



**Ba-Phalaborwa Local Municipality
Annual Financial Statements
for the year ended 30 June 2016**

Published 31 August 2016

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Nature of business and principal activities

Local government institution in the Mopani District, Limpopo

Mayoral committee

Mayor

Mayor:Cllr.N.A Sono
Speaker:Cllr.M.D Maake
Chief Whip:Cllr.SL Mohlala
Member of Exco:Cllr.I F Mpenyane
Member of Exco:Cllr.A Peta
Member of Exco:Cllr.S.De Beer
Member of Exco:Cllr.T. Nkuna
Member Exco:Cllr.Malatji KS
Member of Exco:Cllr.MM Malatji

Councillors

Cllr.V P Mapanzela
Cllr.M.S. Magomane
Cllr.Malesa MM
Cllr.D.M Rapatsa
Cllr.P Mhlari
Cllr.S.T.Mkanzi
Cllr.M V Mathebula
Cllr.T M Malobane
MPAC Chairperson: Cllr.O Makwala
Cllr.S.R Nkuna
Cllr.P.S Mthombeni
Cllr.J.G. Mashele
Cllr.M.R Monareng
Cllr.M.P Kgoete
Cllr.G Fleming
Cllr.H.S. Booysen
Cllr.T.G Malatji
Cllr.N.E Ntimane - Ndlovu
Cllr.M. R Popela
Cllr.P.G Mabilo
Cllr. T Makansi
Cllr. KE Mahomane
Cllr.M.G Malesa
Cllr.B R Mashale
Cllr.K.A Otto
Cllr.R.Makasela
Cllr.M.S Chauke
Cllr.M.S Mokgalaka
Cllr.K.P.Mhlarhi
Cllr.B Ramothwala
Hosi. M Ntsanwisi
Kgoshi M.A Malatji
Kgoshi T.Malatji
Makgoshi MC Shai

Grading of local authority

3

Accounting Officer

Dr SS Sebashe

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

General Information

Registered office	Civic Centre, Nelson Mandela Drive Phalaborwa 1390
Business address	Civic Centre Nelson Mandela Drive Phalaborwa 1390
Postal address	Ba-Phalaborwa Municipality Private Bag 01020 Phalaborwa 1390
Auditors	Auditor-General - South Africa
Attorneys	Chidi Attorneys Masengane Ke Attorneys Isaiah Nyathi Attorneys Thomas & Swanepoel Inc Mathonsi Attorneys Sikhitha Daniels & Associates Ngcingwana Inc Bernhard Van Der Hoven Gerhard Wagenaar Rapela Inc Attorneys
Audit committee	Chairperson: K P Ravhudzulo Member: K G Mbonambi Member: H G Hlomane Member: L Thubakgale Member: P A C Mangoma

Ba-Phalaborwa Local Municipality

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IMFO	Institute of Municipal Finance Officers
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
EPWP	Expanded Public Works Project
FMG	Financial Management Grant
VAT	Value Added Taxation

Ba-Phalaborwa Local Municipality

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Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) 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 the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external.

The annual financial statements set out on pages 5 to 69, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on its behalf by:

Dr SS Sebashe
Accounting Officer

Phalaborwa
31 August 2016

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2016.

1. Review of activities

Main business and operations

The municipality is a local government institution in the mopani district, limpopo and operates principally in South Africa .

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

Net surplus of the municipality was R 76,247,380 (2015: deficit R 109,166,504).

2. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 1,090,203,946 and that the municipality's total assets exceed its liabilities by R 1,144,984,647.

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

3. Subsequent events

A new council was inaugurated into office on the 10 August 2016.

4. Accounting policies

The annual financial statements are prepared in accordance with Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Dr SS Sebashe	South African

6. Member and executive managers emoluments

Economic entity

	Salary or Fee	Acting allowance	Other	Total package 2016	Total package 2015
Section 57 Managers					
Municipal Manager	921,892	-	741,446	1,663,338	1,446,389
Chief Finance Officer (Former)	136,894	-	253,087	389,981	1,156,369
Chief Finance Officer (Acting)	305,512	254,419	375,778	935,709	-
Director: Corporate Services	696,624	-	553,868	1,250,492	1,102,888
Director : Technical Services	215,000	-	363,183	578,183	-
Director : Community Services	270,000	-	338,987	608,987	776,895
Director : Planning and Development	354,684	-	263,923	618,607	461,927
	2,900,606	254,419	2,890,272	6,045,297	4,944,468

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Officer's Report

7. Corporate governance

General

The council is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the council supports the highest standards of corporate governance and the ongoing development of best practice.

Audit and risk committee

The municipality has its own independent Audit Committee with effect from July 2015, in line with the provisions of section 166 of the Municipal Finance Management Act.

Internal audit

The municipality has its own internal audit unit, headed by Miss Makhongela, the Deputy Director :Internal Audit services.

8. Bankers

The municipality's primary bankers are Standard Bank of South Africa Limited.

9. Auditors

Auditor-General - South Africa will continue in office for the next financial period.

Ba-Phalaborwa 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 Restated*
Assets			
Current Assets			
Inventories	8	451,717,387	457,015,562
Operating lease asset	9	-	355,736
VAT receivable	10	16,300,017	-
Consumer debtors	11	76,961,315	93,022,644
Cash and cash equivalents	12	11,069,072	3,245,831
		556,047,791	553,639,773
Non-Current Assets			
Biological assets	3	266,663	387,972
Investment property	4	43,857,999	42,999,368
Property, plant and equipment	6	881,646,132	889,365,360
Intangible assets	5	1,285,208	1,715,046
Heritage assets	7	317,000	2
		927,373,002	934,467,748
Total Assets		1,483,420,793	1,488,107,521
Liabilities			
Current Liabilities			
Other financial liabilities	13	20,400,000	6,800,000
Finance lease obligation	14	312,317	201,909
Operating lease liability	9	185,294	483,788
Payables from exchange transactions	18	98,504,607	178,437,548
VAT payable	19	-	3,068,663
Consumer deposits	20	2,040,256	3,738,397
Unspent conditional grants and receipts	17	1,943,225	-
		123,385,699	192,730,305
Non-Current Liabilities			
Other financial liabilities	13	146,900,000	167,300,000
Finance lease obligation	14	272,389	141,858
Employee benefit obligation	15	43,304,000	38,333,000
Provisions	16	24,574,058	21,181,506
		215,050,447	226,956,364
Total Liabilities		338,436,146	419,686,669
Net Assets		1,144,984,647	1,068,420,852
Reserves			
Revaluation reserve		54,780,701	54,463,703
Accumulated surplus		1,090,203,946	1,013,957,149
Total Net Assets		1,144,984,647	1,068,420,852

* See Note 52

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	108,147,928	99,013,201
Rental of facilities and equipment	23	380,911	265,470
Agency services		5,676,019	5,324,933
Licences and permits		3,525,423	2,257,105
Recoveries		117,719,466	-
Sale of municipal land		2,591,087	340,592
Other income	25	1,555,108	2,221,315
Interest received	26	33,197,280	30,175,946
Total revenue from exchange transactions		272,793,222	139,598,562
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	68,105,690	65,593,648
Transfer revenue			
Government grants & subsidies	28	167,887,383	126,400,672
Indigent support		-	178,081
Fines, penalties and forfeits		3,359,890	8,822,814
Donations received		18,104	88,715
Other transfer revenue		1,306,493	4,499,921
Total revenue from non-exchange transactions		240,677,560	205,583,851
Total revenue	21	513,470,782	345,182,413
Expenditure			
Employee related costs	29	(118,246,136)	(123,097,501)
Remuneration of councilors	30	(13,243,062)	(11,789,625)
Audit committee fees		(892,103)	(224,402)
Depreciation and amortisation		(62,987,316)	(60,347,615)
Impairment loss	31	(66,031,882)	(73,146,289)
Finance costs	32	(1,214,925)	(1,886,653)
Repairs and maintenance		(13,816,261)	(13,411,880)
Bulk purchases	33	(74,560,364)	(67,818,951)
Contracted services	34	(30,486,613)	(44,381,725)
Cost of land inventory sold		(3,390,000)	-
General expenses	38	(53,092,061)	(58,288,505)
Total expenditure		(437,960,723)	(454,393,146)
Operating surplus (deficit)	36	75,510,059	(109,210,733)
Fair value adjustments	37	737,321	44,229
Surplus (deficit) for the year		76,247,380	(109,166,504)

* See Note 52

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	732,261,991	732,261,991
Adjustments			
Prior year adjustments	-	390,861,662	390,861,662
Balance at 01 July 2014 as restated*	-	1,123,123,653	1,123,123,653
Changes in net assets			
Surplus for the year	-	(109,166,504)	(109,166,504)
Changes in revaluation surplus arising from changes in value of property, plant and equipment	54,463,703	-	54,463,703
Total changes	54,463,703	(109,166,504)	(54,702,801)
Restated* Balance at 01 July 2015	54,463,703	1,013,956,566	1,068,420,269
Changes in net assets			
Revaluation of Heritage assets	316,998	-	316,998
Net changes recognised directly in net assets	316,998	-	316,998
Deficit for the year	-	76,247,380	76,247,380
Total changes for the year	316,998	76,247,380	76,564,378
Total changes	316,998	76,247,380	76,564,378
Balance at 30 June 2016	54,780,701	1,090,203,946	1,144,984,647

* See Note 52

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Net cash flows from operating activities	39	<u>67,965,108</u>	<u>62,420,531</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(52,367,881)	(35,759,885)
Purchase of other intangible assets	5	-	(87,399)
Net cash flows from investing activities		<u>(52,367,881)</u>	<u>(35,847,284)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(6,800,000)	(3,400,000)
Finance lease payments		240,939	(263,268)
Finance costs		(1,214,925)	(1,886,653)
Net cash flows from financing activities		<u>(7,773,986)</u>	<u>(5,549,921)</u>
Net increase/(decrease) in cash and cash equivalents		7,823,241	21,023,326
Cash and cash equivalents at the beginning of the year		3,245,831	(17,777,495)
Cash and cash equivalents at the end of the year	12	<u>11,069,072</u>	<u>3,245,831</u>

* See Note 52

Ba-Phalaborwa 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						
Revenue from exchange transactions						
Service charges	117,636,937	4,003,000	121,639,937	108,147,928	(13,492,009)	
Rental of facilities and equipment	345,840	95,000	440,840	380,911	(59,929)	
Agency services	2,381,476	-	2,381,476	5,676,019	3,294,543	
Licences and permits	9,399,186	1,112,344	10,511,530	3,525,423	(6,986,107)	
Recoveries	-	-	-	117,719,466	117,719,466	
Sale of Municipal land	-	-	-	2,591,087	2,591,087	
Other income	1,201,386	155,360	1,356,746	1,555,108	198,362	
Interest received - investment	71,247,391	200,000	71,447,391	33,197,280	(38,250,111)	
Total revenue from exchange transactions	202,212,216	5,565,704	207,777,920	272,793,222	65,015,302	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	124,588,976	(24,424,317)	100,164,659	68,105,690	(32,058,969)	
Transfer revenue						
Government grants & subsidies	149,652,000	20,000,000	169,652,000	167,887,383	(1,764,617)	
Fines, Penalties and Forfeits	2,917,200	(2,536,368)	380,832	3,359,890	2,979,058	
Other transfer revenue	-	-	-	18,104	18,104	
Other transfer revenue	186,473	-	186,473	1,306,493	1,120,020	
Total revenue from non-exchange transactions	277,344,649	(6,960,685)	270,383,964	240,677,560	(29,706,404)	
Total revenue	479,556,865	(1,394,981)	478,161,884	513,470,782	35,308,898	
Expenditure						
Personnel	(122,692,587)	2,395,486	(120,297,101)	(118,246,136)	2,050,965	
Remuneration of councillors	(12,810,565)	-	(12,810,565)	(13,243,062)	(432,497)	
Audit committee fees	-	-	-	(892,103)	(892,103)	45
Depreciation and amortisation	(70,103,904)	5,000,000	(65,103,904)	(62,987,316)	2,116,588	
Impairment loss/ Reversal of impairments	(33,325,587)	-	(33,325,587)	(66,031,882)	(32,706,295)	45
Finance costs	(2,109,363)	400,020	(1,709,343)	(1,214,925)	494,418	
Repairs and maintenance	(21,333,154)	(2,642,228)	(23,975,382)	(13,816,261)	10,159,121	
Bulk purchases	(94,331,738)	10,000,000	(84,331,738)	(74,560,364)	9,771,374	
Contracted Services	(52,256,449)	369,770	(51,886,679)	(30,486,613)	21,400,066	
Cost of land sold	-	-	-	(3,390,000)	(3,390,000)	45
General Expenses	(61,028,520)	(3,693,065)	(64,721,585)	(53,092,061)	11,629,524	
Total expenditure	(469,991,867)	11,829,983	(458,161,884)	(437,960,723)	20,201,161	
Operating surplus	9,564,998	10,435,002	20,000,000	75,510,059	55,510,059	
Fair value adjustments	-	-	-	737,321	737,321	
Surplus before taxation	9,564,998	10,435,002	20,000,000	76,247,380	56,247,380	

Ba-Phalaborwa 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						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	9,564,998	10,435,002	20,000,000	76,247,380	56,247,380	

Ba-Phalaborwa 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 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

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

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Post retirement 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. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Property, plant and equipment

The municipality reviews the estimated residual value and useful lives of property, plant and equipment when changing circumstances indicate that they may have changed since the most recent reporting date. During the current year, the municipality determined that the estimated residual value of certain items of property plant and equipment should be revised.

1.3 Biological assets

The entity recognises a biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of a biological assets is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- 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.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Accounting Policies

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.5 Property, plant and equipment

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.

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

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Land included under property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation. Land is not depreciated.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

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1.5 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	30 years
Infrastructure	Straight line	
• Electricity Assets		3 - 60 years
• Roads		5 - 100 years
• Roads furniture		2 - 50 years
• Road structures		80 years
Community	Straight line	
• Cemeteries		5 - 100 years
• Halls and centres		7 - 100 years
• Landfill sites		15 - 60 years
• Markets, stalls and LED facilities		15 - 50 years
• Parks		10 - 80 years
• Sport facilities		30 years
• Taxi ranks		15 - 100 years
Other property, plant and equipment	Straight line	
• Computer hardware		5 years
• Equipment		5 years
• Furniture and fittings		7 years
• Machinery		5 - 7 years
• Office equipment		3 - 10 years
• Picnic seaters and benches		7 years
• Vehicles		3 - 20 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

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

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5 Years

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

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1.8 Heritage assets (continued)

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.

Subsequent measurement

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

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.

Derecognition

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

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

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

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

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Accounting Policies

1.9 Financial instruments (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are 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.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- 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.

Ba-Phalaborwa Local Municipality

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Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

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.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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Accounting Policies

1.9 Financial instruments (continued)

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.

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Accounting Policies

1.9 Financial instruments (continued)

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.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

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1.9 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).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

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.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

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

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

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

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

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Accounting Policies

1.10 Leases (continued)

Operating leases - lessee

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

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement 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.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

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

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

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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.

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.13 Impairment of non-cash-generating assets

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

Ba-Phalaborwa Local Municipality

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Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.14 Employee benefits (continued)

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 include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Insured benefits

Where the entity pay insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the entity retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

Ba-Phalaborwa Local Municipality

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Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

Ba-Phalaborwa Local Municipality

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Accounting Policies

1.14 Employee benefits (continued)

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

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

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

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

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

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

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

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

Accounting Policies

1.15 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

Measurement

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

Ba-Phalaborwa Local Municipality

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Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.17 Revenue from non-exchange transactions

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an 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.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

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

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Ba-Phalaborwa Local Municipality

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Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 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.

1.22 Fruitless and wasteful expenditure

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

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

1.23 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.

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

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1.25 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

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

1.27 Events after reporting date

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

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

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

The municipality will disclose the nature of the event and an estimate of 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.

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2. New standards and interpretations

2.1 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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2017	No impact
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2016	No impact
• GRAP 16 (as amended 2015): Investment Property	01 April 2016	The impact of the amendment is not material.
• GRAP 17 (as amended 2015): Property, Plant and Equipment	01 April 2016	The impact of the amendment is not material.
• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets	01 April 2017	The impact of the amendment is not material.
• GRAP 26 (as amended 2015): Impairment of cash-generating assets	01 April 2017	The impact of the amendment is not material.
• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	No impact

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 20: Related parties	No effective date	The impact of the amendment is not material.
• GRAP 32: Service Concession Arrangements: Grantor	No effective date	No impact
• GRAP 108: Statutory Receivables	No effective date	The impact of the amendment is not material.
• GRAP 109: Accounting by Principals and Agents	No effective date	The impact of the amendment is not material.

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3. Biological assets

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Biological assets	266,663	-	266,663	387,972	-	387,972

Reconciliation of biological assets - 2016

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets	387,972	(121,309)	266,663

Reconciliation of biological assets - 2015

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets	343,743	44,229	387,972

Methods and assumptions used in determining fair value

A management valuation of the biological assets was performed.

4. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation	Accumulated depreciation and impairment	Carrying value
Investment property	43,857,999	-	43,857,999	42,999,368	-	42,999,368

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Closing balance
Investment property	42,999,368	858,631	43,857,999

Reconciliation of investment property - 2015

	Opening balance	Closing balance
Investment property	42,999,368	42,999,368

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.

Ba-Phalaborwa Local Municipality

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4. Investment property (continued)

Details of valuation

The valuation was performed on 30 June 2016. Fair value were performed by an independent valuer, Kholofelo Modipa, Modhope (Pty) Ltd. The company is not connected to the municipality and have relevant experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

5. Intangible assets

	2016			2015		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,149,189	(863,981)	1,285,208	2,149,189	(434,143)	1,715,046

Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Computer software	1,715,046	(429,838)	1,285,208

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	2,057,271	87,399	(429,624)	1,715,046

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6. 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	120,769,455	-	120,769,455	120,769,455	-	120,769,455
Buildings	327,802,926	(192,124,485)	135,678,441	327,551,310	(180,108,165)	147,443,145
Infrastructure	794,999,756	(397,123,346)	397,876,410	763,025,831	(364,401,952)	398,623,879
Community	336,168,700	(177,906,121)	158,262,579	333,014,824	(162,180,511)	170,834,313
Library books	130,566	(55,011)	75,555	88,715	(19,859)	68,856
Capital work in progress	55,744,489	-	55,744,489	39,032,364	-	39,032,364
Other property, plant and equipment (Movables)	45,770,974	(32,531,771)	13,239,203	42,717,150	(30,123,802)	12,593,348
Total	1,681,386,866	(799,740,734)	881,646,132	1,626,199,649	(736,834,289)	889,365,360

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	120,769,455	-	-	-	-	-	120,769,455
Buildings	147,443,145	251,616	-	-	(12,016,320)	-	135,678,441
Infrastructure	398,623,879	679,155	31,294,769	-	(32,721,393)	-	397,876,410
Community	170,834,313	333,962	-	2,819,914	(15,496,832)	(228,778)	158,262,579
Library books	68,856	41,851	-	-	(35,152)	-	75,555
Capital work in progress	39,032,364	48,006,894	(31,294,769)	-	-	-	55,744,489
Other property, plant and equipment (Movables)	12,593,348	3,054,403	-	-	(2,288,360)	(120,188)	13,239,203
	889,365,360	52,367,881	-	2,819,914	(62,558,057)	(348,966)	881,646,132

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Transfers	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land	66,305,752	-	-	54,463,703	-	-	-	120,769,455
Buildings	159,458,668	-	-	-	-	(12,015,523)	-	147,443,145
Infrastructure	399,399,257	1,927,621	28,179,528	-	-	(30,882,527)	-	398,623,879
Community	184,422,375	1,498,691	-	-	(248,731)	(14,838,022)	-	170,834,313
Library books	-	88,715	-	-	-	(19,859)	-	68,856
Capital work in progress	36,774,888	30,437,004	(28,179,528)	-	-	-	-	39,032,364
Other property, plant and equipment	16,137,293	1,807,854	-	-	-	(2,162,149)	(3,189,650)	12,593,348
	862,498,233	35,759,885	-	54,463,703	(248,731)	(59,918,080)	(3,189,650)	889,365,360

Assets subject to finance lease (Net carrying amount)

It is municipality policy to lease certain motor vehicles and other movable assets under finance leases. The carrying amount of the assets are as follows:

Motor vehicles	519,409	535,070
IT equipment	461,638	-
	981,047	535,070

Details on the above leases refer to note 14.

Revaluations

The revaluation on Property, plant and equipment was performed on the 30 June 2015. Revaluations were performed by independent valuer Luvhengo Consulting Engineer. The directors of Luvhengo Consulting Engineers and Messrs Busiso Nyoni, Pr Tech Eng, Mashudu Mudzuli, Pr Tech Eng are not connected to the municipality.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

6. Property, plant and equipment (continued)

Details of properties

Portion 2 of Farm Laaste 24 Ext 9 Phalaborwa

The municipality's property, Portion 32 of Farm Laaste 24 Ext 9 Phalaborwa is subject to a Standard bank Continuous Covering Mortgage Bond of R8 million. The security was used to secure the overdraft facility for the municipality of R5 million.

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.

7. Heritage assets

	2016			2015		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	317,000	-	317,000	2	-	2

Reconciliation of heritage assets 2016

	Opening balance	Revaluation increase/(decrease)	Total
Heritage assets	2	316,998	317,000

Reconciliation of heritage assets 2015

	Opening balance	Total
Heritage assets	2	2

Revaluations

Fair value of heritage assets (measured at cost less accumulated impairment losses)

	Carrying amount 2016	Fair value 2016
Archaeological- and palaeontology sites	2	317,000

8. Inventories

Consumable stores	14,825,018	16,733,193
Land Inventory - Held for resale	436,892,369	440,282,369
	451,717,387	457,015,562

9. Operating lease asset (liability)

Current assets	-	355,736
Current liabilities	(185,294)	(483,788)
	(185,294)	(128,052)

The 2015 operating lease assets relates to the amount prepaid for Trucks being leased from ABSA Asset Management Solutions (Pty) Ltd.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
9. Operating lease asset (liability) (continued)		
The operating lease liability relates to the accrual for Nashua invoices not paid at year end for the rental of office machines.		
10. VAT receivable		
VAT	16,300,017	-
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.		
No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date		
11. Consumer debtors		
Gross balances		
Rates	143,091,551	115,883,666
Electricity	40,646,212	36,867,583
Legal fee and deposits	805,019	734,189
Accrued electricity	2,831,728	3,995,015
Refuse	48,855,639	40,150,500
Interest	96,100,474	78,951,956
Traffic fines	22,269,997	19,465,481
Other receivables	62,572	9,676,397
Sundry services	51,526,118	53,826,887
	406,189,310	359,551,674
Less: Allowance for impairment		
Rates	(115,422,842)	(88,833,406)
Electricity	(32,786,711)	(28,027,652)
Legal fee and deposits	(649,358)	(562,036)
Refuse	(39,408,733)	(31,113,756)
Interest	(77,518,132)	(60,011,003)
Traffic fines	(21,879,381)	(18,073,372)
Sundry services	(41,562,838)	(39,907,805)
	(329,227,995)	(266,529,030)
Net balance		
Rates	27,668,709	27,050,260
Electricity	7,859,501	8,839,931
Legal fees and deposits	155,661	172,153
Accrued electricity	2,831,728	3,995,015
Refuse	9,446,906	9,036,744
Interest	18,582,342	18,940,953
Traffic fines	390,616	1,392,109
Other receivables	62,572	9,676,397
Sundry services	9,963,280	13,919,082
	76,961,315	93,022,644

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Consumer debtors (continued)		
Included in above is receivables from exchange transactions		
Electricity	7,859,501	8,839,931
Legal fees and deposits	155,661	-
Accrued electricity	-	3,995,015
Refuse	9,446,906	9,036,744
Interest	18,582,342	18,940,953
Other receivables	-	16,810,867
Sundry services	9,963,280	13,919,082
	46,007,690	71,542,592
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	27,668,710	27,050,260
Traffic fines	2,258,755	1,391,509
	29,927,465	28,441,769
Net balance	75,935,155	99,984,361
Rates		
Current (0 -30 days)	8,880,097	7,639,584
31 - 60 days	3,153,475	2,648,627
61 - 90 days	3,893,437	2,567,822
91 - 120 days	3,844,448	3,113,452
121 days and over	123,320,094	99,914,181
Less : Allowance for impairment	(115,422,842)	(88,833,406)
	27,668,709	27,050,260
Electricity		
Current (0 -30 days)	10,116,875	8,656,928
31 - 60 days	926,777	1,403,021
61 - 90 days	795,962	835,537
91 - 120 days	741,852	745,801
121 days and over	28,064,746	25,226,296
Less: Allowance for impairment	(32,786,711)	(28,027,652)
	7,859,501	8,839,931
Legal fees and deposit		
Current (0 -30 days)	105,706	97,093
31 - 60 days	27,959	25,681
61 - 90 days	26,048	23,925
91 - 120 days	23,258	21,363
121 days and over	622,048	566,126
Less: Allowance for impairment	(649,358)	(562,035)
	155,661	172,153
Accrued electricity		
Current (0 -30 days)	2,831,728	3,995,015

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Consumer debtors (continued)		
Refuse		
Current (0 -30 days)	2,195,096	1,898,665
31 - 60 days	824,327	726,559
61 - 90 days	800,357	703,422
91 - 120 days	788,593	648,081
121 days and over	44,247,266	36,173,773
Less : Allowance for impairment	(39,408,733)	(31,113,756)
	9,446,906	9,036,744
Interest		
Current (0 -30 days)	5,068,827	4,164,327
31 - 60 days	2,474,682	2,033,091
61 - 90 days	2,455,926	2,017,682
91 - 120 days	2,410,923	1,980,709
121 days and over	83,690,116	68,756,147
Less : Allowance for impairment	(77,518,132)	(60,011,003)
	18,582,342	18,940,953
Traffic fines		
Gross amount	22,269,997	19,465,481
Less : Allowance for impairment	(21,879,381)	(18,073,372)
	390,616	1,392,109
Other receivables		
Gross amount	62,572	9,676,397
Sundry services		
Current (0 -30 days)	14,044	18,778
31 - 60 days	4,384	2,541
61 - 90 days	2,493	2,809
91 - 120 days	2,757	8,622
121 - 365 days	51,502,440	53,794,137
Less : Allowance for impairment	(41,562,838)	(39,907,805)
	9,963,280	13,919,082

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
11. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	19,537,731	19,827,855
31 - 60 days	8,863,586	7,086,545
61 - 90 days	7,693,128	6,342,113
91 - 120 days	7,612,752	6,836,977
121 days and over	401,721,486	244,574,533
	<u>445,428,683</u>	<u>284,668,023</u>
Less: Allowance for impairment	(233,941,982)	(213,734,865)
	<u>211,486,701</u>	<u>70,933,158</u>
Industrial/ commercial		
Current (0 -30 days)	8,254,646	4,173,327
31 - 60 days	1,536,296	1,861,699
61 - 90 days	1,817,704	1,417,432
91 - 120 days	1,758,631	1,034,942
121 days and over	54,059,103	54,473,325
	<u>67,426,380</u>	<u>62,960,725</u>
Less: Allowance for impairment	(150,663)	(50,565,899)
	<u>67,275,717</u>	<u>12,394,826</u>
National and provincial government		
Current (0 -30 days)	2,443,359	(5,752,056)
31 - 60 days	666,269	948,761
61 - 90 days	699,717	829,434
91 - 120 days	666,117	384,180
121 days and over	20,553,849	22,474,923
	<u>25,029,311</u>	<u>18,885,242</u>
Less: Allowance for impairment	(500,512)	(2,228,266)
	<u>24,528,799</u>	<u>16,656,976</u>
Total		
Current (0 -30 days)	21,418,305	18,249,126
31 - 60 days	7,839,008	9,897,005
61 - 90 days	7,232,919	8,588,979
91 - 120 days	7,110,336	8,256,099
121 days and over	362,588,742	314,560,465
	<u>406,189,310</u>	<u>359,551,674</u>
Less: Allowance for impairment	(329,227,995)	(266,529,030)
	<u>76,961,315</u>	<u>93,022,644</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(266,529,030)	(232,959,247)
Contributions to allowance	(62,698,965)	(62,304,975)
Debt impairment written off against allowance	-	28,735,192
	<u>(329,227,995)</u>	<u>(266,529,030)</u>

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
12. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	130	130
Bank balances	3,984,802	2,710,894
Short-term deposits	7,084,140	534,807
	11,069,072	3,245,831

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
Standard Bank - Cheque Account : 330451367000	2,414,184	1,851,670	489,987	2,506,564	590,907	(18,037,433)
Standard Bank - Investment Account : 238711102001	3,186,422	98,421	4,393	3,186,422	98,421	4,393
Standard Bank - Investment Account : 238711102002	1,037,019	24,061	37,915	1,037,019	24,061	37,915
Standard Bank - Investment Account : 238711102004	2,491,098	60,402	21,358	2,491,098	60,402	21,358
Standard Bank - Investment Account : 238711102005	274,393	258,885	1,959	274,393	258,885	1,959
Standard Bank - Current Account : 243098804000	1,478,362	2,119,987	26,385	1,478,362	2,119,987	26,385
ABSA - Call Account : 4061623641	3,280	5,002	79,936	3,280	5,001	79,936
ABSA - Fixed deposit : 2064270257	91,934	88,000	88,000	91,934	88,167	88,000
Total	10,976,692	4,506,428	749,933	11,069,072	3,245,831	(17,777,487)

13. Other financial liabilities

Long term Trade & other payables at amortised cost

Lepelle Northern Water	167,300,000	174,100,000
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The debt arose when the municipality was still a water supply authority. In terms of the settlement agreement signed between Lepelle Northern Water and Ba-Phalaborwa Municipality dated 19 October 2015, the debt is repayable in monthly installment of R 1 700 000 and bears no interest.

Non-current liabilities

At amortised cost	146,900,000	167,300,000
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Current liabilities

At amortised cost	20,400,000	6,800,000
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Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
14. Finance lease obligation		
Minimum lease payments due		
- within one year	365,974	220,292
- in second to fifth year inclusive	302,480	150,451
	<u>668,454</u>	<u>370,743</u>
less: future finance charges	(83,748)	(26,976)
Present value of minimum lease payments	<u>584,706</u>	<u>343,767</u>
Present value of minimum lease payments due		
- within one year	312,317	198,319
- in second to fifth year inclusive	272,389	145,448
	<u>584,706</u>	<u>343,767</u>
Non-current liabilities	272,389	141,858
Current liabilities	312,317	201,909
	<u>584,706</u>	<u>343,767</u>

It is municipality policy to lease certain motor vehicles and other movable assets under finance leases.

The municipality has a motor vehicle which is being financed by Standard Bank in terms of a finance lease subject to interest at prime lending rate. The facility is expected to be fully settled by 07 February 2017.

During the current financial year the municipality acquired 58 laptops under a three year finance lease agreement with Vodacom. The facility is repayable in monthly installments of R 18 320 and the average effective borrowing rate for the facility is 13.09%

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 6

15. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The municipality has a policy to subsidise the post-employment health care costs of employees that are covered by the municipality sponsored health care arrangements at retirement.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2016 by Peter Theunissen, from Independent Actuaries and Consultants (Pty) Ltd, a Fellow of the Actuarial Society of South Africa.

The Projected Unit Credit Method was used value the post retirement medical aid plan liabilities.

The liability in respect of active members has been proportioned between past service and future service. The liability in respect of current pensioners is fully accounted for.

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	<u>(43,304,000)</u>	<u>(38,333,000)</u>
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Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand 2016 2015

15. Employee benefit obligations (continued)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	38,333,000	26,841,000
Benefits paid	(861,000)	(787,000)
Net expense recognised in the statement of financial performance	5,832,000	12,279,000
	43,304,000	38,333,000

Net expense recognised in the statement of financial performance

Current service cost	1,909,000	1,964,000
Interest cost	3,382,000	2,566,000
Actuarial losses	541,000	7,749,000
	5,832,000	12,279,000

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.74 %	8.92 %
General inflation	7.26 %	6.48 %
Medical cost trend rates	8.76 %	7.89 %
Real rate (Gap)	0.90 %	0.87 %
Expected retirement age	63	63

The discount rate was determined by taking the average yields from the zero coupon government bond curve over a 15 to 20 year term. The recommended discount rate as at 30 June 2016 is 9.74% (2015: 8.92%).

The general inflation assumption was used to estimate the base rate for determining the rate at which the future health care subsidies will increase. Market pricing inflation was estimated by comparing the yields on real and nominal bonds on the yield curve with a duration of between 15 and 20 years and have incorporated an inflation risk premium of 0,5% per annum.

It was assumed that medical inflation will exceed general inflation by 1,5% per annum. Even though the actual values used for the discount rate and the expected increase in medical subsidies are important, the "gap" between the two assumptions are more important. This "gap" is referred to as the net discount rate. The net discount rate has decreased from 0.87% p.a. to 0,90% p.a.

We assumed that the pre- retirement mortality will be in line with SA85-90 (light) table, rated down by 1 year. The assumption is the same as the previous assumption used. Post-retirement mortality assumptions were based on the PA(90) mortality tables rated down by 2 years.

The assumed retirement age of 63 for all employees has been retained, which implicitly allows for some early retirement and is consistent with assumptions used for valuing other municipal liabilities. It should however be noted that by assuming a normal retirement age of 63 there is an implicit assumption that service stops accruing at age 63.

There is a probability that not all employees will elect to remain on the current medical scheme post retirement. We have retained the assumption used last year that 90% of current employees who are on a company sponsored medical scheme will remain on the same medical scheme and option post retirement.

In respect of active Employees, we have assumed that 90% of members will be married at retirement and that the female spouse will be 3 years younger than the male spouse. We have further assumed that Employees will not have any dependent children once they retire.

We have used an approximate age difference of 3 years for the spouse to value the retired employees.

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

16. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Change in expected costs capitalised	Utilised during the year	Change in discount factor	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	16,422,268	2,819,914	-	-	-	19,242,182
Employee benefit cost	4,759,238	447,921	(335,682)	380,858	79,541	5,331,876
	21,181,506	3,267,835	(335,682)	380,858	79,541	24,574,058

Reconciliation of provisions - 2015

	Opening Balance	Change in expected costs capitalised	Utilised during the year	Change in discount factor	Actuarial (gain)/loss	Total
Environmental rehabilitation	16,671,000	(248,732)	-	-	-	16,422,268
Employee benefit cost	4,487,271	441,011	(390,563)	379,623	(158,104)	4,759,238
	21,158,271	192,279	(390,563)	379,623	(158,104)	21,181,506

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

2016

2015

16. Provisions (continued)

Environmental rehabilitation provision

The provision for land fill sites rehabilitation relates to estimated cost for the rehabilitation of four(4) land fill sites operated by the municipality.

Ba-Phalaborwa landfill site is expected to be used for the next four(4) years and it is estimated that R 16 356 418 (2015: R13,607,000) will be spent to rehabilitate the site.

Lulekani landfill site has been closed and a provision has been raised for the remediation of contaminated land of R212 600 (2015:R 200 000) .

Namakgale landfill site is expected to be in operation for the next 20 to 25 years and the estimated cost of rehabilitating the site is R 2 044 206 (2015: R1,950,991).

Gravelotte landfill site has been recommended for closure as it does not comply with the minimum requirements of a landfill site. The estimated cost for rehabilitating the site is R 628 958 (2015:R 543 277).

The evaluation, audit and computation of the provision for rehabilitation of the sites have been carried out by M Consulting Chartered Accountants and E - Tek Consulting Environmental Engineers.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Discount rates used	8.83 %	8.29 %
General inflation	6.50 %	5.93 %
Salary Inflation	7.50 %	6.93 %
Real rate (Gap)	1.24 %	1.27 %
Average retirement age	63	63

Emphasis is placed on the duration of liabilities when determining the discount rate. The discount rate is based on the yields from the zero coupon government bond curve.

The general inflation assumption is used to estimate the base rate for determining the rate at which the future salaries will increase.

Market pricing of inflation estimate was determined by comparing the yields on real and nominal bonds on the yields curve with a duration of between 7,5 years and have incorporated an inflation risk premium of 0,5% per annum.The implied inflation assumption is therefore 5,93% per annum for future inflation.

Future salaries can be expected to increase in line with salary inflation. We assumed salary inflation will exceed general inflation by 1,0% per annum.

The Municipality does not have any specific assets set aside to fund this liability.

Net Discount Rate - Even though the actual values used for the discount rate and the expected increase in salaries are important,the gap between the two assumptions are more important.This gap is referred to as the net discount rate.The net discount rate is 1,27% per annum.(Derived from a discount rate of 8,29% and the expected salary inflation rate of 6,93%).

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand

	2016	2015
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17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Integrated national electrification grant	1,911,761	-
Expanded public works grant (EPWP)	31,464	-
	<u>1,943,225</u>	<u>-</u>

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 28 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

18. Payables from exchange transactions

Trade payables	35,823,336	49,714,837
Payments received in advanced	1,261,251	1,565,669
Sundry payables	18,214,130	20,694,199
Accrued leave pay	9,129,265	8,636,886
Accrued bonus	2,341,071	2,011,587
Retentions	7,643,909	5,428,332
Other Creditors	1,041,004	1,179,070
Payroll accruals	5,181,505	4,231,951
Mopani District Municipality (Water and Sanitation)	17,869,136	84,975,017
	<u>98,504,607</u>	<u>178,437,548</u>

19. VAT payable

Value added tax	<u>-</u>	<u>3,068,663</u>
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

20. Consumer deposits

Electricity	<u>2,040,256</u>	<u>3,738,397</u>
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Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
21. Revenue		
Service charges	108,147,928	99,013,201
Rental of facilities and equipment	380,911	265,470
Agency services	5,676,019	5,324,933
Licences and permits	3,525,423	2,257,105
Recoveries	117,719,466	-
Sale of municipal land	2,591,087	340,592
Other income	1,555,108	2,221,315
Interest received - investment	33,197,280	30,175,946
Property rates	68,105,690	65,593,648
Government grants & subsidies	167,887,383	126,400,672
Indigent support	-	178,081
Fines and Penalties	3,359,890	8,822,814
Donations - Library books	18,104	88,715
Other transfer revenue	1,306,493	4,499,921
	513,470,782	345,182,413
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	108,147,928	99,013,201
Rental of facilities and equipment	380,911	265,470
Agency services	5,676,019	5,324,933
Licences and permits	3,525,423	2,257,105
Recoveries	117,719,466	-
Sales of Municipal land	2,591,087	340,592
Other income	1,555,108	2,221,315
Interest received - investment	33,197,280	30,175,946
	272,793,222	139,598,562
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	68,105,690	65,593,648
Transfer revenue		
Government grants & subsidies	167,887,383	126,400,672
Indigent support FBS	-	178,081
Fines, Penalties and Forfeits	3,359,890	8,822,814
Donations	18,104	88,715
Other transfer revenue	1,306,493	4,499,921
	240,677,560	205,583,851
22. Service charges		
Sale of electricity	94,362,195	87,607,729
Refuse removal	13,785,733	11,405,472
	108,147,928	99,013,201
23. Rental of facilities and equipment		
Premises		
Premises	140,296	93,592
Theatre hire	189,791	115,032
	330,087	208,624

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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Figures in Rand	2016	2015
23. Rental of facilities and equipment (continued)		
Facilities and equipment		
Rental of facilities	50,824	56,846
	380,911	265,470
24. Other revenue		
Recovery	117,719,466	-
Sales of Municipal land	2,591,087	340,592
Other income	1,555,108	2,221,315
	121,865,661	2,561,907
Recoveries relate to charges levied by the municipality for the recovery of indirect expenses incurred by the municipality due to water administration activities.		
25. Other income		
Building plan fees	189,210	308,002
Cemetery fees	121,470	154,792
Clearance certificates	59,133	83,630
Connection fees	676,791	796,871
Library income	112,052	138,869
Sundry income	130,572	159,719
Selling of bid documents	188,337	243,720
Posters and banners	77,543	335,712
	1,555,108	2,221,315
26. Investment revenue		
Interest revenue		
Bank	638,022	276,984
Interest charged on trade and other receivables	32,559,258	29,898,962
	33,197,280	30,175,946
27. Property rates		
Rates received		
Residential	68,105,690	65,593,648
Valuations		
Residential	5,240,485,300	2,918,197,005
Commercial	1,313,986,034	2,933,472,796
State	104,986,200	8,807,000
Municipal	1,276,843,640	570,407,623
Agriculture	3,195,924,000	23,546,166
Other	553,765,100	32,148,320
	11,685,990,274	6,486,578,910

The general valuation came into effect on 01 July 2015 the last valuation was done 01 July 2009.

Ba-Phalaborwa Local Municipality

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Figures in Rand	2016	2015
28. Government grants and subsidies		
Equitable share	107,805,000	83,256,196
Financial management grant	1,675,000	1,600,000
Municipal infrastructure grant	51,044,000	29,769,000
Municipal system improvement grant	940,000	934,000
National development program grant	-	644
Intergrated national electrification grant	5,088,239	9,000,000
Local government sector education training authority grant	178,608	628,832
Expanded public works programme grant	1,156,536	1,212,000
	167,887,383	126,400,672

Equitable Share

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

Municipal infrastructure grants

Balance unspent at beginning of year	-	7,141,196
Current-year receipts	87,954,196	29,769,000
Conditions met - transferred to revenue	(87,954,196)	(29,769,000)
Transfer to equitable share grant	-	(7,141,196)
	-	-

The Municipal Infrastructure grant was allocated for the construction of roads and electricity infrastructure as part of the upgrading of previously disadvantaged areas.

Intergrated national electrification grant

Current-year receipts	7,000,000	9,000,000
Conditions met - transferred to revenue	(5,088,239)	(9,000,000)
	1,911,761	-

The grant is received from National government for electrification projects within the previously disadvantaged communities of the municipality.

The unspent portion of the grant will be transferred back to National Treasury.

Municipal system improvement grant

Current-year receipts	940,000	934,000
Conditions met - transferred to revenue	(940,000)	(934,000)
	-	-

he grant was used to improve municipal systems and was used to improve information technology networks and ward committee operations.No funds have been withheld.

Financial management grants

Current-year receipts	1,675,000	1,600,000
Conditions met - transferred to revenue	(1,675,000)	(1,600,000)
	-	-

Ba-Phalaborwa Local Municipality

Annual Financial Statements for the year ended 30 June 2016

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28. Government grants and subsidies (continued)

The Financial management grant (FMG) is paid to the municipality to help implement the financial reforms required by the municipal financial management act of MFMA 2003. The grant also pays for the cost of the financial management internship programme i.e. salary of the financial management interns.

Expanded public works grant (EPWP)

Current-year receipts	1,188,000	1,212,000
Conditions met - transferred to revenue	(1,156,536)	(1,212,000)
	<u>31,464</u>	<u>-</u>

The grant was received from the Department of public works for the creation of jobs in the municipal area and to incentivise provincial department to expand work creation efforts through the use of labour intensive delivery methods in identified focus area e.g road maintenance and maintenance of building and other economic and social infrastructure.

Neighbourhood development partnership grant

Current-year receipts	-	644
Conditions met - transferred to revenue	-	(644)
	<u>-</u>	<u>-</u>

Local government sector education training authority grant

Current-year receipts	178,608	628,832
Conditions met - transferred to revenue	(178,608)	(628,832)
	<u>-</u>	<u>-</u>

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Figures in Rand	2016	2015
29. Employee related costs		
Basic	64,266,297	65,038,140
Bonus	5,631,981	5,831,476
Medical aid - company contributions	3,535,727	3,029,599
UIF	586,217	566,861
WCA	31,644	29,238
SDL	906,712	847,034
Other payroll levies	198,945	204,399
Leave pay provision charge	-	507,931
Defined contribution plans	12,225,097	11,494,240
Travel, motor car, accommodation, subsistence and other allowances	12,994,165	11,857,594
Overtime payments	2,741,041	3,731,421
Long-service awards	4,094,509	3,013,078
Acting allowances	984,640	931,009
Housing benefits and allowances	737,804	614,957
Defined benefit plan expense	6,740,320	12,941,530
Stipends	2,057,800	2,043,000
Industrial attachment allowance	513,237	415,994
	118,246,136	123,097,501
Remuneration of municipal manager		
Annual Remuneration	921,892	805,188
Car Allowance	614,595	536,792
Performance Bonuses	-	68,646
Contributions to UIF, Medical and Pension Funds	126,851	35,763
	1,663,338	1,446,389
Remuneration of Chief Finance Officer		
Annual Remuneration	136,894	795,303
Car Allowance	39,000	234,000
Cell phone allowance	-	18,000
Contributions to UIF, Medical and Pension Funds	214,087	-
Subsistence	-	51,299
Other allowance	-	27,837
	389,981	1,126,439
Acting chief finance officer		
Annual remuneration	305,512	-
Car allowane	156,903	-
Contributions to UIF, Medical and Pension Funds	99,522	-
Acting	254,420	-
Other	119,352	-
	935,709	-
The acting chief finance officer has been acting in the position since April 2015.		
Remuneration of director planning and development services		
Annual Remuneration	354,684	183,493
Car Allowance	235,117	111,331
Performance Bonuses	-	138,731
Contributions to UIF, Medical and Pension Funds	1,339	6,000
Other	27,467	22,372
	618,607	461,927

Ba-Phalaborwa Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2016	2015
29. Employee related costs (continued)		
Remuneration of director community services		
Annual Remuneration	270,000	525,890
Car Allowance	149,709	136,717
Cellphone allowance	13,500	12,000
Contributions to UIF, Medical and Pension Funds	1,339	-
Other benefits	174,440	102,288
	608,988	776,895
Remuneration of Director corporate services		
Annual Remuneration	696,624	610,211
Car Allowance	239,941	204,741
Performance Bonuses	21,661	25,676
Contributions to UIF, Medical and Pension Funds	1,933	39,000
Other	290,332	223,260
	1,250,491	1,102,888
Remuneration of Director technical services		
Annual Remuneration	215,000	-
Car Allowance	295,403	-
Contributions to UIF, Medical and Pension Funds	1,190	-
Other	66,590	-
	578,183	-
The technical director was appointed in December 2015.		
30. Remuneration of councillors		
Mayor	822,547	786,252
Mayoral Committee Members	1,295,219	3,012,844
Speaker	683,147	641,873
Councillors	8,673,993	6,726,357
Chief Whip	660,791	622,299
	12,135,697	11,789,625
31. Impairment of assets		
Impairments		
Property, plant and equipment	348,967	3,189,651
Inventories	2,983,950	7,651,662
The impairment arose from the write down of some inventory to net realisable value as well as inventory losses		
Trade and other receivables	62,698,965	62,304,976
The impairment of receivables arose from the assessment of the recoverability of the municipality's trade and other receivables.		
	66,031,882	73,146,289

Ba-Phalaborwa Local Municipality

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Figures in Rand	2016	2015
32. Finance costs		
Non-current borrowings	57,354	37,808
Late payment of tax	1,157,571	1,655,315
Other interest paid	-	193,530
	1,214,925	1,886,653
33. Bulk purchases		
Electricity	74,560,364	67,818,951
<p>Included in the electricity bulk purchases is the 19% (2015:34%) which relate to distribution losses. Ba-Phalaborwa Municipality gets billed by Eskom on a monthly basis for electricity used/or given to Ba-Phalaborwa Municipality based on readings. Therefore the amount paid to/billed by Eskom includes electricity losses of R 13 835 367 (2015: R62 344 669). The loss in terms of Units amounted to 16 779 299 kwh (2015: 21 655 110 kwh).</p>		
34. Contracted services		
Actuarial and accounting services	8,934,049	9,020,217
Agency fees	1,164,198	5,023,331
Debt collection	2,475,085	7,181,662
Insurance	3,469,669	4,098,054
Legal fees	2,563,541	6,916,247
Meter reading	2,456,561	3,131,566
Operating leases	2,496,140	2,525,897
Security services	6,927,370	6,484,751
	30,486,613	44,381,725
35. Auditors' remuneration		
Fees	4,522,425	4,030,834
36. Operating surplus (deficit)		
<p>Operating surplus (deficit) for the year is stated after accounting for the following:</p>		
Impairment on property, plant and equipment	348,967	3,189,651
Impairment on trade and other receivables	62,698,965	62,304,976
Amortisation on intangible assets	429,838	429,624
Depreciation on property, plant and equipment	62,557,478	59,917,991
Employee costs	131,489,198	134,887,126
37. Fair value adjustments		
Investment property	858,631	-
Biological assets	(121,310)	44,229
	737,321	44,229

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Figures in Rand	2016	2015
38. General expenses		
Accommodation	1,816,893	1,160,813
Advertising	752,019	1,343,183
Assets expensed	-	2,250
Auditors remuneration	4,522,425	4,030,834
Bank charges	1,180,877	1,836,737
Cleaning	8,422	3,107
Commission paid	1,221,798	1,700,265
Community development and training	5,008,295	4,514,868
Consulting and professional fees	1,574,148	307,999
Consumables	1,451,813	2,683,860
Electricity non-bulk purchases	6,030,331	6,385,230
Entertainment	594,965	326,812
Expanded Public Works Program expenses	1,230,223	1,007,649
Financial Management System Support expenses	1,521,805	2,479,639
Fuel and oil	3,385,744	4,317,174
Hire of equipment	234,100	404,864
IT expenses	650,760	638,485
Indigent support	2,061,841	-
Integrated national electrification expenditure	4,463,494	7,894,730
Motor vehicle expenses	3,270,273	2,196,158
Motor vehicle licence fees	132,452	17,478
Occupational health and safety	255,956	427,883
Placement fees	225,419	506,807
Postage and courier	727,336	391,426
Printing and stationery	1,490,187	1,368,722
Project maintenance costs	1,924,897	2,227,488
Protective clothing	730,856	911,547
Purchase of prepaid boxes	1,350,098	582,236
Staff welfare	487,146	639,332
Subscriptions and membership fees	212,484	1,535,451
Telephone and fax	1,827,870	1,943,355
Title deed search fees	98,127	206,774
Traffic law enforcement expenses	-	496,122
Training	2,148,410	1,759,291
Travel - local	500,597	208,555
Workmens compensation	-	1,831,381
	53,092,061	58,288,505

Ba-Phalaborwa Local Municipality

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Figures in Rand	2016	2015
39. Cash generated from operations		
Surplus (deficit)	76,247,380	(109,166,504)
Adjustments for:		
Depreciation and amortisation	62,987,316	60,347,615
Fair value adjustments	(737,321)	(44,229)
Finance costs	1,214,925	1,886,653
Impairment deficit	66,031,882	73,146,289
Movements in operating lease assets and accruals	57,242	(27,521)
Movements in retirement benefit assets and liabilities	4,971,000	11,492,000
Movements in provisions	572,638	271,967
Changes in working capital:		
Inventories	2,314,225	(8,696,628)
Movement in provision for impairment of debtors	(62,698,965)	(62,304,976)
Consumer debtors	16,061,329	2,699,978
Payables from exchange transactions	(79,932,947)	99,216,913
VAT	(19,368,680)	623,959
Unspent conditional grants and receipts	1,943,225	(7,141,197)
Consumer deposits	(1,698,141)	116,212
	67,965,108	62,420,531
40. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure assets	71,800,577	106,563,229
• Order issued (Operational commitment)	176,544	2,098,089
	71,977,121	108,661,318
Total capital commitments		
Already contracted for but not provided for	71,977,121	108,661,318

This committed expenditure relates to Infrastructure assets and management fees (consultancy) and will be financed by available bank facilities, Municipal infrastructure grants, existing cash resources, funds internally generated.

Operating leases - as lessee - Vehicles and office machine

The municipality is leasing certain vehicles from ABSA Vehicle Management Solutions (Pty) Ltd under an operating lease. The lease is being renewed on a month to month basis.

The municipality is leasing a number of office machines from Nashua under an operating lease arrangement. The leases are being renewed on a month to month basis.

Operating leases - as lessor - Buildings

The municipality is leasing some of its office properties from Public Investment Corporation (Trading as Comprop) in terms of an operating lease arrangement. The lease is renewable on a monthly basis. No contingent rent is payable.

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Figures in Rand		2016	2015
41. Contingencies			
Mabasa Jamela	1	-	60,000
Tlhaole Dynamics	2	2,889,811	2,689,811
M-Cubed Technologies	3	-	1,235,763
Quality plant hire	4	283,215	183,216
Makwande Chartered Accountants	5	2,550,106	2,348,105
Eugene Coetzee	6	-	28,855
Tippuprox (Pty) Ltd	7	6,600,000	6,600,000
Telkom SA	8	-	86,435
LE Thom (Pty) Ltd	9	1,364,796	844,797
Mahlatse Patience Ramoshaba	10	55,894	25,895
Molau Devyton Malatji	11	100,000	-
Kgopotso Lekgothwane	12	900,000	-
Aubrey Fumani Mushwana	13	2,500,000	-
TT Crane Hire	14	60,000	-
Lepelle Industrial	15	300,000	-
		17,603,822	14,102,877

Ba-Phalaborwa Local Municipality

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41. Contingencies (continued)

All the litigations and claims against the municipality are in progress and relate to disputes with the following parties:

1. Mabasa Jamela: A claim of R60,000 has been made against the municipality for damages as a result of a faulty house plan drawn for the claimant by a municipal employee. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the employee drew the plan in his personal capacity and he was not employed by the municipality to draw plans. The above matter was dismissed on the roll.

2. Tlhaole Dynamics: The entity was contracted by the municipality to compile the valuation and supplementary valuation roll and later claims that it was not paid according to the contract. The plaintiff is claiming R2,689,811 against the municipality.

3. M-Cubed Technologies: The entity was engaged to erect electronic billboards which they did not erect properly according to the specifications and on this basis their contract was terminated and now the entity is claiming R1,235,763 against the municipality.

The matter was withdrawn by the plaintiff

4. Quality plant hire claims an amount of R183,216 for the tools it allegedly hired to the municipality in 2011 and the matter is proceeding to hearing. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the road is a provincial road.

5. Makwande Chartered Accountants: The matter relates to the preparation of municipal financial statements for the year ended 30 June 2009. The claimant failed to deliver the reports and the contract was terminated. The claimant is now claiming unpaid fees debt of R2,348,105. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely. The matter has been postponed indefinitely after the claimant's legal representatives failed to show up at the court.

6. Eugene Coetzee: Eugene is claiming R28,855 from the municipality for damages caused to his car by a pothole within the municipality jurisdiction. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the road is a provincial road.

The matter was settled with cost of R 18 755 in favour of the plaintiff.

7. Tippuprox (Pty) Ltd: The company was awarded a tender by the municipality which was later cancelled by the municipality due to misrepresentations made during the tendering process by the owner of the company. The company raised a claim against the municipality of R6,600,000.

8. Telkom South Africa: The company is claiming R86,435 for the damages caused to their infrastructure by the municipality. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the road is a provincial road.

The matter was withdrawn by the plaintiff

9. LE Thom (Pty) Ltd: claims R844 797 against the Municipality for work they did which they claim the Municipality failed to do while in fact they are the ones who prevented the Municipality to do the job.

10. Mahlatshe Patience Ramoshaba: A claim of R25,895 has been made against the municipality for the damage caused to the claimant's car by a pothole on the R71 road. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely as the road is a provincial road.

11. Molau Devyton Malatji : Summons against the municipality in the amount of R10 000 000.00 for alleged illegal termination of the brickyard lease agreement.

12. Kgopotso Lekgothwane : Summons against the municipality in the amount of R400 000.00 for an alleged negligent failure by the municipality to barricade a ditch which had been dug up by municipal workers, resulting in the plaintiff falling in it and getting seriously injured.

Ba-Phalaborwa Local Municipality

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41. Contingencies (continued)

13. Aubrey Fumani Mushwana : Summons against the municipality in the amount of R772 083.33 for an alleged breach of disciplinary settlement agreement. The plaintiff alleges that municipal representative agreed to a settlement proposal during negotiations with a view to settle the disciplinary matter amicably. The proposal had to be accepted by council first and it was discovered that attempted to settle long after he had been employed elsewhere without council knowledge.

14. T T Crane Hire : The applicant applied for the restoration of electricity cut due to the applicant / owner of the building owing the municipality in the amount of R40 000.00

15. LE Thom (Pty) Ltd claims against the Municipality for work they did which they claim the Municipality failed to do while in fact they are the ones who prevented the Municipality to do the job. During the assessment of the work done, the Municipality noted the following which will form a basis for a counter claim: The job was not done according to the specifications of the engineer.

Contingent assets

Ziyaphenduka Promotions cc	1	230,000	-
Geldenhys' estate	2	60,000	-
Thipa Driving School	3	30,000	-
		<u>320,000</u>	<u>-</u>

1. Ziyaphenduka Promotions cc : Summons to force Ziyaphenduka to account on all amounts collected during the Marula Festival.

2. Geldenhys' estate : Acquisition of two properties of the late G J Geldenhys to be transferred to the Ba-Phalaborwa Municipality owing to the fact that the deceased died insolvent and that he owed the Municipality rates and taxes which amount far exceeds the value of the properties concerned.

3. Thipa Driving School : Thipa Driving School owes the municipality R3 000.00 for repair costs caused to municipal palisade fence by its learner driver.

Ba-Phalaborwa Local Municipality

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42. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Accounting officer	Dr Sebashe SS
Names of councillors	Position
Cllr. NA Sono	Mayor
Cllr.MD Maake	Speaker
Cllr.SL Mohlala	Chief Whip
Cllr.MM Malatji	Member of Executive Committee
Cllr.IF Mpenyane	Member of Executive Committee
Cllr. SR De Beer	Member of Executive Committee
Cllr.KS Malatji	Member of Executive Committee
Cllr. A Peta	Member of Executive Committee
Cllr.T Nkuna	Member of Executive Committee
Member of key management	Name
Municipal manager	Dr Sebashe SS
Chief finance office	Ndzimande AT (Acting)
Director Corporate Services	Ms Moakamela MI
Director Community services	Mr Zungu H
Director Spatial planning and development	Mr Maluleka HP
Director technical services	Mr.Mpharalala K

There is a balance due to Mopani District Municipality disclosed in trade and other payables in the financial statements per note 18.

There were no transactions between the Ba-Phalaborwa Municipality, members of executive council, Mayor, Chief Whip, Speaker, Councillors, Municipal Manager and all other members of key Management except for their remunerations which are disclosed in notes number 29 and 30.

Key management information

Class	Description	Number
Secretary: planning and development	Mahlo Lerato Madgery	Mathebeleku Trading CC
Manager:Planning & Development	Chauke MF	100% Membership in Dzhuta Trading Enterprise
Councillor	Malatji MD	RLD Civils
Councillor	Magomane MS	Mololomane Trading
Councillor	Otto KA	African Leader Manufactures
Councillor	Chauke MD	Khekhi Multi Trading and Solid
Councillors	Makwala MO	Massage Trading and Projects
Speaker	Maake MD	Main Sound Construction
Councillor	Malesa MM	Waltzaz Projects and Waltzus Trading Enterprise
Councillor	De Beer SR	Hlangagane Trading Enterprise
Councillor	Rapatsa D	Employed by Old Mutual
		Litirele Mosadi Trading
		Projects,Dodo General
		Trading,Retabane General Trading
		and Vincico Trading and Projects
Inter municipal transactions	Mopani District Municipality	Provision of water and sanitation services

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43. 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.

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

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.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

44. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 1,090,203,946 and that the municipality's total assets exceed its liabilities by R 1,144,984,647. The position is attributed to challenges in collecting amounts due from the municipality's consumer receivables which resulted in huge impairment for the receivables. This situation poses operating difficulties to the municipality

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

45. Budget differences

Material differences between budget and actual amounts

The Municipality's policy is to explain all excess of actual expenditure over the final budget of 10% and above.

The excess of actual impairment loss for the year against the budgeted expenditure is attributed to the low recoverability of amounts due from debtors. This has resulted in high impairment loss.

Land inventory was sold during the year under review and such activity was not budgeted for.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. Examples of the factors include the following:

i - The adjustment to budgeted finance costs was a result of the expected increase in the costs due to use of overdraft facilities during the year.

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46. Comparison of Actual and Budget Expenditure by Department (Vote Number)

	Actual Expenditure	Budgeted	Over/ (Under spending)
Executive and Council	46,832,897	(45,046,389)	1,786,508
Budget and Treasury	108,314,872	(97,272,598)	11,042,274
Community Services	38,778,641	(46,822,994)	(8,044,353)
Corporate Services	43,255,825	(63,764,907)	(20,509,082)
Planning and Development	11,380,851	(10,720,568)	660,283
Technical Department	188,146,049	(194,534,428)	(6,388,379)
	436,709,135	(458,161,884)	(21,452,749)

The overrun on Executive Council are due to stock shortages that were identified during the year end stock count.

The overrun on Budget and Treasury is due to an increase in provision for impairment of debtors than initially budgeted for.

The overrun on Planning and Development is due to the cost of land inventory sold during the current financial year which was not budgeted for.

47. Unauthorised expenditure

Opening balance	46,515,138	2,076,058
Expenditure incurred during the year	13,489,065	44,439,080
	60,004,203	46,515,138

The Unauthorised expenditure for the year was due to overspending of the municipal budget. The overspending was experienced in Planning and Development and Executive Council departments.

48. Fruitless and wasteful expenditure

Opening balance	11,770,783	5,665,041
Fruitless and wasteful expenditure	1,179,461	6,105,742
	12,950,244	11,770,783

Current year fruitless and wasteful expenditure consist of:

Interest - Eskom	1,149,785	1,498,396
Interest - SARS (PAYE,SDL,VAT)	10,839	1,342,383
Other	18,837	14,963
Out of court settlement Kolden Arrows	-	3,250,000
	1,179,461	6,105,742

49. Irregular expenditure

Opening balance	136,342,880	126,318,733
Add: Irregular Expenditure - current year	116,713	10,024,147
	136,459,593	136,342,880

Analysis of expenditure awaiting condonation per age classification

Current year	116,713	10,024,147
Prior years	136,367,027	126,342,880
	136,483,740	136,367,027

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49. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Steps taken	
Petrol was paid for the refuse truck that was not budgeted for.	None	116,713

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Audit fees

Current year fee	4,522,425	2,974,314
Amount paid - current year	(4,456,222)	(2,974,314)
	66,203	-

PAYE and UIF

Opening balance	3,676,109	1,522,744
Current year subscription / fee	14,113,271	25,559,348
Amount paid - current year	(19,310,398)	(23,405,983)
	(1,521,018)	3,676,109

VAT

VAT receivable	16,300,017	-
VAT payable	-	3,068,663
	16,300,017	3,068,663

VAT output payables and VAT input receivables are shown in note 19.

All VAT returns have been submitted by the due date throughout the year.

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50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

There were no accounts outstanding for Councillors as at 30 June 2016.

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr.Kgoete LE	590	-	590
Cllr. Peta MR	749	-	749
Cllr.Nkuna SR	440	-	440
Cllr.Mohlala SL	634	-	634
Cllr.Mkanzi ST	784	-	784
Cllr.Mthombeni ET	92	-	92
Cllr.Mashele G	704	-	704
Cllr.Flemming GJ	501	-	501
Cllr. Maake MD	220	-	220
Cllr.Sono NA	508	-	508
Cllr.DE Beer SR	284	-	284
Cllr.Magomane MS	241	-	241
Cllr.Otto TA	983	-	983
	6,730	-	6,730

51. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial performance - extract

	Comparative figures previously reported	Reclassificatio n	After reclassification
General expenses	57,991,139	(1,655,315)	56,335,824
Finance cost	231,338	1,655,315	1,886,653
Total	58,222,477	-	58,222,477

52. Prior period errors

During the year under review two building were identified during the assets verification process which were previously omitted from prior year asset register. This resulted in increase of R6 618 255 in Property, plant and equipment (consisting of Buildings R 1 317 268 and Community asset R 5 300 987).

The above correction of errors resulted in increase in depreciation expense of R 220 451 and decrease Accumulated surplus of R 220 451 and Accumulated depreciation R 440 902 .

During the year under review the municipality obtained documentation from the provincial office which indicated that land which was previously excluded from the municipality's asset register and inventory listing was transferred to the municipality back in 2002. The land had subsequently added to the asset register and inventory listing resulting in an increase of R 8 146 000 to Property, plant and equipment (Land)and an increase of 374 405 002 in Land inventory.

Heritage assets were erroneously classified as Property, plant and equipment in previous years. This reclassification has been corrected. Resulting in an increase in Heritage assets of R 2 and decrease in Property, plant and equipment of R 2.

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52. Prior period errors (continued)

In the prior year the balance payable to Lepelle Northern Water was recognised in error as part of trade and other payables to Mopani District Municipality. The error has been corrected by restating prior year balances of trade and other payables and other financial liabilities, resulting in an increase of R 174 100 000 in other financial liabilities and decrease of R 174 100 000 in trade and other payable .

Commission on collection of revenue on behalf of Mopani District Municipality was understated and omitted for the prior financial years. The error has been rectified by restating prior year accumulated surplus and Mopani creditors balances R 5 066 935

An account for VAT was disclosed in error as part of sundry debtors this has been subsequently corrected by restating the prior year balances, resulting in a decrease of R 6 962 317 in debtors and VAT payable.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Increase Land inventory	-	374,405,002
Decrease Consumer balances	-	(6,962,317)
Increase Property, plant and equipment	-	11,169,268
Increase Heritage assets	-	2
Increases Long term liabilities - short term portion	-	(6,800,000)
Decrease Payable from exchange transactions	-	(174,460,932)
Increase VAT payable	-	7,654,232
Increases Long term liabilities - short term portion	-	(167,300,000)
Increase in Accumulated surplus	-	(386,627,120)

Statement of Financial Performance

Increase in Depreciation expense	-	220,449
Decrease in Repairs and maintenance	-	31,344
Increase in Bulk purchases	-	2,192,984
Decrease in contract services	-	(162,919)
Increase in General expenses	-	297,366

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Analysis of property, plant and equipment as at 30 June 2016
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	112,623,457	8,146,000	-	-	-	-	120,769,457	-	-	-	-	-	-	120,769,457
Buildings	327,551,310	251,616	-	-	-	-	327,802,926	(180,153,221)	-	-	(12,016,320)	-	(192,169,541)	135,633,385
	440,174,767	8,397,616	-	-	-	-	448,572,383	(180,153,221)	-	-	(12,016,320)	-	(192,169,541)	256,402,842
Infrastructure														
HV Network(>33kv)	13,314,797	-	-	-	-	-	13,314,797	(5,439,989)	-	-	(273,295)	-	(5,713,284)	7,601,513
Kerb	72,817	-	-	-	-	-	72,817	(1,329)	-	-	(1,456)	-	(2,785)	70,032
LV Network (<1000V)	17,530,861	7,246,250	-	-	-	-	24,777,111	(6,655,931)	-	-	(624,281)	-	(7,280,212)	17,496,899
MV Cu & cable	38,873,449	-	-	-	-	-	38,873,449	(20,516,542)	-	-	(863,854)	-	(21,380,396)	17,493,053
MV Network (<=33kV)	101,299,052	-	-	-	-	-	101,299,052	(40,221,692)	-	-	(4,275,588)	-	(44,497,280)	56,801,772
Railside assets	97,982	-	-	-	-	-	97,982	(47,358)	-	-	(6,532)	-	(53,890)	44,092
Reticulation	674	-	-	-	-	-	674	(492)	-	-	13	-	(479)	195
Road bridges	12,936,994	2,030,772	-	-	-	-	14,967,766	(2,794,803)	-	-	(175,655)	-	(2,970,458)	11,997,308
Road Furniture	2,774	-	-	-	-	-	2,774	(169)	-	-	(185)	-	(354)	2,420
Road surface	-	223,761	-	-	-	-	223,761	-	-	-	(9,931)	-	(9,931)	213,830
Roads	386,106,158	9,717,154	-	-	-	-	395,823,312	(186,800,609)	-	-	(19,738,615)	-	(206,539,224)	189,284,088
Roadside assets	144,855,967	3,383,978	-	-	-	-	148,239,945	(64,694,658)	-	-	(4,442,213)	-	(69,136,871)	79,103,074
Stormwater assets	17,827,158	7,505,234	-	-	-	-	25,332,392	(6,344,764)	-	-	(470,907)	-	(6,815,671)	18,516,721
	732,918,683	30,107,149	-	-	-	-	763,025,832	(333,518,336)	-	-	(30,882,499)	-	(364,400,835)	398,624,997
Community Assets														
Building	207,201,650	64,950	-	-	-	-	207,266,600	(105,417,114)	-	-	(7,613,881)	(228,778)	(113,259,773)	94,006,827
Carports	3,922,112	126,850	-	-	-	-	4,048,962	(476,872)	-	-	(132,695)	-	(609,567)	3,439,395
Other facilities	2,652,199	-	-	-	-	-	2,652,199	(1,213,338)	-	-	(123,102)	-	(1,336,440)	1,315,759
Paving	8,962,736	44,691	-	-	-	-	9,007,427	(1,793,367)	-	-	(451,688)	-	(2,245,055)	6,762,372
Perimetre Fencing	5,694,997	97,471	-	-	-	-	5,792,468	(1,550,424)	-	-	(229,779)	-	(1,780,203)	4,012,265
Signs	36,431	-	-	-	-	-	36,431	(18,420)	-	-	(2,429)	-	(20,849)	15,582
Stadium with separated buidings	87,312,943	-	-	-	-	-	87,312,943	(47,211,600)	-	-	(3,673,332)	-	(50,884,932)	36,428,011
Street lightd	809,488	-	-	-	-	-	809,488	(401,376)	-	-	(20,237)	-	(421,613)	387,875
Land file sites	16,422,268	-	-	-	-	2,819,914	19,242,182	(4,098,000)	-	-	(3,249,690)	-	(7,347,690)	11,894,492
	333,014,824	333,962	-	-	-	2,819,914	336,168,700	(162,180,511)	-	-	(15,496,833)	(228,778)	(177,906,122)	158,262,578

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Analysis of property, plant and equipment as at 30 June 2016
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Library books														
Books	88,715	41,851	-	-	-	-	130,566	(19,859)	-	-	(35,152)	-	(55,011)	75,555
	88,715	41,851	-	-	-	-	130,566	(19,859)	-	-	(35,152)	-	(55,011)	75,555
Work in Progress														
Work in progress	39,032,364	48,006,894	(31,294,769)	-	-	-	55,744,489	-	-	-	-	-	-	55,744,489
	39,032,364	48,006,894	(31,294,769)	-	-	-	55,744,489	-	-	-	-	-	-	55,744,489
Other assets - Movables														
Computer equipment	3,235,649	-	-	-	-	-	3,235,649	(2,204,417)	-	-	(250,898)	-	(2,455,315)	780,334
Furniture and fittings	8,949,621	2,819,706	-	-	-	-	11,769,327	(6,423,037)	-	-	(821,061)	-	(7,244,098)	4,525,229
Machinery and equipment	5,079,295	-	-	-	-	-	5,079,295	(2,271,283)	-	-	(430,269)	-	(2,701,552)	2,377,743
Office Equipment	69,824	-	-	-	-	-	69,824	(60,271)	-	-	(4,521)	-	(64,792)	5,032
Vehicles	25,382,759	-	-	-	-	-	25,382,759	(19,213,801)	-	-	(654,505)	-	(19,868,306)	5,514,453
	42,717,148	2,819,706	-	-	-	-	45,536,854	(30,172,809)	-	-	(2,161,254)	-	(32,334,063)	13,202,791

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Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land	58,159,754	-	-	-	54,463,703	-	112,623,457	-	-	-	-	-	-	112,623,457
Buildings	327,551,310	-	-	-	-	-	327,551,310	(168,137,787)	-	-	(12,015,433)	-	(180,153,220)	147,398,090
	385,711,064	-	-	-	54,463,703	-	440,174,767	(168,137,787)	-	-	(12,015,433)	-	(180,153,220)	260,021,547
Infrastructure														
HV Network (>33kv)	13,314,797	-	-	-	-	-	13,314,797	(5,439,989)	-	-	(273,295)	-	(5,713,284)	7,601,513
Storm water	17,827,158	7,505,234	-	-	-	-	25,332,392	(6,345,061)	-	-	(470,907)	-	(6,815,968)	18,516,424
Kerb	72,817	-	-	-	-	-	72,817	(1,333)	-	-	(1,456)	-	(2,789)	70,028
LV Network	17,530,861	7,246,250	-	-	-	-	24,777,111	(6,655,939)	-	-	(624,281)	-	(7,280,220)	17,496,891
Mv cu and AL cable	38,873,449	-	-	-	-	-	38,873,449	(20,516,542)	-	-	(863,854)	-	(21,380,396)	17,493,053
MV Network	101,299,053	-	-	-	-	-	101,299,053	(40,222,486)	-	-	(4,275,588)	-	(44,498,074)	56,800,979
Railsides assets	97,982	-	-	-	-	-	97,982	(47,358)	-	-	(6,532)	-	(53,890)	44,092
Reticulation	674	-	-	-	-	-	674	(492)	-	-	(13)	-	(505)	169
Roadbridges	12,936,994	2,030,772	-	-	-	-	14,967,766	(2,794,753)	-	-	(175,655)	-	(2,970,408)	11,997,358
Roadside assets	144,855,967	3,383,978	-	-	-	-	148,239,945	(64,689,529)	-	-	(4,442,213)	-	(69,131,742)	79,108,203
Roads	386,106,158	9,717,154	-	-	-	-	395,823,312	(186,805,774)	-	-	(19,738,615)	-	(206,544,389)	189,278,923
Roadsurface	-	223,761	-	-	-	-	223,761	-	-	-	(9,931)	-	(9,931)	213,830
Road furniture	2,774	-	-	-	-	-	2,774	(169)	-	-	(185)	-	(354)	2,420
	732,918,684	30,107,149	-	-	-	-	763,025,833	(333,519,425)	-	-	(30,882,525)	-	(364,401,950)	398,623,883
Community Assets														
Buildings	201,811,227	183,584	-	-	-	-	201,994,811	(95,823,830)	-	-	(6,729,522)	-	(102,553,352)	99,441,459
Carports	3,922,112	-	-	-	-	-	3,922,112	(346,135)	-	-	(130,737)	-	(476,872)	3,445,240
Other facilities	2,652,199	-	-	-	-	-	2,652,199	(1,090,236)	-	-	(123,102)	-	(1,213,338)	1,438,861
Paving	7,845,651	1,117,085	-	-	-	-	8,962,736	(1,368,337)	-	-	(425,030)	-	(1,793,367)	7,169,369
Perimetre Fencing	5,619,361	-	-	-	-	-	5,619,361	(1,284,050)	-	-	(224,774)	-	(1,508,824)	4,110,537
Signs	34,830	-	-	-	-	-	34,830	(15,217)	-	-	(2,322)	-	(17,539)	17,291
Stadium with separated buildings	87,114,921	198,022	-	-	-	-	87,312,943	(44,303,997)	-	-	(2,907,604)	-	(47,211,601)	40,101,342
Street Lights	792,576	-	-	-	-	-	792,576	(372,260)	-	-	(19,814)	-	(392,074)	400,502
Landfills sites	16,671,000	-	-	-	-	(248,732)	16,422,268	-	-	-	(4,098,000)	-	(4,098,000)	12,324,268
	326,463,877	1,498,691	-	-	-	(248,732)	327,713,836	(144,604,062)	-	-	(14,660,905)	-	(159,264,967)	168,448,869

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Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Library books														
Books	-	88,715	-	-	-	-	88,715	-	(19,859)	-	-	-	(19,859)	68,856
	-	88,715	-	-	-	-	88,715	-	(19,859)	-	-	-	(19,859)	68,856
Work in progress														
Work in progress	36,774,888	30,437,004	-	(28,179,528)	-	-	39,032,364	-	-	-	-	-	-	39,032,364
	36,774,888	30,437,004	-	(28,179,528)	-	-	39,032,364	-	-	-	-	-	-	39,032,364
Other assets														
Vehicles	25,300,908	81,850	-	-	-	-	25,382,758	(15,652,227)	-	-	(944,575)	(2,616,999)	(19,213,801)	6,168,957
Computer Equipment	2,952,725	282,925	-	-	-	-	3,235,650	(1,863,352)	-	-	(270,684)	(70,381)	(2,204,417)	1,031,233
Furniture & Fittings	8,318,485	680,145	-	-	-	-	8,998,630	(5,560,218)	-	-	(611,060)	(251,747)	(6,423,025)	2,575,605
Office Equipment	69,824	-	-	-	-	-	69,824	(54,301)	-	-	(4,964)	(1,010)	(60,275)	9,549
Machinery and equipment	4,267,353	811,943	-	-	-	-	5,079,296	(1,641,801)	-	-	(442,960)	(186,522)	(2,271,283)	2,808,013
	40,909,295	1,856,863	-	-	-	-	42,766,158	(24,771,899)	-	-	(2,274,243)	(3,126,659)	(30,172,801)	12,593,357

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Analysis of property, plant and equipment as at 30 June 2015
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	385,711,064	-	-	-	54,463,703	-	440,174,767	(168,137,787)	-	-	(12,015,433)	-	(180,153,220)	260,021,547
Infrastructure	732,918,684	30,107,149	-	-	-	-	763,025,833	(333,519,425)	-	-	(30,882,525)	-	(364,401,950)	398,623,883
Community Assets	326,463,877	1,498,691	-	-	-	(248,732)	327,713,836	(144,604,062)	-	-	(14,660,905)	-	(159,264,967)	168,448,869
Library books	-	88,715	-	-	-	-	88,715	-	(19,859)	-	-	-	(19,859)	68,856
Work in progress	36,774,888	30,437,004	-	(28,179,528)	-	-	39,032,364	-	-	-	-	-	-	39,032,364
Other assets	40,909,295	1,856,863	-	-	-	-	42,766,158	(24,771,899)	-	-	(2,274,243)	(3,126,659)	(30,172,801)	12,593,357
	1,522,777,808	63,988,422	-	(28,179,528)	54,463,703	(248,732)	1,612,801,673	(671,033,173)	(19,859)	-	(59,833,106)	(3,126,659)	(734,012,797)	878,788,876
Agricultural/Biological assets														
Biological assets	343,743	-	-	-	44,229	-	387,972	-	-	-	-	-	-	387,972
	343,743	-	-	-	44,229	-	387,972	-	-	-	-	-	-	387,972
Intangible assets														
Microsoft - Server Operating software & programming	2,061,790	-	-	-	-	-	2,061,790	(4,519)	(412,358)	-	-	-	(416,877)	1,644,913
Other	-	87,399	-	-	-	-	87,399	-	(17,266)	-	-	-	(17,266)	70,133
	2,061,790	87,399	-	-	-	-	2,149,189	(4,519)	(429,624)	-	-	-	(434,143)	1,715,046
Investment properties														
Investment property	42,999,369	-	-	-	-	-	42,999,369	-	-	-	-	-	-	42,999,369
	42,999,369	-	-	-	-	-	42,999,369	-	-	-	-	-	-	42,999,369
Total														
Land and buildings	385,711,064	-	-	-	54,463,703	-	440,174,767	(168,137,787)	-	-	(12,015,433)	-	(180,153,220)	260,021,547
Infrastructure	732,918,684	30,107,149	-	-	-	-	763,025,833	(333,519,425)	-	-	(30,882,525)	-	(364,401,950)	398,623,883
Community Assets	326,463,877	1,498,691	-	-	-	(248,732)	327,713,836	(144,604,062)	-	-	(14,660,905)	-	(159,264,967)	168,448,869
Library books	-	88,715	-	-	-	-	88,715	-	(19,859)	-	-	-	(19,859)	68,856
Work in progress	36,774,888	30,437,004	-	(28,179,528)	-	-	39,032,364	-	-	-	-	-	-	39,032,364
Other assets	40,909,295	1,856,863	-	-	-	-	42,766,158	(24,771,899)	-	-	(2,274,243)	(3,126,659)	(30,172,801)	12,593,357
Agricultural/Biological assets	343,743	-	-	-	44,229	-	387,972	-	-	-	-	-	-	387,972
Intangible assets	2,061,790	87,399	-	-	-	-	2,149,189	(4,519)	(429,624)	-	-	-	(434,143)	1,715,046
Investment properties	42,999,369	-	-	-	-	-	42,999,369	-	-	-	-	-	-	42,999,369
	1,568,182,710	64,075,821	-	(28,179,528)	54,507,932	(248,732)	1,658,338,203	(671,037,692)	(449,483)	-	(59,833,106)	(3,126,659)	(734,446,940)	923,891,263

Ba-Phalaborwa Local Municipality

Appendix E(1)

June 2016

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2016

	Current year 2012 Act. Bal.	Current year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Service charges	108,147,928	121,639,937	(13,492,009)	(11.1)	Low consumption of services by consumers
Rental of facilities and equipment	380,910	440,840	(59,930)	(13.6)	Less Bookings of municipal facilities
Agency services	5,676,019	2,381,476	3,294,543	138.3	Less drivers licence applications were received in the current year.
Licences and permits	3,525,423	10,511,530	(6,986,107)	(66.5)	Less drivers licence applications were received in the current year.
Recoveries	117,719,466	-	117,719,466	-	Recoveries relate to charges levied by the municipality for the recovery of indirect expenses incurred by the municipality due to water administration activities.
Sale of land inventory	2,591,087	-	2,591,087	-	Land inventory was sold during the year under review and such activity was not budgeted for
Other income	1,555,108	1,356,746	198,362	14.6	Increased due to connection fees received
Interest received - investment	33,197,280	71,447,391	(38,250,111)	(53.5)	Interest decreased due to rebates on property rates approved by council.
	272,793,221	207,777,920	65,015,301	31.3	
Expenses					
Personnel	(118,246,127)	(120,297,101)	2,050,974	(1.7)	Variance not substantial
Remuneration of councillors	(13,243,064)	(12,810,565)	(432,499)	3.4	Variance not substantial
Administration	(892,103)	-	(892,103)	-	
Depreciation	(62,557,479)	(65,103,904)	2,546,425	(3.9)	
Amortisation	(429,838)	-	(429,838)	-	
Impairments	(66,031,881)	(33,325,587)	(32,706,294)	98.1	Council Resolution on Property Rates
Finance costs	(1,214,925)	(1,709,343)	494,418	(28.9)	Due to late payment of creditors which was not budgeted for.
Repairs and maintenance - General	(13,816,259)	(23,975,382)	10,159,123	(42.4)	
Bulk purchases	(74,560,364)	(84,331,738)	9,771,374	(11.6)	Less amount was incurred due to financial constraints
Contracted Services	(30,486,614)	(51,886,679)	21,400,065	(41.2)	Financial Constraints and other contract expired
Cost of land inventory sold	(3,390,000)	-	(3,390,000)	-	Land inventory was sold during the year under review and such activity was not budgeted for
General Expenses	(53,092,052)	(64,721,585)	11,629,533	(18.0)	Financial Constraints.
	(437,960,706)	(458,161,884)	20,201,178	(4.4)	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	70	-	70	-	
Fair value adjustments	737,252	-	737,252	-	
	737,322	-	737,322	-	
Net surplus/ (deficit) for the year	(164,430,163)	(250,383,964)	85,953,801	(34.3)	