	65 941 227	(403 936)	66 345 163
Contributed PPE		362 936	61 092	-	61 092
<b>Other Revenue</b>		<b>41 076 951</b>	<b>15 597 365</b>	<b>(1 100 565)</b>	<b>16 697 930</b>
Actuarial Gains		203 285	3 194 043	-	3 194 043
Fines		40 873 666	12 403 322	(1 100 565)	13 503 887
<b>Revenue from Exchange Transactions</b>		<b>95 627 358</b>	<b>87 342 047</b>	<b>513 591</b>	<b>86 828 456</b>
Property Rates - penalties imposed and collection charges		399 873	607 297	-	607 297
Service Charges	25	85 099 374	78 302 416	-	78 302 416
Rental of Facilities and Equipment		814 984	749 715	(822)	750 537
Interest Earned - external investments		1 011 727	979 042	65	978 977
Interest Earned - outstanding debtors		1 856 351	1 391 595	-	1 391 595
Licences and Permits		545 598	657 424	147 059	510 365
Agency Services		541 057	471 592	-	471 592
Other Income	26	5 356 394	4 182 866	367 289	3 815 677
<b>Total Revenue</b>		<b>259 126 518</b>	<b>241 757 280</b>	<b>(990 910)</b>	<b>242 748 190</b>
<b>EXPENDITURE</b>					
Employee related costs	27	67 913 859	62 334 838	1 726 068	60 608 770
Remuneration of Councillors	28	3 893 736	3 935 770	(166 810)	4 102 580
Debt Impairment	29	27 217 301	8 000 132	-	8 000 132
Collection Cost		652 890	677 580	-	677 580
Depreciation and Amortisation	30	14 030 083	13 316 586	31 264	13 285 322
Impairments	31	10 994 382	11 216	11 216	-
Repairs and Maintenance	32	17 408 268	11 271 299	29 733	11 241 566
Actuarial losses	4	1 882 459	3 106	-	3 106
Finance Charges	33	4 066 726	4 132 089	(65 355)	4 197 444
Bulk Purchases	34	39 066 285	36 515 007	(6 646 662)	43 161 669
Contracted services	35	11 539 821	10 085 746	2 390 082	7 695 664
Grants and Subsidies Paid	36	60 000	39 859	-	39 859
Stock Adjustments	34	7 323 581	6 646 662	6 646 662	-
Other Operating Grant Expenditure		-	-	(29 358 204)	29 358 204
Loss on disposal of PPE		167 999	85 728	-	85 728
General Expenses	37	47 996 575	40 711 023	25 379 132	15 331 891
<b>Total Expenditure</b>		<b>254 233 965</b>	<b>197 766 641</b>	<b>(22 874)</b>	<b>197 789 515</b>
<b>NET SURPLUS FOR THE YEAR</b>		<b>4 892 553</b>	<b>43 990 639</b>	<b>(968 036)</b>	<b>44 958 675</b>

# BEAUFORT WEST LOCAL MUNICIPALITY

## STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2014

	Self Insurance Reserve	Housing Development Fund	Capital Replacement Reserve	Accumulated Surplus/ (Deficit)	Total
	R	R	R	R	R
Balance at 1 July 2012	765 283	4 138 843	1 885 759	288 044 335	294 834 222
Correction of error - See Note 38.04	-	-	-	2 414 988	2 414 988
<b>Restated Balance at 1 July 2012</b>	<b>765 283</b>	<b>4 138 843</b>	<b>1 885 759</b>	<b>290 459 323</b>	<b>297 249 210</b>
Net Surplus/(Deficit) for the year	-	-	-	44 958 675	44 958 675
Correction of error - See Note 38.01	-	-	-	(968 036)	(968 036)
Contribution to Insurance Reserve	464 705	-	-	(464 705)	-
Insurance claims processed	(194 651)	-	-	194 651	-
Transfer to CRR	-	-	3 245 801	(3 245 801)	-
Property, Plant and Equipment purchased	-	-	(584 996)	584 996	-
Transfer to Housing Development Fund	-	31 342	-	(31 342)	-
Rounding	-	-	-	43	43
<b>Restated Balance at 1 July 2013</b>	<b>1 035 337</b>	<b>4 170 185</b>	<b>4 546 564</b>	<b>331 487 805</b>	<b>341 239 893</b>
Net Surplus/(Deficit) for the year	-	-	-	4 892 553	4 892 553
Transfer to CRR	-	-	4 718 623	(4 718 623)	-
Property, Plant and Equipment purchased	-	-	(4 415 581)	4 415 581	-
Contribution to Insurance Reserve	273 445	-	-	(273 445)	-
Insurance claims processed	(190 097)	-	-	190 097	-
Transfer to Housing Development Fund	-	27 974	-	(27 974)	-
Rounding	-	-	-	25	25
<b>Balance at 30 June 2014</b>	<b>1 118 685</b>	<b>4 198 159</b>	<b>4 849 606</b>	<b>335 966 019</b>	<b>346 132 471</b>

**BEAUFORT WEST LOCAL MUNICIPALITY**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014**

	Notes	2014 R	2013 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Ratepayers and other		119 381 830	156 746 270
Government		103 330 957	89 245 983
Interest		2 870 078	2 370 637
<b>Payments</b>			
Suppliers and employees		(195 820 048)	(180 895 592)
Finance charges	33	(4 086 726)	(4 132 089)
Transfers and Grants		(60 000)	(39 859)
<b>Net Cash from Operating Activities</b>		<b>25 616 091</b>	<b>63 295 350</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment		(30 263 543)	(54 135 308)
Proceeds on Disposal of Fixed Assets		-	113 740
Purchase of Intangible Assets		(24 809)	(7 359)
(Increase)/Decrease in Long-term Receivables		(2 055 080)	(288 384)
<b>Net Cash from Investing Activities</b>		<b>(32 343 433)</b>	<b>(54 317 311)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
New loans raised		4 092 471	2 357 891
New loans (repaid)		(3 525 696)	(3 781 193)
Rounding		24	26
<b>Net Cash from Financing Activities</b>		<b>566 799</b>	<b>(1 423 276)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(6 160 543)</b>	<b>7 554 763</b>
Cash and Cash Equivalents at the beginning of the year		18 097 679	10 542 916
Cash and Cash Equivalents at the end of the year	40	11 937 136	18 097 679
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(6 160 543)</b>	<b>7 554 763</b>



**BEAUFORT WEST LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2014 R (Actual)	2014 R (Final Budget)	2014 R (Variance)	Explanations for material variances
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	12 070	12 330	(260)	
Call investment deposits	9 332 328	4 642 893	4 689 435	Additional grants received and CRR contributions
Primary bank account	2 592 738	-	2 592 738	Additional grants received and CRR contributions
Consumer debtors	15 117 729	26 524 492	(11 406 763)	Rates budgeted under consumer debtors but included under actual other receivables
Other Receivables	19 562 861	3 477 883	16 104 798	Rates budgeted under consumer debtors but included under actual other receivables
Inventory	2 791 450	3 209 850	(418 400)	Decrease in stock
<b>Total current assets</b>	<u>49 428 957</u>	<u>37 867 448</u>	<u>11 561 549</u>	
<b>Non current assets</b>				
Long-term receivables	3 676 567	1 621 507	2 055 060	Increase in debtor arrangements
Investment property	8 647 803	9 690 000	(1 042 197)	
Property, plant and equipment	376 304 982	385 713 000	(9 408 018)	Unspent grants
Intangible Assets	258 770	335 000	(86 230)	
<b>Total non current assets</b>	<u>388 897 942</u>	<u>397 359 507</u>	<u>(8 461 565)</u>	
<b>TOTAL ASSETS</b>	<u>438 326 939</u>	<u>435 226 955</u>	<u>3 099 984</u>	
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Borrowing	3 476 271	3 258 073	218 198	Finance Lease vehicles
Consumer deposits	1 138 815	1 200 000	(61 185)	
Trade and other payables	33 909 416	19 851 000	14 058 416	Cash flow problems and increase in payables
Provisions and Employee Benefits	7 509 143	9 783 084	(2 273 941)	Calculation error on the budget
<b>Total current liabilities</b>	<u>46 033 645</u>	<u>34 092 157</u>	<u>11 941 488</u>	
<b>Non current liabilities</b>				
Borrowing	14 602 574	12 828 058	1 778 516	Finance Lease vehicles
Provisions and Employee Benefits	31 556 251	33 142 412	(1 584 161)	Provision for landfill sites calculation changed
<b>Total non current liabilities</b>	<u>46 160 825</u>	<u>45 968 470</u>	<u>192 355</u>	
<b>TOTAL LIABILITIES</b>	<u>92 194 471</u>	<u>80 060 627</u>	<u>12 133 844</u>	
<b>NET ASSETS</b>	<u>346 132 469</u>	<u>355 166 328</u>	<u>(9 033 859)</u>	
<b>COMMUNITY WEALTH</b>				
Accumulated Surplus/(Deficit)	335 966 019	347 142 508	(11 176 489)	Net of all reasons
Reserves	10 166 450	8 023 787	2 142 663	Additional contribution to CRR
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<u>346 132 469</u>	<u>355 166 295</u>	<u>(9 033 826)</u>	

**BEAUFORT WEST LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014**  
**ADJUSTMENTS TO APPROVED BUDGET**

	2014 R (Approved Budget)	2014 R (Adjustments)	2014 R (Final Budget)	Explanations for material adjustments
<b>ASSETS</b>				
Current assets				
Cash	13 170	(840)	12 330	
Call investment deposits	6 754 000	(2 111 107)	4 642 893	Additional spending on CRR
Consumer debtors	18 771 062	7 753 433	26 524 492	Decrease in payment percentage
Other Receivables	4 000 000	(522 117)	3 477 883	
Inventory	3 209 850	-	3 209 850	
<b>Total current assets</b>	<b>32 748 082</b>	<b>5 119 386</b>	<b>37 867 448</b>	
Non current assets				
Long-term receivables	1 233 123	388 384	1 621 507	Increase in arrangements with debtors
Investment property	9 368 931	321 089	9 690 000	
Property, plant and equipment	388 681 142	(2 868 142)	385 713 000	
Intangible Assets	252 267	82 733	335 000	
<b>Total non current assets</b>	<b>399 435 463</b>	<b>(2 075 956)</b>	<b>397 359 507</b>	
<b>TOTAL ASSETS</b>	<b>432 183 545</b>	<b>3 043 410</b>	<b>435 226 955</b>	
<b>LIABILITIES</b>				
Current liabilities				
Borrowing	3 900 000	(941 927)	3 258 073	Finance Lease vehicles returned
Consumer deposits	1 200 000	-	1 200 000	
Trade and other payables	21 408 480	(1 557 490)	19 851 000	
Provisions and Employee Benefits	4 736 508	5 046 575	9 783 084	Post employee benefits and landfill sites
<b>Total current liabilities</b>	<b>31 244 989</b>	<b>2 847 158</b>	<b>34 092 157</b>	
Non current liabilities				
Borrowing	11 140 937	1 685 121	12 826 058	New finance lease vehicles
Provisions and Employee Benefits	33 142 412	-	33 142 412	
<b>Total non current liabilities</b>	<b>44 283 349</b>	<b>1 685 121</b>	<b>45 968 470</b>	
<b>TOTAL LIABILITIES</b>	<b>75 528 348</b>	<b>4 532 279</b>	<b>80 060 627</b>	
<b>NET ASSETS</b>	<b>356 655 197</b>	<b>(1 488 869)</b>	<b>355 166 328</b>	
<b>COMMUNITY WEALTH</b>				
Accumulated Surplus/(Deficit)	349 427 097	(2 284 589)	347 142 508	Net of all reasons
Reserves	7 228 100	795 687	8 023 787	Additional contribution to CRR
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<b>356 655 197</b>	<b>(1 488 902)</b>	<b>355 166 295</b>	

**BEAUFORT WEST LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2014 R (Actual)	2014 R (Final Budget)	2014 R (Variance)	Explanations for material variances
<b>REVENUE BY SOURCE</b>				
Property rates	22 792 230	22 815 000	(22 770)	
Property rates - penalties & collection charges	398 873	920 000	(220 127)	Budget was based on actual for 2012/13 of +/-R607 000
Service charges	85 090 374	86 836 079	(7 736 705)	
Rental of facilities and equipment	814 984	1 009 014	(194 030)	Less income received during the year.
Interest earned - external investments	1 011 727	1 060 000	(48 273)	
Interest earned - outstanding debtors	1 858 351	1 500 000	358 351	Increase in outstanding debtors
Fines	40 873 666	14 042 000	26 831 666	Fines actual recorded according to IGRAP 1
Licences and permits	545 598	637 800	(92 202)	
Agency services	541 057	510 000	31 057	
Government Grants and Subsidies - Operating	77 918 756	77 571 040	347 716	Additional grant received
Other revenue	5 922 617	3 083 977	2 838 640	Additional grant received (VAT)
Gains on disposal of PPE	-	1 000	(1 000)	
<b>Total Operating Revenue</b>	<b>237 778 233</b>	<b>209 685 810</b>	<b>28 092 323</b>	
<b>EXPENDITURE BY TYPE</b>				
Employee related costs	67 913 859	67 216 728	697 131	Operating grant expenditure
Remuneration of councillors	3 893 736	4 169 580	(275 824)	Deputy Mayor not appointed
Debt impairment	27 217 301	2 600 000	24 617 301	Fines provision contribution according to IGRAP 1
Depreciation & asset impairment	14 030 083	14 215 616	(185 533)	
Finance charges	4 086 726	1 662 194	2 424 532	Post Retirement Benefits and Landfill sites
Bulk purchases	46 389 886	49 950 000	(3 560 134)	Less consumption
Other materials	17 408 268	19 239 955	(1 831 687)	Less repairs due to cash flow
Contracted services	11 539 821	7 048 418	4 491 403	Security services, Operating grant expenditure
Grants and subsidies paid	60 000	-	60 000	Budgeted under other expenditure
Impairments	10 994 382	-	10 994 382	Asset impairments on land and buildings and investment properties
Other expenditure	50 531 324	57 775 755	(7 243 831)	Less expenditure due to cash flow
Loss on disposal of PPE	167 999	-	167 999	
<b>Total Operating Expenditure</b>	<b>254 233 865</b>	<b>223 878 226</b>	<b>30 355 739</b>	
<b>Operating Deficit for the year</b>	<b>(16 455 732)</b>	<b>(14 192 316)</b>	<b>(2 263 416)</b>	
Government Grants and Subsidies - Capital	21 348 285	29 586 672	(8 217 387)	Underspending with Unspent Conditional Grants at yearend
<b>Net Surplus for the year</b>	<b>4 892 553</b>	<b>15 373 356</b>	<b>(10 480 803)</b>	

**BEAUFORT WEST LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2014**  
**ADJUSTMENTS TO APPROVED BUDGET**

	2014 R (Approved Budget)	2014 R (Adjustments)	2014 R (Final Budget)	Reasons for material adjustments
<b>REVENUE BY SOURCE</b>				
Property rates	23 732 030	(917 030)	22 815 000	Revenue from new valuation roll estimates not realised
Property rates - penalties & collection charges	620 000	-	620 000	
Service charges	88 558 664	(122 565)	88 436 079	
Rental of facilities and equipment	959 849	49 165	1 009 014	
Interest earned - external investments	1 060 000	-	1 060 000	
Interest earned - outstanding debtors	1 415 000	85 000	1 500 000	
Fines	12 495 060	1 546 940	14 042 000	6 months actual supported increase in budget
Licences and permits	637 900	(100)	637 800	
Agency services	460 000	50 000	510 000	6 months actual supported increase in budget
Government Grants and Subsidies - Operating	68 035 000	9 536 040	77 571 040	Additional grants received
Other revenue	1 229 041	1 854 936	3 083 977	6 months actual supported increase in budget and additional grants received (VAT)
Gains on disposal of PPE	1 000	-	1 000	
<b>Total Operating Revenue</b>	<b>197 863 544</b>	<b>12 082 366</b>	<b>209 945 910</b>	
<b>EXPENDITURE BY TYPE</b>				
Employee related costs	67 177 066	39 662	67 216 728	
Remuneration of councillors	4 169 560	-	4 169 560	
Debt impairment	2 800 000	-	2 800 000	
Depreciation & asset impairment	14 215 616	-	14 215 616	
Finance charges	1 577 184	85 010	1 662 194	
Bulk purchases	49 950 000	-	49 950 000	
Other materials	15 667 579	3 572 376	19 239 955	Additional grant received
Contracted services	7 161 846	(113 428)	7 048 418	
Other expenditure	47 407 273	10 368 482	57 775 755	Additional grant received
<b>Total Operating Expenditure</b>	<b>208 926 124</b>	<b>13 952 102</b>	<b>223 878 226</b>	
<b>Operating Deficit for the year</b>	<b>(12 322 580)</b>	<b>(1 869 736)</b>	<b>(14 192 316)</b>	
Government Grants and Subsidies - Capital	24 012 000	5 553 672	29 565 672	Additional grant received
<b>Net Surplus for the year</b>	<b>11 689 420</b>	<b>3 683 936</b>	<b>15 373 356</b>	

**BEAUFORT WEST LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2014 R (Actual)	2014 R (Final Budget)	2014 R (Variance)	Explanations for material variances
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Receipts				
Ratepayers and other	119 381 830	124 903 854	(5 522 124)	Fines actual recorded according to IGRAP 1
Government - operating	81 982 872	72 125 994	9 856 878	Additional grants received net of operating and capital
Government - capital	21 348 285	28 600 350	(7 252 065)	Additional grants received net of operating and capital
Interest	2 870 078	1 060 000	1 810 078	Interest on outstanding debtors
Payments				
Suppliers and Employees	(195 820 048)	(204 870 416)	8 850 368	Vacant posts not filled and increase in creditors due to cash flow
Finance charges	(4 086 726)	(1 662 194)	(2 424 532)	Post retirement benefits and landfill sites
Transfers and Grants	(60 000)	-	(60 000)	Budgeted under other expenditure
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>25 616 091</b>	<b>20 357 688</b>	<b>5 258 403</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Receipts				
Decrease/(increase) in non-current receivables	(2 055 080)	701 061	(2 756 141)	Increase in debtor arrangements
Payments				
Capital assets	(30 288 352)	(30 319 410)	31 058	
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(32 343 432)</b>	<b>(29 618 349)</b>	<b>(2 725 084)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Receipts				
Borrowing	4 092 471	-	4 092 471	Finance lease vehicles
Increase/(decrease) in consumer deposits	-	47 370	(47 370)	
Payments				
Repayment of borrowing	(3 525 696)	(4 229 165)	703 469	More finance lease vehicles returned
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>566 775</b>	<b>(4 181 795)</b>	<b>4 748 570</b>	
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>(6 160 567)</b>	<b>(13 442 456)</b>	<b>7 281 889</b>	<b>Net of all reasons</b>
Cash and Cash Equivalents at the beginning of the year	18 097 679	18 097 679	-	
Cash and Cash Equivalents at the end of the year	11 937 136	4 655 223	7 281 913	

**BEAUFORT WEST LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2014**  
**ADJUSTMENTS TO APPROVED BUDGET**

	2014 R (Approved Budget)	2014 R (Adjustments)	2014 R (Final Budget)	Reasons for material adjustments
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
Receipts				
Ratepayers and other	125 474 210	(570 256)	124 903 954	
Government - operating	67 660 000	4 465 994	72 125 994	Additional grants received
Government - capital	24 012 000	4 588 350	28 600 350	Additional grants received
Interest	1 060 000	-	1 060 000	
Payments	(190 892 034)	(13 778 382)	(204 670 416)	Cash flow problems and increase in payables
Suppliers and Employees	(1 577 184)	(85 010)	(1 662 194)	
Finance charges	-	-	-	
Transfers and Grants	-	-	-	
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>26 736 992</b>	<b>(5 379 304)</b>	<b>20 357 688</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Receipts	701 061	-	701 061	
Decrease/(Increase) in non-current receivables	-	-	-	
Payments	(25 021 860)	(5 297 550)	(30 319 410)	Additional grants received
Capital assets	(24 320 799)	(5 297 550)	(29 618 349)	
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(24 320 799)</b>	<b>(5 297 550)</b>	<b>(29 618 349)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Receipts	47 370	-	47 370	
Increase/(decrease) in consumer deposits	-	-	-	
Payments	(4 228 165)	-	(4 228 165)	
Repayment of borrowing	(4 181 795)	-	(4 181 795)	
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>(2 785 602)</b>	<b>(10 676 854)</b>	<b>(13 442 456)</b>	Net of all reasons
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>9 532 772</b>	<b>8 564 907</b>	<b>18 097 679</b>	
Cash and Cash Equivalents at the beginning of the year	6 767 170	(2 111 947)	4 655 223	
Cash and Cash Equivalents at the end of the year				

**BEAUFORT WEST MUNICIPALITY**

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

**1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS**

**1.1. BASIS OF PREPARATION**

The financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act no 56 of 2003).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet:

Standard	Description	Effective Date
GRAP 5 (Revised Feb 2013)	Borrowing Costs	1 April 2014
GRAP 100 (Revised – Feb 2013)	Discontinued Operations (formerly known as Non-current assets held for Sale and Discontinued Operations)	1 April 2014

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible Assets where the acquisition cost of an asset could not be determined.

**1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

## **BEAUFORT WEST MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

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#### **1.3. GOING CONCERN ASSUMPTION**

These financial statements have been prepared on a going concern basis.

#### **1.4. COMPARATIVE INFORMATION**

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### **1.5. AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

#### **1.6. MATERIALITY**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

#### **1.7. PRESENTATION OF BUDGET INFORMATION**

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as a separate additional financial statement, namely Statement of Comparison of Budget and Actual Amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2013 to 30 June 2014. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Notes to the Financial Statements.



**BEAUFORT WEST MUNICIPALITY**

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

Explanations for material differences between the final budget amounts and actual amounts are included the Notes to the Financial Statements.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

**1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

Standard	Description	Effective Date
<b>GRAP 6</b> <b>(Revised – Nov 2010)</b>	<b>Consolidated and Separate Financial Statements</b>  The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity.  No significant impact is expected as the Municipality does not have any entities at this stage to be consolidated.	<b>Unknown</b>
<b>GRAP 8</b> <b>(Revised – Nov 2010)</b>	<b>Interest in Joint Ventures</b>  The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.  No significant impact is expected as the Municipality is not involved in any joint ventures.	<b>Unknown</b>
<b>GRAP 18</b> <b>(Original – Feb 2011)</b>	<b>Segment Reporting</b>  The objective of this Standard is to establish principles for reporting financial information by segments.  No significant impact is expected as information to a large extent is already included in the appendices to the financial statements which do not form part of the audited financial statements.	<b>1 April 2015</b>
<b>GRAP 20</b> <b>(Original – June 2011)</b>	<b>Related Party Disclosure</b>  The objective of this Standard is to ensure that a Municipality's financial statements contains the	<b>Unknown</b>

**BEAUFORT WEST MUNICIPALITY**

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

	<p>disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	
<p><b>GRAP 32</b> (Original – Aug 2013)</p>	<p><b>Service Concession Arrangements: Grantor</b></p> <p>The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor and a public sector entity.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	<p>Unknown</p>
<p><b>IGRAP 17</b></p>	<p><b>Service Concession Arrangements where a grantor controls a significant residual interest in an Asset</b></p> <p>The objective of this Interpretation of the Standard is to provide guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease.</p> <p>No significant impact is expected as the Municipality does not have any Concession Arrangements at this stage.</p>	<p>Unknown</p>
<p><b>GRAP 105</b> (Original – Nov 2010)</p>	<p><b>Transfer of Functions Between Entities Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p>1 April 2015</p>
<p><b>GRAP 106</b> (Original – Nov 2010)</p>	<p><b>Transfer of Functions Between Entities Not Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p>	<p>1 April 2015</p>

**BEAUFORT WEST MUNICIPALITY**

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

	No significant impact expected as no such transactions or events are expected in the foreseeable future.	
<b>GRAP 107</b> (Original – Nov 2010)	<p><b>Mergers</b></p> <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<b>1 April 2015</b>
<b>GRAP 108</b> (Original – Sept 2013)	<p><b>Statutory Receivables</b></p> <p>The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.</p> <p>No significant impact is expected as the Municipality's current treatment is already in line with the Standards treatment.</p>	<b>Unknown</b>
<b>IGRAP 11</b>	<p><b>Consolidation - Special Purpose Entities (SPE)</b></p> <p>The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.</p> <p>No significant impact is expected as the Municipality does not have any SPE's at this stage.</p>	<b>Unknown</b>
<b>IGRAP 12</b>	<p><b>Jointly Controlled Entities non-monetary contributions</b></p> <p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality does not have any JCE's at this stage.</p>	<b>Unknown</b>

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

**1.9. RESERVES**

**1.9.1 Capital Replacement Reserve (CRR)**

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/ to the CRR. The cash in the CRR can only be utilized to finance items of property, plant

## **BEAUFORT WEST MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

and equipment. The CRR is reduced and the accumulated surplus is credited by a corresponding amount when the amounts in the CRR are utilized.

#### **1.9.2 Housing Development Fund**

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

#### **1.9.3 Self Insurance Reserve**

A Self Insurance Reserve has been established and, subject to external insurance where deemed necessary, covers claims that may occur. Premiums are charged to the respective services taking into account claims history and replacement value of the insured assets.

- Contributions to the fund by Business Units are transferred via the Statement of Changes in Net Assets to the reserve in line with amounts budgeted for in the operating budget. The contributions to the reserve are charged to the Business Units based on the previous year's insured value of the assets under their control.
- The Council determines annually to contribute to the Self Insurance Reserve.
- The total amount of insurance premiums paid to external insurers are regarded as expenses and must be shown as such in the Statement of Financial Performance. These premiums do not affect the Self Insurance Reserve.
- Claims received from external insurers are recognised as revenue in the Statement of Financial Performance.
- Claims received to meet repairs of damages on assets are reflected as income in the Statement of Financial Performance.
- Repair and replacement costs not fully covered by external insurance are financed from the insurance reserve. The repair and replacement cost is regarded as an expense and is reflected in the Statement of Financial Performance. An amount equal to the expense is transferred from the Insurance Reserve to the Accumulated Surplus via the Statement of Changes in Net Assets.
- Amounts paid on behalf of employees in respect of medical costs for injuries sustained whilst on duty are regarded as expenses and are recorded in the Statement of Financial Performance when incurred. An amount equal to these expenses is transferred from the Insurance Reserve to the Accumulated Surplus account via the Statement of Changes in Net Assets.

#### **1.10. LEASES**

##### **1.10.1 Municipality as Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as

## **BEAUFORT WEST MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

#### **1.10.2 Municipality as Lessor**

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

#### **1.11. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

**BEAUFORT WEST MUNICIPALITY**

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

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This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met, an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as an individual investment or part of the general investments of the Municipality until it is utilised.
- 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. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

**1.12. UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

**1.13. UNSPENT PUBLIC CONTRIBUTIONS**

Public contributions are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent public contributions are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent public contributions are recognised as a liability when the grant is received.
- When grant conditions are met, an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as an individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with the public contribution conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

**1.14. PROVISIONS**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a

## BEAUFORT WEST MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

#### 1.15. EMPLOYEE BENEFITS

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

##### 1.15.1 *Post Retirement Medical Obligations*

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value

*BEAUFORT WEST MUNICIPALITY*

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

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of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when 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 in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a 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 as employee benefits upon valuation.

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

**1.15.2 Long Service Awards**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments 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 as employee benefits upon valuation.

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

**1.15.3 Provision for Staff Leave**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the basic salary of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave, limited to 48 days, will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

**1.15.4 Staff Bonuses Accrued**

Liabilities for staff bonuses are recognised as they accrues to employees. The liability at year end is based on bonus accrued at year-end for each employee.



## **BEAUFORT WEST MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

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#### **1.15.5 Provision for Performance Bonuses**

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

#### **1.15.6 Pension and retirement fund obligations**

The Municipality provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are recognised in the Statement of Financial Performance in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

### **1.16. PROPERTY, PLANT AND EQUIPMENT**

#### **1.16.1 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 year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

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

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

Major spare parts and servicing equipment qualify as property, plant and equipment when the Municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**1.16.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

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

**1.16.3 Depreciation and Impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	Years		Years
<b><u>Infrastructure</u></b>		<b><u>Other</u></b>	
Roads and Paving	5-130	Buildings	30-105
Pedestrian Malls	10-30	Specialist vehicles	3-70
Electricity	6-130	Other vehicles	3-70
Water	10-130	Office equipment	3-25
Sewerage	10-130	Furniture and fittings	2-30
Housing	30	Watercraft	15
		Bins and containers	5
<b><u>Community</u></b>		Specialised plant and	
Buildings	10-105	Equipment	3-40
Recreational Facilities	15-105	Other plant and	
Security	30	Equipment	3-40
Halls	30-105	Landfill sites	10-100
Libraries	20-105	Quarries	5-25
Parks and gardens	20-105	Emergency equipment	3-30
Other assets	10-105	Computer equipment	3-20
<b><u>Finance lease assets</u></b>			
Office equipment	3-7		
Other assets	3-7		

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

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Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

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 an impairment is recognised in the Statement of Financial Performance.

**1.16.4 De-recognition**

Items of property, plant and equipment are derecognised when the asset is disposed 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.

**1.17. INTANGIBLE ASSETS**

**1.17.1 Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the Municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Municipality intends to do so; or
- arises from binding arrangements from contracts, regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project;
- it is probable that the municipality will receive future economic benefits or service potential; and
- the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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Intangible assets are initially recognised at cost.

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

**1.17.2 Subsequent Measurement – Cost Model**

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**1.17.3 Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	3 - 10

**1.17.4 De-recognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.18. INVESTMENT PROPERTY**

**1.18.1 Initial Recognition**

Investment property is recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Municipality, and
- the cost or fair value of the investment property can be measured reliably.

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

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

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, 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 Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### **1.18.2 Subsequent Measurement – Cost Model**

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

#### **1.18.3 Depreciation and Impairment – Cost Model**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	30

#### **1.18.4 De-recognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **1.19 HERITAGE ASSETS**

#### **1.19.1 Initial Recognition**

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance and is held and preserved indefinitely for the benefit of present and future generations.

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

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

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A heritage asset that qualifies for recognition as an asset, is measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

**1.19.2 Subsequent Measurement – Cost Model**

After recognition as an asset, heritage assets are carried at its cost less any accumulated impairment losses.

**1.19.3 Depreciation and Impairment**

Heritage assets are not depreciated.

Heritage assets are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

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 an impairment is recognised in the Statement of Financial Performance.

**1.19.4 De-recognition**

Heritage assets are derecognised when it is disposed or when there are no further economic benefits expected from the use of the heritage asset. The gain or loss arising on the disposal or retirement of a heritage asset is determined as the difference between the sales proceeds and the carrying value of the heritage asset and is recognised in the Statement of Financial Performance.

**1.20. NON-CURRENT ASSETS HELD FOR SALE**

**1.20.1 Initial Recognition**

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

**1.20.2 Subsequent Measurement**

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

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

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in the Statement of Financial Performance.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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#### 1.21. IMPAIRMENT OF NON-FINANCIAL ASSETS

##### 1.21.1 *Cash-generating assets*

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information

- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

#### 1.21.2 Non-cash-generating assets

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

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

##### (a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

##### (b) Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its



## BEAUFORT WEST MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *Depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *Restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *Service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

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

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

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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#### 1.22. INVENTORIES

##### 1.22.1 *Initial Recognition*

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current 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 by the Municipality 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.

##### 1.22.2 *Subsequent Measurement*

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, 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. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The basis of allocating cost to inventory items is the weighted average method.

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

Cost of land held for sale is assigned by using specific identification of their individual costs.

#### 1.23. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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#### 1.23.1 Initial Recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

#### 1.23.2 Subsequent Measurement

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

##### 1.23.2.1 Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate,



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

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the discount rate for measuring any impairment loss is the current effective interest rate.

**1.23.2.2 Payables and Annuity Loans**

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

**1.23.2.3 Cash and Cash Equivalents**

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

**1.23.2.4 Non-Current Investments**

Investments which include investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments 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.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

**1.23.3 De-recognition of Financial Instruments**

**1.23.3.1 Financial Assets**

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

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

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When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

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

#### 1.23.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

#### 1.23.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

### 1.24. REVENUE

#### 1.24.1 Revenue from Non-Exchange Transactions

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. 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.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The 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 when the asset is recognised.

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

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine Revenue constitutes both spot fines and summonses. Fine revenue is recognised when the spot fine or summons is issued. In cases where fines and summonses are issued by another government institute, revenue will only be recognised when monies are received, as the Municipality does not have any control over fines issued by other government institutes.

The Municipality estimates the water and electricity consumption from the last meter readings in June up until 30 June. The estimated consumption usage is based on system average of the year per month divided by 30 days times the amount of days since last reading until 30 June.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received, but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

All unclaimed deposits are initially recognised as a liability until 12 months expires, when all unclaimed deposits into the Municipality's bank account will be treated as revenue. Historical patterns have indicated that minimal unidentified deposits are reclaimed after a period of twelve months. This assessment is performed annually at 30 June. Therefore the substance of these transactions indicate that even though the prescription period for unclaimed monies is legally three years, it is reasonable to recognise all unclaimed monies older than twelve months as revenue. Although unclaimed deposits are recognised as revenue after 12 months, the Municipality still keep record of these unclaimed deposits for three years in the event that a party should submit a claim after 12 months, in which case it will be expensed.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue is measured at the fair value of the consideration received or receivable.

## BEAUFORT WEST MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

#### 1.24.2 Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

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

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

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. 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.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 2 to 3 days after date of purchase. The pre-paid electricity sold, but not consumed yet at year-end is regarded as not material and is not disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Service charges relating to sanitation (sewerage) are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs



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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

are determined per category of property usage. In the case of residential property a fixed monthly tariff is levied and in the case of commercial property a tariff is levied based on the number of sewerage connection on the property. Service charges based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

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

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

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

Revenue is measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Municipality.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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**1.25. RELATED PARTIES**

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,
- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person’s family is related to the Municipality if that person:
  - has control or joint control over the Municipality.
  - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
  - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
  - both entities are joint ventures of the same third party.
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
  - the entity is controlled or jointly controlled by a person identified in (a).
  - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as “Key Management”) includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

## **BEAUFORT WEST MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

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- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

#### **1.26. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.27. 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), the Remuneration of Public Office Bearers Act (Act No. 20 of 1998), or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial

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

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Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.28. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.29. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

**1.30. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

**1.30.1 *Post retirement medical obligations and Long service awards***

The cost of post retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 4 of the financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

**1.30.2 *Impairment of Receivables***

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

**1.30.3 Property, Plant and Equipment**

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment:

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

**1.30.4 Intangible Assets**

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

**1.30.5 Investment Property**

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

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

## **BEAUFORT WEST MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

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For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

#### **1.30.6 Provisions and Contingent Liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### **1.30.7 Revenue Recognition**

Accounting Policy 1.24.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.24.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions. Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Fine revenue constitutes both spot fines and summonses. Fine revenue is recognised when the spot fine or summons is issued. In cases where fines and summonses are issued by another government institute, revenue will only be recognised when monies are received, as the Municipality does not have any control over fines issued by other government institutes. The Municipality estimates the water and electricity consumption from the last meter readings in June up until 30 June. The estimated consumption usage is based on system average of the year per month divided by 30 days multiplied by the amount of days since the last reading until 30 June. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### **1.30.8 Provision for Landfill Sites**

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.
- Interest rates (investment rate) linked to prime was used to calculate the effect of time value of money.

## **BEAUFORT WEST MUNICIPALITY**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**

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#### **1.30.9 Provision for TASK Implementation**

The provision at 30 June for TASK Implementation represents the Municipality's obligation towards qualifying officials as a result of a new national grading system for municipalities which came into effect on 1 October 2009. The calculation was based on the difference between the current basic salary compared to the basic salary as per new TASK grading. The difference between these two packages was backdated to the implementation date of the TASK grading system.

#### **1.30.10 Provision for Staff leave**

Staff leave is accrued to employees according to collective agreements. Provision is made on basic salary for the accrued leave, limited to 48 days, at reporting date. This provision will be realised as employees take leave or when employment is terminated.

#### **1.30.11 Provision for Performance bonuses**

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

#### **1.30.12 Componentisation of Infrastructure assets**

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

#### **1.30.13 Pre-paid electricity estimation**

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 2 to 3 days after date of purchase. The pre-paid electricity sold, but not yet consumed at year-end, is regarded as immaterial and is not disclosed as under Payables from Exchange Transactions in the Statement of Financial Position.

#### **1.31. 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.

#### **1.32. CAPITAL COMMITMENTS**

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

## BEAUFORT WEST MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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#### 1.33. EVENTS AFTER REPORTING DATE

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 are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

#### 1.34. BORROWING COSTS

The Municipality recognises all borrowing costs as an expense in the period in which they are incurred.

#### 1.35. TAXATION

##### 1.35.1 *Current tax assets and liabilities*

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities/(assets) for the current and prior periods are measured at the amount expected to be paid to/(recovered from) the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting date.

##### 1.35.2 *Deferred tax assets and liabilities*

Deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.



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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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**1.35.3 Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in surplus/deficit for the period.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.