



baviaans

PARTICIPATION FOR DEVELOPMENT

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local municipality
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BAVIAANS LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016
Auditor-General South Africa
Published 31 August 2016

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Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SDL	Skills Development Levy
SBDM	Sarah Baartman District Municipality
IEC	Independent Electoral Commission

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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

Figures in Rand	Note(s)	2016	2015
Assets			
Current Assets			
Inventories	2	18 466	18 430
Other receivables	3	405 845	401 253
VAT receivable	4	2 178 747	2 858 705
Trade receivables	5	3 286 885	2 251 502
Cash and cash equivalents	6	756 567	1 224 236
		6 646 510	6 754 126
Non-Current Assets			
Investment property	7	30 287 859	31 392 859
Property, plant and equipment	8	246 205 736	228 308 009
Intangible assets	9	158 052	4
Heritage assets	10	659 164	659 164
Other receivables	11	2 648 000	-
		279 958 811	260 360 036
Total Assets		286 605 321	267 114 162
Liabilities			
Current Liabilities			
Repayment - National Revenue Fund	12	742 616	2 169 000
Finance lease obligation	13	334 442	399 604
Trade and other payables	14	25 536 678	26 418 898
Consumer deposits	15	560 280	426 323
Unspent conditional grants and receipts	16	1 112 688	(1 865 732)
		28 286 704	27 548 093
Non-Current Liabilities			
Repayment - National Revenue Fund	12	-	742 616
Finance lease obligation	13	194 770	259 644
Provisions	17	8 568 189	8 015 300
		8 762 959	9 017 560
Total Liabilities		37 049 663	36 565 653
		249 555 658	230 548 509
Accumulated surplus		249 555 658	230 548 509

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STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand		Accumulated surplus	Total net assets
Opening balance as previously reported at 01 July 2014		215 985 150	215 985 150
Adjustments			
Correction of errors	32	(7 111 165)	(7 111 165)
Balance at 01 July 2014 as restated		208 873 985	208 873 985
Changes in net assets			
Surplus for the year		21 674 524	21 674 524
Total changes		21 674 524	21 674 524
Balance at 01 July 2015		230 548 509	230 548 509
Changes in net assets			
Surplus for the year		19 007 149	19 007 149
Total changes		19 007 149	19 007 149
Balance at 30 June 2016		249 555 658	249 555 658
Note(s)			

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Service charges	22 930 388	(1 471 450)	21 458 938	21 243 853	(215 085)	
Rental of facilities and equipment	196 515	(40 715)	155 800	185 794	29 994	A
Interest received	650 876	(360 876)	290 000	594 076	304 076	B
Agency services	755 700	(75 700)	680 000	550 651	(129 349)	C
Licences and permits	831 897	(196 897)	635 000	473 358	(161 642)	C
Other income	509 813	(239 209)	270 604	242 390	(28 214)	D
Total revenue	25 875 189	(2 384 847)	23 490 342	23 290 122	(200 220)	
Revenue from non-exchange transactions						
Property rates	4 814 167	10 773	4 824 940	4 782 832	(42 108)	
Government grants & subsidies	28 083 499	3 331 000	31 414 499	29 362 905	(2 051 594)	E
Public contributions and donations	-	-	-	407 215	407 215	F
Fines, Penalties and Forfeits	2 000	-	2 000	500	(1 500)	
Total revenue from non-exchange transactions	32 899 666	3 341 773	36 241 439	34 553 452	(1 687 987)	
Total revenue	58 774 855	956 926	59 731 781	57 843 574	(1 888 207)	
Expenditure						
Personnel	(24 853 274)	(105 566)	(24 958 840)	(22 878 427)	2 080 413	G
Remuneration of councillors	(1 858 644)	11 513	(1 847 131)	(1 808 491)	38 640	H
Depreciation, amortisation and impairment	(16 000 000)	(500 000)	(16 500 000)	(15 664 224)	835 776	I
Impairment loss	-	(35 000)	(35 000)	(26 311)	8 689	
Finance costs	(1 060 000)	(100 000)	(1 160 000)	(1 865 712)	(705 712)	J
Bad debts written off	23 084	(1 300 000)	(1 276 916)	(1 552 270)	(275 354)	K
Repairs and maintenance	-	-	-	(2 169 005)	(2 169 005)	J
Bulk purchases	(10 620 000)	(1 380 000)	(12 000 000)	(11 060 580)	939 420	J/T
Transfers and Subsidies	(7 267 966)	(143 468)	(7 411 434)	(6 289 982)	1 121 452	
General Expenses	(16 364 965)	(4 374 985)	(20 739 950)	(14 794 332)	5 945 618	J
Total expenditure	(78 001 765)	(7 927 506)	(85 929 271)	(78 109 334)	7 819 937	
Operating deficit	(19 226 910)	(6 970 580)	(26 197 490)	(20 265 760)	(5 931 730)	
Gain / (loss) on disposal of assets and liabilities	-	60 000	60 000	(33 086)	(93 086)	
Transfers recognised - capital	34 050 500	3 200 000	37 250 500	39 305 995	2 055 495	E
	34 050 500	3 260 000	37 310 500	39 272 909	1 962 409	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	14 823 590	(3 710 580)	11 113 010	19 007 149	7 894 139	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

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

The reason for the amended budget was mainly due to reallocations as well as increases to non cash flow line items.

Statement of Performance

A - Rental of facilities and equipment

Council took a decision not to allow after hours usage of traffic centre for practice purposes.

B - Interest received

Interest outlook during budget process was conservative.

C - Agency fees/Licences and permits

All traffic centre related income was negatively affected by absenteeism due to ill health of key staff.

D - Other Income

Connection and reconnection income was negatively affected by labour unrest experienced during the year.

E - Government grants & subsidies/Capital grants recognised

Additional grants received from SBDM and MSIG spending for non-capital items. The increase in the capital grants relates to ACIP received that was not anticipated during the budget process.

F - Public contributions and donations

Assets were donated during the year after the completion of large capital projects as well as 6 investment properties donated that were not budgeted.

G - Personnel

Labour unrest resulted in savings as the "no work no pay" rule was implemented. In addition, recruitment was frozen subsequent to September 2015.

H - Remuneration of councillors

Increased approved was less than expected.

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

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

R - Other receivables (Non current)

Payment of deposit to Eskom for capacity upgrade to Willowmore was budgeted as operating expenditure - INEP grant.

S - Repayment - National Revenue Fund

Provision was made for full repayment, full amount was not recovered by National Treasury.

T - Trade payables

The municipality experienced cash flow problems during the year and was unable to pay creditors within 30 days.

U - Unspent Conditional Grants and Receipts

SBDM LED Grant, MIG, MSIG, Rapid Response Grant (DWA) and SBDM Tourism Grants remained unspent at year end.

V - Provisions

Underbudgeted due to conservative expectation regarding growth of landfill sites.

W - Investment

Investments are included in cash and cash equivalents and are not separated in the GRAP AFS.

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ACCOUNTING POLICIES

1.6 Significant judgements and sources of estimation uncertainty (continued)

Estimates

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

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

Inventory

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

Impairments of non-financial assets

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

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision, management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes. Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Pension and other post-employment benefits

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

Effective interest rate

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

Allowance for doubtful debts

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

Provision for rehabilitation of refuse landfill sites

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

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ACCOUNTING POLICIES

1.7 Investment property (continued)

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

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

Derecognition

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

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

1.8 Property, plant and equipment

Initial recognition

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

Subsequent measurement

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

Subsequent expenditure

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

Depreciation

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ACCOUNTING POLICIES

1.8 Property, plant and equipment (continued)

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

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

Impairments

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

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified. An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Derecognition

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

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ACCOUNTING POLICIES

1.9 Intangible assets (continued)

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

1.10 Financial instruments

Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

Initial measurement

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

Subsequent measurement

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

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

a) Financial instruments at fair value:

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

b) Financial instruments at amortised cost

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

c) Financial instruments at cost

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

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

Gains and losses

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

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

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ACCOUNTING POLICIES

1.10 Financial instruments (continued)

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

1.11 Leases

Finance leases - lessee

Initial recognition

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

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

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

Subsequent measurement

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

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

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

Operating leases - lessor

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

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

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

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

Operating leases - lessee

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

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

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ACCOUNTING POLICIES

1.13 Impairment of cash-generating assets (continued)

Discount rate

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
its fair value less costs to sell (if determinable);
its value in use (if determinable); and
zero.

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

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

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ACCOUNTING POLICIES

1.14 Employee benefits (continued)

Post retirement medical obligations

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

The entitlement to post-retirement medical benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations, in accordance with GRAP 25 - "Employee Benefits". The plan is unfunded.

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

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

1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditure for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

1.16 Revenue from exchange transactions

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

Recognition

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.17 Revenue from non-exchange transactions (continued)

Recognition

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

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

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

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

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

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

Measurement

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

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

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

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

1.18 Borrowing costs

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

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ACCOUNTING POLICIES

1.23 Heritage assets (continued)

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.24 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.

1.25 Non-current assets held for sale

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

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

1.26 Consumer deposits

Consumer deposits are recognised as a current liability. Consumers deposits are levied in line with council's policy to consumers when services are initially connected. When services are disconnected or terminated, the outstanding deposit is utilised against any arrear accounts the consumer may be liable for at that date. Any excess deposit after all debt is settled is refunded to the specific consumer.

1.27 Capital commitments

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

1.28 Post-reporting date events

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

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

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

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

1.29. New standards and interpretations

1.29.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

ACCOUNTING POLICIES

GRAP 20: Related parties

01 April 2017

The adoption of this amendment has not had a material impact on the result of the entity but has resulted in more disclosure than would have been previously provided in the financial statements

Baviaans Local Municipality

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Figures in Rand	2016	2015
5. Trade receivables (continued)		
Rates		
Current (0 -30 days)	84 735	60 054
31 - 60 days	35 930	36 540
61 - 90 days	28 774	19 594
91 - 120 days	26 053	17 415
121 - 365 days	1 879 415	1 709 891
	2 054 907	1 843 494
Electricity		
Current (0 -30 days)	217 840	158 727
31 - 60 days	52 219	16 752
61 - 90 days	35 971	4 697
91 - 120 days	5 892	4 444
121 - 365 days	65 844	1 322
	377 766	185 942
Water		
Current (0 -30 days)	179 923	110 204
31 - 60 days	158 105	236 009
61 - 90 days	146 120	52 252
91 - 120 days	130 723	20 749
121 - 365 days	908 536	19 967
	1 523 407	439 181
Waste water		
Current (0 -30 days)	21 483	22 644
31 - 60 days	4 895	1 258
61 - 90 days	2 554	132
91 - 120 days	234	203
121 - 365 days	5 306	487
	34 472	24 724
Sewerage		
Current (0 -30 days)	50 765	41 402
31 - 60 days	34 868	29 438
61 - 90 days	30 912	20 243
91 - 120 days	29 175	7 624
121 - 365 days	260 086	4 509
	405 806	103 216
Refuse		
Current (0 -30 days)	99 550	82 461
31 - 60 days	51 721	40 520
61 - 90 days	42 550	25 260
91 - 120 days	33 079	7 615
121 - 365 days	285 926	5 676
	512 826	161 532
Debtors with credit balances	161 787	140 334
Provision for debt impairment	(1 757 935)	(578 216)
	(1 596 148)	(437 882)

Baviaans Local Municipality

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5. Trade receivables (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(578 216)	(4 152 075)
Contributions to allowance	(1 552 270)	(1 390 889)
Debt impairment written off against allowance	372 551	4 964 748
	(1 757 935)	(578 216)

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	715	715
Bank balances	755 852	889 649
Short-term deposits	-	333 872
	756 567	1 224 236

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank - Cheque Account - 4053623514	578 046	542 911	389 030	530 889	512 266	345 032
Standard Bank - Cheque Account - 280252013	224 963	377 383	76 864	224 963	377 383	116 031
Standard Bank - Call Investment Account - 28875729-001	-	-	6 186	-	-	6 186
ABSA Bank - Fixed deposit - 92-8656-0237	-	-	1 000	-	-	1 000
Standard Bank - Fixed deposit - 638442060-001	-	1 942	2 631	-	1 942	2 631
ABSA Bank - Fixed deposit - 91-6875-2598	-	-	463	-	-	463
Nedbank - Fixed deposit - 03/7881115912/000003	-	270 470	-	-	270 470	-
Nedbank - Fixed deposit - 03/7881117494/000001	-	61 460	-	-	61 460	-
Total	803 009	1 254 166	476 174	755 852	1 223 521	471 343

7. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	31 130 359	(842 500)	30 287 859	32 235 359	(842 500)	31 392 859

Reconciliation of investment property - 2016

	Opening balance	Additions	Disposals	Transfers	Total
Investment property	31 392 859	99 000	(61 000)	(1 143 000)	30 287 859

Baviaans Local Municipality

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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	485 537	-	-	-	-	485 537
Community assets	709 922	-	-	-	(104 428)	605 494
Infrastructure	160 314 474	-	-	9 782 464	(13 913 425)	156 183 513
Buildings	1 109 886	-	-	-	(83 825)	1 026 061
Landfill sites	3 015 129	-	-	-	(289 161)	2 725 968
Leased and other assets	4 026 059	142 513	(33 249)	-	(1 469 116)	2 666 207
Work-in-progress	38 247 802	36 149 891	-	(9 782 464)	-	64 615 229
	207 908 809	36 292 404	(33 249)	-	(15 859 955)	228 308 009

Contractual commitments for the acquisition of property, plant and equipment

Infrastructure	20 031 405	25 877 214
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	650 988	(492 936)	158 052	466 343	(466 339)	4

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	4	184 645	(26 597)	158 052

Reconciliation of intangible assets - 2015

	Opening balance	Total
Computer software	4	4

10. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	659 164	-	659 164	659 164	-	659 164

Reconciliation of heritage assets 2016

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Figures in Rand	2016	2015
13. Finance lease obligation		
Minimum lease payments due		
- within one year	370 883	455 486
- in second to fifth year inclusive	201 259	282 706
	<u>572 142</u>	<u>738 192</u>
less: future finance charges	(42 930)	(78 944)
Present value of minimum lease payments	<u>529 212</u>	<u>659 248</u>
Present value of minimum lease payments due		
- within one year	334 442	399 604
- in second to fifth year inclusive	194 770	259 644
	<u>529 212</u>	<u>659 248</u>
Non-current liabilities	194 770	259 644
Current liabilities	334 442	399 604
	<u>529 212</u>	<u>659 248</u>

The average lease term was 5 years and the effective borrowing rate ranges between prime and prime less 1.5%.

The municipality's obligations under finance leases are secured by the lessor's title over the leased assets.

14. Trade and other payables

Trade payables	23 126 458	24 243 564
Payments received in advanced	112 602	153 192
Salaries control	79 234	60
Leave pay	1 170 870	1 095 318
Direct deposits not receipted	176 073	82 438
Sundry deposits	8 456	5 727
Retentions	26 267	101 187
Debtors with credit balances	161 787	140 334
Bonus accrual	674 931	597 078
	<u>25 536 678</u>	<u>26 418 898</u>

15. Consumer deposits

Electricity	26 055	26 510
Water	534 225	399 813
	<u>560 280</u>	<u>426 323</u>

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

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

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17. Provisions

Reconciliation of provisions - 2016

	Note	Opening Balance	Additions	Total
Rehabilitation of landfill		3 946 024	366 191	4 312 215
Long service awards	49	1 771 850	159 285	1 931 135
Post employment medical aid	49	2 297 426	27 413	2 324 839
		8 015 300	552 889	8 568 189

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Rehabilitation of landfill	3 610 930	335 094	3 946 024
Long service awards	1 685 661	86 189	1 771 850
Post employment medical aid	2 464 046	(166 620)	2 297 426
	7 760 637	254 663	8 015 300

Annual Bonuses

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

Long service awards

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

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

Post-employment medical benefits

This provision was valued by an independent valuator as at 30 June 2016. The valuation of this liability considers all employees, retired employees and their dependants who participate in the medical aid arrangements and are entitled to a post-employment medical aid subsidy. The Projected Unit Credit funding method has been used to determine the post-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

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Figures in Rand	2016	2015
19. Service charges		
Sanitation charges	384 478	418 322
Sale of electricity	11 042 389	10 824 069
Sale of water	4 513 088	3 796 207
Sewerage charges	2 175 390	1 915 640
Refuse removal	3 128 508	2 723 259
	21 243 853	19 677 497
20. Revenue		
Property rates	4 782 832	4 372 948
Service charges	21 243 853	19 677 497
Fines, Penalties and Forfeits	500	800
Government grants & subsidies	68 668 900	69 672 627
Interest received	594 076	708 961
Agency services	550 651	535 392
Licences and permits	473 358	745 656
Rental of facilities and equipment	185 794	199 248
Other income	242 390	350 571
Gain on disposal of assets	5 224	71 569
Public contributions and donations	407 215	-
	97 154 793	96 335 269
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	21 243 853	19 677 497
Rental of facilities and equipment	185 794	199 248
Interest received	594 076	708 961
Agency services	550 651	535 392
Licences and permits	473 358	745 656
Other income	242 390	350 571
Gain on disposal	5 224	71 569
	23 295 346	22 288 894
The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	4 782 832	4 372 948
Government grants & subsidies	68 668 900	69 672 627
Public contributions and donations	407 215	-
Fines, Penalties and Forfeits	500	800
	73 859 447	74 046 375

Baviaans Local Municipality

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21. Government grants and subsidies (continued)

ACIP - Rietbron Water Grant

Current-year receipts	1 815 998	-
Conditions met - transferred to revenue	(1 815 998)	-
	<u>•</u>	<u>•</u>

The grant was utilized for the installation of water meters in Rietbron.

Rapid Response Grant - DWA

Balance unspent at beginning of year	498 615	498 615
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Conditions still to be met - remain liabilities (see note 16).

No spending in the current financial year.

Water Service Assets Grant

Balance unspent at beginning of year	-	(1)
Other	-	1
	<u>-</u>	<u>•</u>

No spending in the current financial year.

Down Housing

Current-year receipts	-	49 917
Conditions met - transferred to revenue	-	(49 917)
	<u>-</u>	<u>•</u>

The grant was utilized for the internal electrification of sub-economic houses.

Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	(2 687 598)	(468 243)
Current-year receipts	28 555 649	25 725 622
Conditions met - transferred to revenue	(25 868 051)	(27 944 977)
	<u>-</u>	<u>(2 687 598)</u>

The municipality built new bulk water infrastructure for Steytleville.

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22. Personnel		
Basic	16 044 935	15 697 653
Bonus	1 223 202	1 115 085
Medical aid - company contributions	1 086 619	985 387
UIF	142 187	136 020
WCA	140 312	146 375
SDL	198 970	206 853
Leave pay provision charge	144 641	151 724
Pension fund contributions	1 679 048	1 553 332
Travel, motor car, accommodation, subsistence and other allowances	1 017 646	694 438
Overtime payments	655 197	483 305
Long-service awards	180 857	149 921
Housing benefits and allowances	87 932	34 931
Provident fund contributions	436 182	425 380
Post employment medical aid	(162 156)	(130 860)
Other	2 855	4 776
	22 878 427	21 654 320
Remuneration of municipal manager		
Annual Remuneration	637 714	600 903
Travel, motor car, accommodation, subsistence and other allowances	165 762	158 400
Contributions to UIF, Medical and Pension Funds	9 618	8 907
	813 094	768 210
Remuneration of chief finance officer		
Annual Remuneration	144 802	698 148
Travel, motor car, accommodation, subsistence and other allowances	40 889	10 800
Contributions to UIF, Medical and Pension Funds	1 628	9 433
	187 319	718 381
The Chief Financial Officer resigned in September 2015.		
Remuneration of Manager - Community Services		
Annual Remuneration	427 989	401 619
Travel, motor car, accommodation, subsistence and other allowances	167 166	142 800
Contributions to UIF, Medical and Pension Funds	7 559	8 434
	602 714	552 853
Remuneration of the Manager - Corporate Services		
Annual Remuneration	484 979	479 964
Travel, motor car, accommodation, subsistence and other allowances	91 074	85 800
Contributions to UIF, Medical and Pension Funds	7 482	7 023
	583 535	572 787

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23. Remuneration of councillors (continued)

2015

Councillor	Remuneration	Allowances	Pension and medical aid	Total
EL Loock (Mayor)	370 020	24 468	-	394 488
D J Bezuidenhout	201 829	24 468	-	226 297
H Booysen	201 829	24 468	-	226 297
M E Fivaz	201 829	24 468	-	226 297
G A Hobson	201 829	24 468	-	226 297
V B Lapperts	201 829	24 468	-	226 297
T R Spogter	201 829	24 468	-	226 297
	1 580 994	171 276	-	1 752 270

24. Debt impairment

Contributions to debt impairment provision	1 552 270	1 390 889
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25. Depreciation and amortisation

Property, plant and equipment	15 664 224	15 860 093
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26. Finance costs

Post employment medical aid	328 762	335 765
Provision for rehabilitation of landfill	366 191	335 094
Finance leases	93 553	126 720
Trade and other payables	1 077 206	799 408
	1 865 712	1 596 987

27. Repairs and maintenance

Buildings	76 476	39 383
EPWP	1 134 994	1 395 478
Electricity	36 635	124 583
Equipment	125 017	66 337
Fencing	18 284	20 640
Maintenance	-	17 552
Network	36 265	25 216
Sports field	11 240	6 648
Street lights	45 282	58 860
Streets	99 667	51 349
Tools	29 861	22 663
Traffic signs	13 911	17 197
Vehicles	393 898	348 872
Water	147 475	130 087
	2 169 005	2 324 865

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31. Impairment of assets

Impairments

Property, plant and equipment	26 311	-
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32. Prior period errors

The correction of error relating to the opening retained income balance at 01 July 2014 are due to the following adjustments:

Investment Property	(6 946 500)
Property, Plant and Equipment	(3 742 977)
Non-current assets held for sale	(7 500)
Provisions	3 585 812
	<u>(7 111 165)</u>

The adjustment to Investment property relates to RDP/HOD houses included in Investment Properties incorrectly and now removed. It also includes the effect of a duplicate property corrected.

The adjustments to Property, Plant and Equipment relates to assets identified previously not included in the asset register, adjustment for assets duplicated in the register and the correction of classification of properties previously recognised as Investment property or Property, Plant and Equipment (Land and Buildings). It also includes an adjustment for the change in the cost of the provision relating to landfill site rehabilitation. There was also a correction relating to Community Assets which included some costs related to landfill site fencing expenditure.

Non-current assets held for sale has been restated due to the GRAP standard requirement changing during the 2014/15 financial year and incorrectly recognised as non-current assets held for sale previously.

Further to the above, the following balances were adjusted at the 2015 reporting date:

Statement of financial position	Restated 2015 Reported 2015	
Assets		
Non current assets		
Property, plant and equipment	228 308 009	231 766 680
Non current assets held for sale	-	9 000
Investment property	31 392 859	38 259 859
	-	-
Current assets		
Other receivables	401 253	411 253
Non current liabilities		
Provisions	8 015 300	11 639 915
	<u>268 117 421</u>	<u>282 086 707</u>

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32. Prior period errors (continued)

General expenditure has been corrected for the effect of the expenditure item previously recognised in other receivables as a prepayment. There is also a correction relating to an item that was previously recognised as an asset but related to communication costs.

Impairment loss

The impairment loss previously recognised on properties transferred to non-current assets held for sale was reversed in the prior year as these were transferred back to investment properties.

33. Cash generated from operations

Surplus	19 007 149	21 674 524
Adjustments for:		
Depreciation and amortisation	15 664 224	15 860 093
Gain (loss) on sale of assets and liabilities	33 086	(71 569)
Impairment deficit	26 311	-
Debt impairment	1 552 270	1 390 889
Movements in provisions	552 889	254 663
Public contributions and donations	(407 215)	-
Changes in working capital:		
Inventories	(36)	(9 125)
Other receivables	(4 592)	4 246
Consumer debtors	(2 587 653)	(2 237 178)
Trade and other payables	(882 222)	5 584 836
VAT	679 958	(516 953)
Unspent conditional grants and receipts	2 978 420	(2 466 103)
Consumer deposits	133 957	276 629
	36 746 546	39 744 952

34. Auditors' remuneration

Fees	2 376 693	2 167 983
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Movement reconciliation

	Current Year	Prior Year
Opening Balance	7 744 197	7 896 754
Fees for the year	2 709 429	2 471 501
Interest charged	778 718	630 834
Less: Payments made	(2 006 271)	(3 254 892)
	9 226 073	7 744 197

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37. Events after the reporting date

Amalgamation of Local Municipalities

After year end, the Local Government elections were held on 03 August 2016 with the results being announced by the IEC on 06 August 2016. In terms of the decision taken by the Demarcation Board, the Camdeboo, Ikwezi and Baviaans Local Municipalities have amalgamated to form a new Local Municipality, Dr Beyers Naude Local Municipality, effective from 07 August 2016 and established in terms of Government Gazette Section 12 Notice.

38. Unauthorised expenditure

Opening balance	816 529	3 556 442
Add: Unauthorised expenditure - current year	57 343	816 529
Less: Certified by Council as irrecoverable and written off	(57 343)	(3 556 442)
	816 529	816 529

39. Fruitless and wasteful expenditure

Add: Fruitless and wasteful expenditure - current year	970 376	744 265
Less: Certified by Council as irrecoverable and written off	(970 376)	(744 265)
	-	-

40. Irregular expenditure

Opening balance	247 618	2 277 377
Add: Irregular Expenditure - current year	11 930 261	247 618
Less: Written off by Council	(11 930 261)	(2 277 377)
	247 618	247 618

Irregular expenditure

The Accounting Officer entered into an agreement with SAMWU on 23 March that resulted in loans being granted to officials of the municipality resulting in the municipality contravening the MFMA, section 164(1)(c) that prohibits the municipality from granting loans to officials of the municipality.	329 234	-
The Council condoned the actions of the Accounting Officer at a meeting held on 07 April 2016 and the loans were repaid by the staff in April, May and June 2016.		
Contravention of SCM Regulations and Contract Management	11 601 027	-
	11 930 261	-

41. Deviation from supply chain management regulations

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

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

Goods and services to the value of R4 624 660 (2014/2015: R40 371 999) were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

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44. Material losses

During the 2015/2016 financial year the municipality incurred distribution losses relating to water of 24.63% (2014/2015: 24%) and relating to electricity of 11.98% (2014/2015: 9.49%)

45. Pension and medical aid deductions

Pension

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

2 355 358	2 181 411
(2 160 029)	(2 004 491)
195 329	176 920

Medical Aid

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

1 867 946	1 659 186
(1 697 303)	(1 520 155)
170 643	139 031

46. Councillors' arrear consumer accounts

No councillors' consumer accounts are in arrears at 30 June 2016 and 30 June 2015.

47. PAYE and UIF

Current year payroll deductions
Amount paid - Current year

3 390 784	3 148 720
(3 109 639)	(2 884 297)
281 145	264 423

48. Operating lease receivables

Present value of minimum lease payments due

- within one year
- in second to fifth year inclusive

5 200	6 600
4 650	9 850
9 850	16 450

The average lease terms is 10 years and the average effective lending rate is undetermined.

Obligations under operating leases are secured by the lessor's title to the leased property.

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49. Employee benefits (continued)

History of liabilities, assets and experience adjustments

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on defined benefit obligation	2 588 000	2 102 000

Amounts for the current and previous three years are as follows:

	2016 R	2015 R	2014 R	2013 R	2012 R
Defined benefit obligation	2 325 000	2 297 000	2 464 000	1 406 000	1 209 000
Plan assets	-	-	-	-	-
Surplus (deficit)	(2 325 000)	(2 297 000)	(2 464 000)	(1 406 000)	(1 209 000)
Liabilities	12 000	(226 000)	1 128 000	66 000	81 000
Assets	-	-	-	-	-

49.2 Long service awards

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	1 931 135	1 771 850
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	1 771 850	1 685 661
Net expense recognised in the statement of financial performance	159 285	86 189
	<u>1 931 135</u>	<u>1 771 850</u>

Net expense recognised in the statement of financial performance

Current service cost	250 449	223 433
Interest cost	140 386	129 368
Actuarial (gains) losses	(120 625)	(76 902)
Bonuses paid	(110 925)	(189 710)
	<u>159 285</u>	<u>86 189</u>

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.61 %	8.20 %
Expected rate of return on assets	1.26 %	0.94 %
Expected rate of return on reimbursement rights	6.19 %	6.19 %
Expected increase in salaries	7.25 %	7.19 %