



baviaans

PARTICIPATION FOR DEVELOPMENT

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local municipality
plaaslike munisipaliteit

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

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

GENERAL INFORMATION

Legal form of entity	The entity functions as a local municipality, established under Paragraph 151 of the Constitution of the Republic of South Africa, 1996, as amended.
Nature of business and principal activities	Baviaans Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act No. 117 of 1998). The municipality's operations are governed by: Municipal Finance Management Act 56 of 2003, Municipal Structure Act 117 of 1998, Municipal Systems Act 32 of 2000 and various other Acts and regulations.
Mayoral committee	
Mayor/Speaker	EL Loock
Councillors	DJ Bezuidenhout H Booysen ME Fivaz GA Hobson VB Lapperts TR Spogter
Grading of local authority	Grade 1
Accounting Officer	JZA Vumazonke
Business address	42 Wehmeyer Street Willowmore 6445
Bankers	ABSA Bank, Willowmore Standard Bank, Steytlerville
Auditors	Auditor-General South Africa
Principal Activities	The principal activities of the municipality are: <ul style="list-style-type: none">- Provide democratic and accountable government- Ensure sustainable service delivery to the communities- Promote social and economic development- Provide basic services to the community

Baviaans Local Municipality

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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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ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

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

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

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

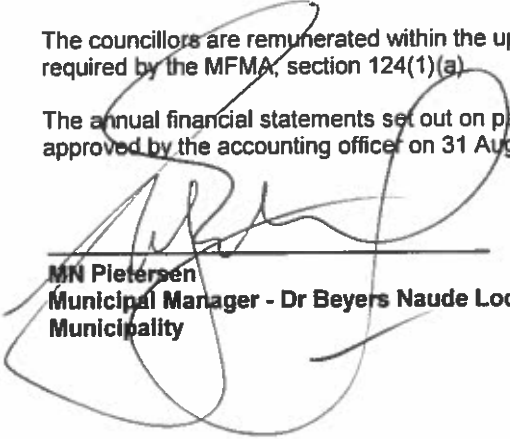
The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for until amalgamation on 07 August 2016.

The councillors are remunerated within the upper limits of the framework envisaged in Section 219 of the Constitution, as required by the MFMA, section 124(1)(a).

The annual financial statements set out on pages 4 to 65, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed by him:



MN Pietersen
Municipal Manager - Dr Beyers Naude Local
Municipality

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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	247 599 566	228 308 009
Intangible assets	9	158 052	4
Heritage assets	10	659 164	659 164
Other receivables	11	2 648 000	-
		281 352 641	260 360 036
Total Assets		287 999 151	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
		250 949 488	230 548 509
Accumulated surplus		250 949 488	230 548 509

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand	Note(s)	2016	2015
Revenue			
Property rates	18	4 782 832	4 372 948
Service charges	19	21 243 853	19 677 497
Fines, Penalties and Forfeits	20	500	800
Government grants & subsidies	21	68 668 900	69 672 627
Agency services	20	550 651	535 392
Interest received	20	594 076	708 961
Licences and permits	20	473 358	745 656
Rental of facilities and equipment	20	185 794	199 248
Other income	20	242 390	350 571
Gains on disposal of assets	20	5 224	71 569
Public contributions and donations	20 / 51	407 215	-
Total revenue		97 154 793	96 335 269
Expenditure			
Personnel	22	(22 878 427)	(21 654 320)
Remuneration of councillors	23	(1 808 491)	(1 752 270)
Debt impairment	24	(1 552 270)	(1 390 889)
Depreciation and amortisation	25	(14 270 394)	(15 860 093)
Finance costs	26	(1 865 712)	(1 596 987)
Repairs and maintenance	27	(2 169 005)	(2 324 865)
Bulk purchases	28	(11 060 580)	(9 152 754)
Grants and subsidies paid	29	(6 289 982)	(6 710 446)
General expenses	30	(14 794 332)	(14 218 121)
Impairment of assets	31	(26 311)	-
Loss on disposal of assets	7	(38 310)	-
Total expenditure		(76 753 814)	(74 660 745)
Surplus for the year		20 400 979	21 674 524

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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		20 400 979	20 400 979
Total changes		20 400 979	20 400 979
Balance at 30 June 2016		250 949 488	250 949 488
Note(s)			

Baviaans Local Municipality

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CASH FLOW STATEMENT

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Receipts			
Rates and services		24 114 398	21 300 560
Government grants & subsidies	21	68 668 900	69 672 627
Interest income	20	594 076	708 961
Other receipts		1 452 693	1 831 667
		<u>94 830 067</u>	<u>93 513 815</u>
Payments			
Employee costs		(32 467 039)	(23 406 590)
Suppliers		(24 445 723)	(29 436 145)
Finance costs	26	(1 170 759)	(926 128)
		<u>(58 083 521)</u>	<u>(53 768 863)</u>
Net cash flows from operating activities	33	<u>36 746 546</u>	<u>39 744 952</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(32 141 268)	(36 292 404)
Proceeds from sale of property, plant and equipment	8	5 225	104 686
Proceeds from sale of non-current assets held for sale	7	53 509	1 000
Purchase of other intangible assets	9	(184 645)	-
Movement in financial assets		(2 648 000)	-
Net cash flows from investing activities		<u>(34 915 179)</u>	<u>(36 186 718)</u>
Cash flows from financing activities			
Movement in repayment - national revenue fund		(2 169 000)	(2 220 000)
Movement in finance leases		(130 036)	(585 966)
Net cash flows from financing activities		<u>(2 299 036)</u>	<u>(2 805 966)</u>
Net (decrease)/increase in cash and cash equivalents		(467 669)	752 268
Cash and cash equivalents at the beginning of the year		1 224 236	471 968
Cash and cash equivalents at the end of the year	6	<u>756 567</u>	<u>1 224 236</u>

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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	22 930 000	(1 471 000)	21 459 000	21 243 853	(215 147)	
Rental of facilities and equipment	253 000	-	253 000	185 794	(67 206)	A
Interest received	651 000	(361 000)	290 000	594 076	304 076	B
Agency services	756 000	(76 000)	680 000	550 651	(129 349)	C
Licences and permits	832 000	(197 000)	635 000	473 358	(161 642)	C
Other income	483 000	-	483 000	242 390	(240 610)	D
Total revenue	25 905 000	(2 105 000)	23 800 000	23 290 122	(509 878)	
Revenue from non-exchange transactions						
Property rates	4 814 000	11 000	4 825 000	4 782 832	(42 168)	
Government grants & subsidies	28 054 000	-	28 054 000	29 362 905	1 308 905	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	32 870 000	11 000	32 881 000	34 553 452	1 672 452	
Total revenue	58 775 000	(2 094 000)	56 681 000	57 843 574	1 162 574	
Expenditure						
Personnel	(24 696 000)	(263 000)	(24 959 000)	(22 878 427)	2 080 573	G
Remuneration of councillors	(1 859 000)	-	(1 859 000)	(1 808 491)	50 509	H
Depreciation, amortisation and impairment	(16 000 000)	(500 000)	(16 500 000)	(14 270 394)	2 229 606	I
Impairment loss	-	-	-	(26 311)	(26 311)	
Finance costs	(1 305 000)	-	(1 305 000)	(1 865 712)	(560 712)	J
Bad debts written off	-	-	-	(1 552 270)	(1 552 270)	K
Repairs and maintenance	(2 326 000)	-	(2 326 000)	(2 169 005)	156 995	
Bulk purchases	(10 620 000)	(1 380 000)	(12 000 000)	(11 060 580)	939 420	J/T
Transfers and Subsidies	(7 328 000)	-	(7 328 000)	(6 289 982)	1 038 018	
General Expenses	(13 899 000)	(1 021 000)	(14 920 000)	(14 794 332)	125 668	J
Total expenditure	(78 033 000)	(3 164 000)	(81 197 000)	(76 715 504)	4 481 496	
Operating deficit	(19 258 000)	(5 258 000)	(24 516 000)	(18 871 930)	(5 644 070)	
Gain / (loss) on disposal of assets and liabilities	-	-	-	(33 086)	(33 086)	
Transfers recognised - capital	34 051 000	3 199 000	37 250 000	39 305 995	2 055 995	E
	34 051 000	3 199 000	37 250 000	39 272 909	2 022 909	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	14 793 000	(2 059 000)	12 734 000	20 400 979	7 666 979	

Baviaans Local Municipality

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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 Position						
Assets						
Current Assets						
Inventories	9 000	-	9 000	18 466	9 466	L
Other receivables	708 000	-	708 000	405 845	(302 155)	M
VAT receivable	-	-	-	2 178 747	2 178 747	M
Consumer debtors	1 360 000	-	1 360 000	3 286 885	1 926 885	N
Cash and cash equivalents	675 000	-	675 000	756 567	81 567	
	2 752 000	-	2 752 000	6 646 510	3 894 510	
Non-Current Assets						
Investment property	38 434 000	-	38 434 000	30 287 859	(8 146 141)	Q
Property, plant and equipment	246 114 000	2 807 000	248 921 000	247 599 566	(1 321 434)	O
Intangible assets	-	-	-	158 052	158 052	
Heritage assets	-	-	-	659 164	659 164	P
Investments	231 000	-	231 000	-	(231 000)	W
Other receivables	-	-	-	2 648 000	2 648 000	R
	284 779 000	2 807 000	287 586 000	281 352 641	(6 233 359)	
Total Assets	287 531 000	2 807 000	290 338 000	287 999 151	(2 338 849)	
Liabilities						
Current Liabilities						
Repayment - National Revenue Fund	-	-	-	742 616	742 616	S
Finance lease obligation	660 000	-	660 000	334 442	(325 558)	O
Trade and other payables	22 531 000	-	22 531 000	25 536 675	3 005 675	T
Consumer deposits	392 000	-	392 000	560 280	168 280	
Unspent conditional grants and receipts	-	-	-	1 112 688	1 112 688	U
Provisions	1 000	-	1 000	-	(1 000)	
	23 584 000	-	23 584 000	28 286 701	4 702 701	
Non-Current Liabilities						
Finance lease obligation	4 005 000	-	4 005 000	194 770	(3 810 230)	O
Provisions	4 452 000	-	4 452 000	8 568 189	4 116 189	V
	8 457 000	-	8 457 000	8 762 959	305 959	
Total Liabilities	32 041 000	-	32 041 000	37 049 660	5 008 660	
	255 490 000	2 807 000	258 297 000	250 949 491	(7 347 509)	
Reserves						
Accumulated surplus	255 490 000	2 807 000	258 297 000	250 949 491	(7 347 509)	

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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

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.

Baviaans Local Municipality

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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

I - Depreciation, amortisation and impairment

The impact of depreciation of the Erasmuskloof project was over estimated.

J - Finance costs/General expenditure

Cash flow constraints resulted in extensive reliance on overdraft and payments of creditors after 30 days resulting in interest charges.

K - Bad debts written off

Indigent related write off was larger than expected.

Statement of Position

L - Inventories

The final inventory count was more than budgeted. This was due to a difference in anticipated water volumes.

M - Other Receivables/VAT Receivable

The INEP grant resulted in a major increase in Eskom deposit.

N - Consumer debtors

Recovery of debtors did not reach 100% as expected.

O - Property, Plant and Equipment/Finance leases

MSIG funds received were not spent on hardware as budgeted. Vehicles acquisitions that did not materialise that would have been accounted for as finance leases as a moratorium was placed on the acquisition of assets.

P - Heritage Assets

This is the first year that the GRAP standards require heritage assets to be valued. The information was not available at the time of the adjustment budget.

Q - Investment Property

It was not foreseen that RDP/HOD housing properties and land previously held with undertermined use would be adjusted for during 2016 financial year.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

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

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

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

1.1 Presentation of currency

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

1.2 Going concern

These annual financial statements were prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months then it will be amalgamated into the new Dr Beyers Naude Local Municipality with Camdeboo and Ikwezi Local Municipalities.

1.3 Budget information

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

1.4 Comparative figures

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

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

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

The nature and reasons for the reclassifications and restatements are disclosed in note 32 to the financial statements.

1.5 Offsetting

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

1.6 Significant judgements and sources of estimation uncertainty

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

Judgements

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

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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.

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.6 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and amortisation

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

Inventory

The value of water inventory is calculated by considering the quantity of water in the pipes and is estimated based on the dimensions/measurments of the pipes and the average cost per KL.

1.7 Investment property

Initial recognition and measurement

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, to meet service delivery objectives, for administrative purposes or sale in the ordinary course of operations.

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

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

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

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

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

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

Subsequent measurement

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

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

Impairments

Baviaans Local Municipality

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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

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.8 Property, plant and equipment (continued)

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

Baviaans Local Municipality

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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.

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.9 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and the cost or fair value of the asset can be measured reliably.

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

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

Intangible assets are initially recognised at cost.

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

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation and impairment

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

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

Computer software, other	5 years
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Impairments

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

Derecognition

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

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

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.10 Financial instruments

Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

Initial measurement

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

Subsequent measurement

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

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

a) Financial instruments at fair value:

derivatives;

combined instruments that are designated at fair value;

instruments held for trading. A financial instrument is held for trading if:

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

b) Financial instruments at amortised cost

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

c) Financial instruments at cost

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

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

Gains and losses

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

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

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

ACCOUNTING POLICIES

1.10 Financial instruments (continued)

Impairments

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

Financial assets measured at amortised cost:

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

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

Financial liabilities

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

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

Baviaans Local Municipality

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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

1.12 Inventories

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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

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

Derecognition

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

1.13 Impairment of cash-generating assets

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

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

Identification

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

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

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

Value in use

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

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

Baviaans Local Municipality

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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.

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

1.14 Employee benefits

Short-term employee benefits

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

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

Post-employment benefits

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

Defined contribution plans

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

Baviaans Local Municipality

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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

1.16 Revenue from exchange transactions (continued)

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

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

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

Specific exchange revenue sources

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

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

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

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

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

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

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

Measurement

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

1.17 Revenue from non-exchange transactions

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

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.

Baviaans Local Municipality

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ACCOUNTING POLICIES

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

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

1.22 Related parties

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

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

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

1.23 Heritage assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Baviaans Local Municipality

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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:

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ACCOUNTING POLICIES

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 32: Service Concession Arrangements: Grantor	01 April 2016	The impact of the amendment is not material
GRAP 108: Statutory Receivables	01 April 2016	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
GRAP 16 (as amended 2015): Investment Property	01 April 2016	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
GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	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
GRAP 21 (as amended 2015): Impairment of non-cash generating assets	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
GRAP 26 (as amended 2015): Impairment of cash generating assets	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
GRAP 109: Accounting by Principals and Agents	01 April 2017	The impact of the amendment is not material
IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	The impact of the amendment is not material
Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the amendment is not material
GRAP 18: Segment Reporting	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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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

Annual Financial Statements for the year ended 30 June 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	2015
2. Inventories		
Water	18 466	18 430
3. Other receivables		
SBDM - Amalgamation expenses recoverable	888	-
Employee Medical Aid Recoverable	26 090	-
Cash shortages	-	23 428
Payments in advance	3 867	2 825
Prepaid expenses	375 000	375 000
	405 845	401 253
<p>Cash shortages relates to a claim against an employee in the 2014 financial year. During the 2016 financial year the debtor was reallocated to consumer debtors per council resolution in order to commence aging.</p>		
4. VAT receivable		
VAT	2 178 747	2 858 705
Opening Balance	2 858 705	2 341 752
Net Movement for Output and Input VAT	5 196 310	5 844 241
Refunds received	(5 876 268)	(5 327 288)
Closing Balance	2 178 747	2 858 705
<p>The municipality is registered for VAT on the payment basis.</p>		
5. Trade receivables		
Gross balances		
Rates	2 054 907	1 843 494
Electricity	377 766	185 942
Water	1 523 407	439 181
Waste water	34 472	24 724
Sewerage	405 806	103 216
Refuse	512 826	161 532
Other	109 742	33 951
Payments received in advance	(135 893)	(102 656)
	4 883 033	2 689 384
Debtors with credit balances	161 787	140 334
Less: Provision for debt impairment	(1 757 935)	(578 216)
	(1 596 148)	(437 882)
Net balance	3 286 885	2 251 502

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	2015
5. Trade receivables (continued)		
Payments received in advance		
Current (0 -30 days)	(135 893)	(102 656)
Other		
Current (0 -30 days)	23 618	10 917
31 - 60 days	15 382	1 976
61 - 90 days	15 143	2 262
91 - 120 days	15 157	2 282
121 - 365 days	40 442	16 514
	109 742	33 951
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	290 363	196 732
31 - 60 days	263 938	322 316
61 - 90 days	248 841	110 314
91 - 120 days	238 472	54 648
121 - 365 days	3 382 219	1 700 705
	4 423 833	2 384 715
Industrial/ commercial		
Current (0 -30 days)	143 495	96 976
31 - 60 days	5 815	8 560
61 - 90 days	553	3 258
91 - 120 days	785	856
121 - 365 days	11 559	21 134
	162 207	130 784
National and provincial government		
Current (0 -30 days)	108 162	93 754
31 - 60 days	83 368	31 618
61 - 90 days	52 630	10 869
91 - 120 days	1 058	4 828
121 - 365 days	51 775	36 525
	296 993	177 594
Total		
Current (0 -30 days)	542 020	383 754
31 - 60 days	353 121	362 493
61 - 90 days	302 024	124 441
91 - 120 days	240 314	60 332
121 - 365 days	3 445 554	1 758 364
	4 883 033	2 689 384
Debtors with credit balances	161 787	140 334
Less: Provision for debt impairment	(1 757 935)	(578 216)
	3 286 885	2 251 502
Total debtor past due but not impaired		
61 - 90 days	130 941	38 594
91 - 120 days	46 082	24 902
121 - 365 days	1 340 930	1 054 210
	1 517 953	1 117 706

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	2015
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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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand 2016 2015

7. Investment property (continued)

Reconciliation of investment property - 2015

	Opening balance	Total
Investment property	31 392 859	31 392 859
Fair value of investment properties	30 270 859	31 392 859

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.

Neither operation costs nor income was derived from investment properties.

Erven 2119 Willowmore and 575, 576 and 584 Steytlerville were sold during 2015 financial year but not yet transferred and are still recognised in Investment Property at 30 June 2016.

8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 255 925	-	1 255 925	485 537	-	485 537
Community assets	1 652 238	(1 151 173)	501 065	1 652 238	(1 046 744)	605 494
Infrastructure	419 714 183	(183 772 775)	235 941 408	327 029 434	(170 845 921)	156 183 513
Landfill sites	3 304 291	(867 486)	2 436 805	3 304 291	(578 323)	2 725 968
Leased and other assets	11 393 499	(8 875 582)	2 517 917	11 313 574	(8 647 367)	2 666 207
Buildings	7 064 753	(5 528 716)	1 536 037	6 463 455	(5 437 394)	1 026 061
Work-in-progress	3 410 409	-	3 410 409	64 615 229	-	64 615 229
Total	447 795 298	(200 195 732)	247 599 566	414 863 758	(186 555 749)	228 308 009

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	485 537	-	-	770 388	-	-	1 255 925
Community assets	605 494	-	-	-	(104 429)	-	501 065
Infrastructure	156 183 513	-	-	92 684 749	(12 926 854)	-	235 941 408
Buildings	1 026 061	-	-	601 297	(80 020)	(11 301)	1 536 037
Landfill sites	2 725 968	-	-	-	(289 163)	-	2 436 805
Lease and other assets	2 666 207	740 869	(30 817)	-	(843 333)	(15 009)	2 517 917
Work-in-progress	64 615 229	31 708 614	-	(92 913 434)	-	-	3 410 409
Total	228 308 009	32 449 483	(30 817)	1 143 000	(14 243 799)	(26 310)	247 599 566

Baviaans Local Municipality

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand 2016 2015

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	19 659 483	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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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	2015
10. Heritage assets (continued)		
	Opening balance	Total
Historical monuments	659 164	659 164
Reconciliation of heritage assets 2015		
	Opening balance	Total
Historical monuments	659 164	659 164
11. Other receivables		
Eskom - Bulk electricity upgrade deposit The deposit is required in terms of the agreement with Eskom as security for the upgrade of the Willowmore bulk electricity supply capacity	2 648 000	-
Non-current assets		
Eskom - Bulk electricity upgrade deposit	2 648 000	-
12. Repayment - National Revenue Fund		
At amortised cost		
National Treasury	742 616	2 911 616
The municipality applied for a roll over on the 2012/2013 unspent conditional grants. The application was denied and the municipality was required to repay R5,131,616.		
The amount was repayable and was deducted from the 2013/15 and 2015/16 tranches of the equitable share grant.		
Non-current liabilities		
At amortised cost	-	742 616
Current liabilities		
At amortised cost	742 616	2 169 000

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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:

Baviaans Local Municipality

Annual Financial Statements for the year ended 30 June 2016

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2016	2015
16. Unspent conditional grants and receipts (continued)		
DORA grants		
Municipal Infrastructure Grant	248 055	-
Regional Bulk Infrastructure Grant	-	(2 687 598)
Municipal Systems Improvement Grant	3 011	-
	-	-
Other sector departmental grants		
Rapid Response - DWA	498 615	498 615
Water and Sanitation	200 000	200 000
Sarah Baartman - LED Grant	103 007	63 251
Sarah Baartman - Tourism Grant	60 000	60 000
	1 112 688	(1 865 732)
Movement during the year		
Balance at the beginning of the year	(1 865 732)	600 371
Additions during the year	45 991 648	42 759 493
Income recognition during the year	(43 013 228)	(45 225 596)
	1 112 688	(1 865 732)

See note 21 for reconciliation of grants from National/Provincial Government.

The overall closing balance of unspent conditional grants in 2014/15 is reflected as an amount receivable (Debit). This was due to amounts already paid and claimed by the municipality on the Regional Bulk Infrastructure Grant amounting to R2,6 million. The other sector departmental grants are correctly disclosed as liabilities relating to unspent portions at 30 June 2015 and 30 June 2016.

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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 2015. 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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17. Provisions (continued)

Rehabilitation of landfill

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The sites are expected to be closed in 2018, after which rehabilitation will take place over the course of the next 9 to 10 years after which the site is expected to be fully rehabilitated. The following assumptions were used when calculating the provisions for Landfill Site rehabilitation:

- The CPIX was used to adjust the cost as it is the only determining factor year on year.

The landfill sites are nearing the end of their useful lives and the ground and ground water on the entire site are thus considered to be contaminated and not just the portions in use, i.e. the provision provides for the cost of rehabilitating the entire site and not just the portions used up to financial year end. The entire site would need to be rehabilitated due to waste distributed across the entire site over the years since opening thereof. Thus, as provided in GRAP 19 where it states that the provision should only be raised to the extent that the costs would need to be incurred, it is considered that the full cost of rehabilitation would need to be incurred to rehabilitate the sites.

The municipality does not have licences for the landfills therefore the sites will need to be rehabilitated in their entirety.

18. Property rates

Rates received

Property rates	4 782 832	4 372 948
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Valuations

Residential	245 442 300	245 442 300
Commercial	67 403 500	67 403 500
State	71 797 700	71 797 700
Agricultural	1 893 946 000	1 893 946 000
Vacant	17 112 000	17 112 000
Indigent	72 766 000	72 766 000
	2 368 467 500	2 368 467 500

The following general rates were applied during the 2015/2016 and 2014/2015 years respectively to property valuations to determine the assessment rates:

Residential properties valued below R50 000 in Willowmore and Steytlerville	R589.30/year	R535.73/year
Residential properties valued from R50 001 to R100 000 in Willowmore and Steytlerville	R642.87/year	R584.43/year
Residential properties valued above R100 000 in Willowmore and Steytlerville	0.00650 c/R	0.00590 c/R
Residential properties in Rietbron	0.00495 c/R	0.00450 c/R
Businesses in Steytlerville and Willowmore	0.00835 c/R	0.00759 c/R
Agricultural properties	0.00046 c/R	0.00042 c/R
State properties	0.01057 c/R	0.00961 c/R
Businesses in rural areas	0.00841 c/R	0.00765 c/R
Vacant land	0.01776 c/R	0.01614 c/R

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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

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21. Government grants and subsidies		
Equitable share	23 452 000	20 481 000
Library subsidies	300 000	300 000
Municipal Infrastructure Grant	8 621 946	9 898 000
Municipal Systems Improvement Grant	926 989	934 000
Sarah Baartman - LED Grant	162 245	306 749
Integrated National Electrification Grant	3 000 000	900 000
ACIP - Rietbron Water Grant	1 815 998	-
Down Housing	-	49 917
Subsidy on audit fees	1 426 713	3 254 891
Department of Trade and Industry Grant (Amounts paid by Department)	-	2 326 790
Public Works - EPWP	1 018 000	1 390 000
Cacadu - Fires Services Grant	439 000	250 000
Finance Management Grant	1 600 000	1 600 000
Regional Bulk Infrastructure Grant	25 868 051	27 944 977
SETA Grant	37 958	36 303
	68 668 900	69 672 627

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Sarah Baartman - LED Grant

Balance unspent at beginning of year	63 251	370 000
Current-year receipts	202 000	-
Conditions met - transferred to revenue	(162 244)	(306 749)
	103 007	63 251

Conditions still to be met - remain liabilities (see note 16).

The funds were utilised for the branding of a tourism information sign, internet marketing, Sewefontein Information Office reception equipment and support for the Steytlerville and Rietbron Crafters.

Municipal Infrastructure Grant

Current-year receipts	8 870 000	9 898 000
Conditions met - transferred to revenue	(8 621 945)	(9 898 000)
	248 055	-

Conditions still to be met - remain liabilities (see note 16).

The municipality upgraded streets, stormwater, bulk water, high mast lighting and waste water treatment works during the current financial year.

Municipal Systems Improvement Grant

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(926 989)	(934 000)
	3 011	-

Conditions still to be met - remain liabilities (see note 16).

The grant was utilised for remuneration of audit committee members, public participation and communication and IT hardware and software.

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Figures in Rand	2016	2015
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	<u>498 615</u>	<u>498 615</u>
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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21. Government grants and subsidies (continued)

Public works - EPWP

Current-year receipts	1 018 000	1 390 000
Conditions met - transferred to revenue	(1 018 000)	(1 390 000)
	<u>-</u>	<u>-</u>

Various social upliftment projects were undertaken. This included a clean up campaign using local unemployed residents.

Finance Management Grant

Current-year receipts	1 600 000	1 600 000
Conditions met - transferred to revenue	(1 600 000)	(1 600 000)
	<u>-</u>	<u>-</u>

The municipality utilised the grant for the employment of Financial Interns, training in line with competencies and the compilation of annual financial statements, audit improvement and mSCOA implementation.

Integrated National Electricifation Grant

Current-year receipts	3 000 000	900 000
Conditions met - transferred to revenue	(3 000 000)	(900 000)
	<u>-</u>	<u>-</u>

The grant was utilized for the deposit relating to the upgrade of bulk electricity capacity of the supply Willowmore.

Sarah Baartman - Tourism Grant

Balance unspent at beginning of year	60 000	-
Current-year receipts	-	60 000
	<u>60 000</u>	<u>60 000</u>

Conditions still to be met - remain liabilities (see note 16).

No spending in the current financial year

Water and Sanitation Grant

Balance unspent at beginning of year	<u>200 000</u>	<u>200 000</u>
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Conditions still to be met - remain liabilities (see note 16).

No spending during the current financial year.

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Figures in Rand	2016	2015
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
Performance Bonuses	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
Performance Bonuses	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
Performance Bonuses	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
Performance Bonuses	91 074	85 800
Contributions to UIF, Medical and Pension Funds	7 482	7 023
	583 535	572 787

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22. Personnel (continued)

Remuneration of Manager - Technical Services

Annual Remuneration	-	389 019
Performance Bonuses	-	30 533
Contributions to UIF, Medical and Pension Funds	-	5 165
	-	424 717

The technical services manager resigned in February 2015

Remuneration of Manager - Technical Services (2015 Appointment)

Annual Remuneration	628 121	99 333
Performance Bonuses	71 224	10 800
Contributions to UIF, Medical and Pension Funds	8 757	1 394
	708 102	111 527

The new technical service manager commenced in May 2015

23. Remuneration of councillors

Executive Mayor	383 856	370 020
Councillors	1 253 359	1 210 974
Councillors allowances	171 276	171 276
	1 808 491	1 752 270

In-kind benefits

Councillors' Remuneration

2016

Councillor	Remuneration	Allowances	Total
EL Looek (Mayor)	383 857	24 468	408 325
D J Bezuidenhout	208 893	24 468	233 361
H Booyesen	208 893	24 468	233 361
M E Fivaz	208 893	24 468	233 361
G A Hobson	208 893	24 468	233 361
V B Lapperts	208 893	24 468	233 361
T R Spogter	208 893	24 468	233 361
	1 637 215	171 276	1 808 491

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23. Remuneration of councillors (continued)

2015

Councillor	Remuneration	Allowances	Pension and medical aid	Total
EL Looek (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	14 270 394	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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Figures in Rand	2016	2015
28. Bulk purchases		
Electricity	11 060 580	9 152 754
29. Grants and subsidies paid		
Free Basic Services	6 289 982	6 710 446
	6 289 982	6 710 446
30. General expenses		
Actuarial cost	(109 732)	(319 059)
Advertising	45 957	47 924
Assessment rates & municipal charges	830 794	714 110
Auditors remuneration	2 376 693	2 167 983
Bank charges	332 244	259 526
Chemicals	84 019	211 631
Communication	7 904	139 212
Community assistance	11 381	7 854
Community development and training	9 738	122 742
Commission paid	224 479	279 688
Computer expenses	-	1 243 927
Consumables	27 016	22 842
Electricity - municipal usage	1 764 330	1 217 327
Finance Management Grant	1 435 475	1 406 750
Fire fighting	40 400	17 400
Fuel and oil	1 105 901	1 129 366
Insurance	369 210	326 778
Internal audit	-	152 904
Lease rentals	864 232	692 863
Legal fees	1 098 133	263 664
Membership fees	500 000	500 000
Motor vehicle expenses	120 120	136 050
Movement in water inventory	(37)	(9 125)
MSIG	629 202	823 399
Other projects	2 568	-
Postage and courier	123 763	153 460
Printing and stationery	347 365	424 314
Project management costs	438 061	458 093
Refuse	58 500	95 217
Research and development costs	97 287	42 215
Royalties and license fees	58 852	30 576
Professional fees	378 411	87 104
Special projects	21 826	10 000
Sundry expenses	15 412	486
Telephone and fax	558 863	556 259
Tourism development	256 388	408 754
Training	27 362	10 496
Sanitation services	270 973	-
Travel - local	128 291	96 317
Transfer fees	12 006	25 664
Ward committees	17 800	26 447
Uniforms	57 068	82 297
Valuation of properties	156 077	154 666
	14 794 332	14 218 121

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Figures in Rand	2016	2015
31. Impairment of assets		
Impairments		
Property, plant and equipment	26 311	-

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 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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Figures in Rand	2016	2015
32. Prior period errors (continued)		
Statement of Financial Performance		
Expenditure		
Depreciation expense	(15 860 093)	(16 145 593)
Finance costs	(1 596 987)	(1 635 790)
General expenditure	(14 218 121)	(14 206 929)
Impairment losses	-	(78 000)
	(31 675 201)	(32 066 312)

Comments on restatements and reclassifications

Statement of financial position

Investment property

In the prior year Investment Property included RDP/HOD housing properties as municipal properties. An adjustment has been made to correct. In addition, it also includes the effect a correction relating to a property duplicated.

Property, plant and equipment

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

Non-current assets held for sale

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

Provisions

The provision for landfill sites rehabilitation was restated retrospectively in the current year.

Other receivables

In the prior year, an expenditure that was unpaid and accrued in trade and other payables was recognised as a prepayment included in other receivables in error. This has been corrected.

Statement of financial performance

Depreciation and amortisation

Depreciation has been restated for the effect of assets previously not included in the asset register as well as assets previously duplicated. It has also bee corrected for the effect of the correction on landfill site cost restatement.

Finance costs

The adjustment to finance costs relates to the retrospective restatement of the provision for landfill sites rehabilitation.

General expenditure

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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	20 400 979	21 674 524
Adjustments for:		
Depreciation and amortisation	14 270 394	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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35. Related parties

Relationships

Mayor	EL Loock
Councillor	Cllr D Bezuidenhout
Councillor	Cllr H Booysen
Councillor	Cllr M Fivaz
Councillor	Cllr GA Hobson
Councillor	Cllr V Lapperts
Councillor	Cllr T Spogter
Municipal Manager	JM Vumazonke
Chief Financial Officer (Resigned September 2015)	H Nagel
Technical Services Manager	RJ Botha
Community Services Manager	L de Beer
Corporate Services Manager	MA Lotter
District Municipality which Baviaans Municipality forms part of	Sarah Baartman District Municipality
Close family member of key management	None
Joint venture of key management	None
Associate of close family member of key management	None
Members of key management	None

The mayor and councillors only received remuneration as set out in Note 23. Rates and municipal services were in line with other customers, see note 46.

The senior management only received remuneration as set out in Note 22. Rates and municipal services were in line with other customers.

All related government entities transactions, including the district municipality, such as rates and municipal services were in line with government legislation.

Payments were made by Sarah Baartman District Municipality to A2A Kopano Incorporated in terms of the district intervention and support during the financial year amounted to R287 028.

36. Risk management

Financial risk management

Liquidity risk

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

Credit risk

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

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2016	2015
- Call deposits	-	333 872
- Trade and other receivables	3 286 885	2 251 502

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Interest rate risk is managed by investing any surplus funds into high yield investments. The resultant interest earned is likely to offset interest paid, as both are linked to prime rates.

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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	11 601 027	247 618
Less: Amounts condoned	(11 601 027)	(2 277 377)
	247 618	247 618

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 (2015/2016: 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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42. Compliance

The municipality was unable to pay creditors within the required 30 days due to cash constraints. This is in contravention of paragraph 65(2)(e) of the Municipal Finance Management Act.

During the audit of the 2013/14 annual financial statements it was found that contract BLM 2012/13/017 - Steytlerville Bulk Water Supply from Erasmuskloof: Phase 3, Water Mains, Pumping Stations and Telemetry was advertised in newspapers commonly circulating locally for less than 30 days in the case of transactions over R10 million (VAT included). The advertisement was running for 29 days instead of 30 days. This was done due to the fact that the 30th days would have been on a Saturday. This was recorded as non-compliant by the Auditor-General. Expenditure on this tender continued during the 2014/15 financial year.

Tender BLM 2014/15/010 was advertised in newspapers commonly circulating locally for less than 30 days in the case of transactions over R10 million (VAT included). The advertisement was running for 21 days instead of 30 days. This was due to the urgency of the matter. Due to the fact that the Auditor-General identified a previous tender as non-compliant an amendment notice was issued to the prospective tenders to extend the deadline for submission. This was also discussed in the compulsory site clarification meeting with the prospective tenderers before the tenders was submitted as well as advertised on website and on CIBD website.

43. Contingencies

Wanhoop

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

The matter is still pending. The Department of Water Affairs are actively involved in trying to assist the municipality in finalising the matter to ensure that the municipality can register servitudes. On the matter of litigation it seems to be quiet for the moment and the lawyers foresee that it will remain like this for the immediate future.

Landfill sites

The municipality has not obtained a permit for the landfill sites in terms of Section 24G of the National Environmental Management Act. This could lead to possible penalties and fines being imposed.

Demarcation Board

The municipality is disputing the proposed merger of various municipalities, including Baviaans, with the Demarcation Board. After unsuccessful correspondence between the municipalities lawyers and the Demarcation Board, Baviaans Municipality brought an application against the Demarcation Board. The application was successful but the court ordered the Baviaans to pay the Camdeboo Municipality cost. Baviaans lawyers estimate the total costs to be valued at approximately R600,000.

SAMWU obo Various Members: CCMA Case No. ECPE6051-15

SAMWU on behalf of 47 employees has referred a dispute to the CCMA in terms of section 6 of the Employment Equity Act, claiming that the 47 employees be compensated retrospectively on the same agreed scales as other employees performing the same functions. The matter was set down for arbitration on 17, 18 and 19 August 2016 at Willowmore, but it was agreed that the proceedings would be postponed to allow the newly established Dr. Beyers Naude Local Municipality to determine how it should deal with the matter. The matter is expected to be set down again in October 2016. Counsel has been instructed to represent the Municipality. The costs going forward are expected to be approximately R80 000

Gerhard W Davids SALGB Case No. ECD061620

Mr Davids, acting on behalf of the SAMWU members employed by Baviaans Local Municipality, has referred a dispute to the SALGB requesting interpretation and application of two collective agreements. The matter has been set down for arbitration on 2 September 2016. The costs going forward are expected to be approximately R60 000].

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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

Defined benefit plan

The plan is a post employment medical benefit plan.

49.1 Post employment medical benefit

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	2 324 839	2 297 426
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	2 297 426	2 464 046
Net expense recognised in the statement of financial performance	27 413	(166 620)
	2 324 839	2 297 426

Net expense recognised in the statement of financial performance

Interest cost	188 376	206 397
Actuarial (gains) losses	1 193	(242 157)
Assets not recognised	(162 156)	(130 860)
	27 413	(166 620)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.83 %	8.49 %
Expected rate of return on assets	0.79 %	0.75 %
Expected rate of return on reimbursement rights	6.19 %	6.19 %
Medical cost trend rates	7.98 %	7.69 %
Expected increase in salaries	7.19 %	7.19 %

The PA 90-2 post-retirement mortality table used

Number of Continuation pensioners: 4 (2014/2015: 4)

Average age of Continuation pensioners as at 30 June 2016 was 69.3 (2014/2015: 68.3), with an average employer monthly contribution of R3,327 (2014/2015: R3,130)

History of liabilities, assets and experience adjustments

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

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

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49. Employee benefits (continued)

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
	1 931 135	1 771 850

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)
	159 285	86 189

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 %

History of liabilities, assets and experience adjustments

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

	2016	2015	2014	2013
	R	R	R	R
Defined benefit obligation	1 931 135	1 771 850	1 685 661	1 617 000
Plan assets	-	-	-	-
Surplus (deficit)	(1 931 135)	(1 771 850)	(1 685 661)	(1 617 000)
Liabilities	(58 956)	(63 159)	56 641	71 000
Assets	-	-	-	-

Defined benefit obligation

The obligation in respect of the medical care contributions for retirement benefits is valued every year by independent qualified actuaries. The last actuarial valuation was performed on 30 June 2016 by Arch Actuarial Consulting using the Projected Unit Credit Method.

Baviaans Local Municipality

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50. Operating lease payable

Gross investment in the lease due

- within one year	514 954	544 517
- in second to fifth year inclusive	-	514 954
	514 954	1 059 471

Present value of minimum lease payments due

- within one year	514 954	544 517
- in second to fifth year inclusive	-	514 954
	514 954	1 059 471

Terms are 3 years at prime less 1.5%

51. Public contributions and donations

Public contributions and donations	407 215	-
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The total of public contributions and donations received relates to asset donations received during the year relating to other assets from projects in progress or completed and 6 investment properties in Steytleville.

52. Going concern

Following the section 12 Notice, the municipalities of Baviaans, Ikwezi and Camdeboo will be amalgamated on 07 August 2016.